UNDERSTANDING YOUR

TRUTH IN LENDING DISCLOSURE (TIL)

Obtaining a mortgage loan can be a complicated process. It is important for you to understand all of the costs and information being presented to you when you are shopping for a mortgage loan. Among the various documents you will receive during the mortgage process will be two financial disclosures, the **Truth In Lending Disclosure** and the **Good Faith Estimate.**

This **Truth In Lending Disclosure** is designed to give you information about the costs of your loan so that you may compare these costs with those of other loan programs or lenders. The basic Truth in Lending form has four boxes that are of primary concern:

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate. **A %**	**FINANCE CHARGE** The dollar amount that the Credit will cost you. **$ B**
AMOUNT FINANCED The amount of credit we will provide to you or on your behalf. **$ C**	**TOTAL PAYMENTS** The amount you will have paid after you have made all payments as scheduled. **$ D**

ANNUAL PERCENTAGE RATE (APR) - (Box A in the table above):

The concept of the Annual Percentage Rate (APR) can be difficult to understand because it is based on a complex mathematical formula. That formula used for the APR RATE calculation is detailed in the Federal Deposit Insurance Corporation Regulation Z. What is important to understand though, is that the APR is a measure of the cost of credit expressed as a yearly rate.

As an example, suppose your Note Rate (the interest rate you negotiated and "locked in" with your lender) is 7.00%. Your monthly payment will be based on that rate. However, you must take into consideration all of the charges you incurred to get your loan, such as the "points", appraisal fee, credit report fee, private mortgage insurance, etc. The best way to discuss those costs so that you can use the information to compare loans from different lenders is to express them as a unique percentage rate. So, if your loan charges are factored into the formula over the term of the loan at 0.234% for example, then your APR would essentially be 7.00% + 0.234% = 7.234%.

The actual formula for the calculation of the APR includes the amount being financed, the interest rate, the timing of the payments, and any other costs (prepaid charges) required as a condition of the mortgage loan payable by the borrower such as points, loan fees, origination fees, application fees, and insurance, to name a few.

When the various components mentioned above are factored together using the APR formula, the APR can be calculated. Because the APR takes into consideration the various fees that are required as part of the loan, the APR is often higher than the actual rate of interest for the loan. Keep in mind that the APR is a somewhat artificial measurement of the relative cost of the loan transaction because it assumes that the loan will remain outstanding for the full term of the loan. Most mortgages these days are not in effect for the full term; they are paid off earlier than the stated term.

The APR does not have a bearing on the monthly rate of interest on a particular loan, but it does take the rate of interest into account. Your loan officer can calculate the APR of various loan programs for you and can explain why these differences between interest rate and APRs occur. If your loan is on a FHA ARM, the APR is calculated at the life cap, not the note rate. If your loan is based on the COSI (or COFI or CODI), the APR is calculated at the current note rate. Please note that your monthly principal and interest payments are figured at the note rate and not the APR.

A confusing aspect of the ANNUAL PERCENTAGE RATE is that the APR RATE reported is not the same as the NOTE RATE. Borrowers often believe that their Lender may be arbitrarily increasing their interest rate, which is not the case. The APR Rate is calculated by adding all of the buyer's costs (even if the seller is paying them - excluding Seller's Points) to the amount borrowed and dividing that out to determine the "annual cost of credit". The confusion lies in the fact that the Note Rate is only one portion of the APR calculation.

Because the APR expresses the overall cost of the loan as a percentage, comparing the APR of a particular mortgage loan with a similar loan is one way to measure the relative cost of the loans. This isn't the only factor to consider when getting a mortgage loan, but it can be very useful in helping you decide which loan is best, based on <u>known</u> factors.

Be sure to take into account all of the other information that is provided to you by your loan officer including the interest rate and any fees or charges that you may have to pay. Don't forget to ask about their use of Yield-Spread-Premiums. Just because an APR is lower on one loan than on another, it doesn't necessarily mean that particular mortgage loan is the best loan for you.

San Juan Mortgage will help you to understand all of the costs associated with obtaining your mortgage loan and guide you on your way to purchasing or refinancing your home. We will disclose **<u>EVERYTHING</u>** you need to know.

<u>FINANCE CHARGE (Box B in the table above):</u>

The Finance Charge is the dollar amount the credit will cost, or the amount of interest that the borrowers would pay if they make the required minimum payments over the entire term of the loan. This figure is calculated by adding the prepaid finance charge total with the total interest to be collected over the term (including interim interest) along with the total PMI (Private Mortgage Insurance) due for term of loan. The charges totaled here include any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the Lender as an incident to or a condition of the extension of credit. **It does not include charges that would occur in a comparable cash loan transaction.**

Because the mortgage loan Finance Charge represents a critical element in the calculation of the APR, we are including below the Federal Deposit Insurance Corporation (FDIC) Regulation Z statutory language on the issue.

§ 226.4 FINANCE CHARGE.

(a) ***Definition.*** The finance charge is the cost of consumer credit as a dollar amount. It includes any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit. It does not include any charge of a type payable in a comparable cash transaction.
(1) ***Charges by third parties.*** The finance charge includes fees and amounts charged by someone other than the creditor, unless otherwise excluded under this section, if the creditor:
(I) requires the use of a third party as a condition of or an incident to the extension of credit, even if the consumer can choose the third party; or
(ii) retains a portion of the third-party charge, to the extent of the portion retained.
(2) ***Special rule; closing agent charges.*** Fees charged by a third party that conducts the loan closing (such as a settlement agent, attorney, or escrow or title company) are finance charges only if the creditor:
(I) Requires the particular services for which the consumer is charged;
(ii) Requires the imposition of the charge; or
(iii) Retains a portion of the third-party charge, to the extent of the portion retained.
(3) ***Special rule; mortgage broker fees.*** Fees charged by a mortgage broker (including fees paid by the consumer directly to the broker or to the creditor for delivery to the broker) are finance charges even if the creditor does not require the consumer to use a mortgage broker and even if the creditor does not retain any portion of the charge.
(b) ***EXAMPLE OF FINANCE CHARGE:*** The finance charge includes the following types of charges, except for charges specifically excluded by paragraphs © through (e) of this section:
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(1) Interest, time price differential, and any amount payable under an add-on or discount system of additional charges.
(2) Service, transaction, activity, and carrying charges, including any charge imposed on a checking or other transaction account to the extent that the charge exceeds the charge for a similar account without a credit feature.
(3) Points, loan fees, assumption fees, finder's fees, and similar charges.
(4) Appraisal, investigation, and credit report fees.
(5) Premiums or other charges for any guarantee or insurance protecting the creditor against the consumer's default or other credit loss.
(6) Charges imposed on a creditor by another person for purchasing or accepting a consumer's obligation, if the consumer is required to pay the charges in cash, as an addition to the obligation, or as a deduction from the proceeds of the obligation.
(7) Premiums or other charges for credit life, accident, health, or loss-of-income insurance, written in connection with a credit transaction.
(8) Premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property, written in connection with a credit transaction.
(9) Discounts for the purpose of inducing payment by a means other than the use of credit.

(10) ***Debt cancellation fees.*** Charges or premiums paid for debt cancellation coverage written in connection with a credit transaction, whether or not the debt cancellation coverage is insurance under applicable law.
© ***CHARGES EXCLUDED FROM THE FINANCE CHARGE:*** The following charges are not finance charges:
(1) Application fees charged to all applicants for credit, whether or not credit is actually extended.
(2) Charges for actual unanticipated late payment, for exceeding a credit limit or for delinquency, default, or a similar occurrence.
(3) Charges imposed by a financial institution for paying items that overdraw an account, unless the payment of such items and the imposition of the charge were previously agreed upon in writing.
(4) Fees charged for participation in a credit plan, whether assessed on an annual or other periodic basis.
(5) Seller's points.
(6) Interest forfeited as a result of an interest reduction required by law on a time deposit used as security for an extension of credit.
(7) ***Real-estate related fees.*** The following fees in a transaction secured by real property or in a residential mortgage transaction, if the fees are bona fide and reasonable in amount:
(I) Fees for title examination, abstract of title, title insurance, property survey, and similar purposes.
(ii) Fees for preparing loan-related documents, such as deeds, mortgages, and reconveyance or settlement documents.
(iii) Notary, and credit report fees.
(iv) Property appraisal fees or fees for inspections to assess the value or condition of the property if the service is performed prior to closing, including fees related to pest infestation or flood hazard determinations.
(v) Amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.
(8) Discounts offered to induce payment for a purchase by cash, check, or other means, as provided in § 167(b) of the act.
(d) ***Insurance and debt cancellation coverage.*** (1) *Voluntary credit.* Premiums for credit life, accident, health, or loss-of-income insurance may be excluded from the finance charge if the following conditions are met:
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(I) The insurance coverage is not required by the creditor, and this fact is disclosed in writing.
(ii) The premium for the initial term of insurance coverage is disclosed. If the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed. The premium may be disclosed on a unit-cost basis only in open-end credit transactions, closed-end credit transactions by mail or telephone under
1. § 226.17(g), and certain closed-end credit transactions involving an insurance plan that limits the total amount of indebtedness subject to coverage.
(iii) The consumer signs or initials an affirmative written request for the insurance after receiving the disclosures specified in this paragraph. Any consumer in the transaction may sign or initial the request.

2. (2) Premiums for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property,

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may be excluded from the finance charge if the following conditions are met:
(I) The insurance coverage may be obtained from a person of the consumer's choice,

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and this fact is disclosed.
(ii) If the coverage is obtained from or through the creditor, the premium for the initial term of insurance coverage shall be disclosed. If the term of insurance is less than the term of the transaction, the term of insurance shall also be disclosed. The premium may be disclosed on a unit-cost basis only in open-end credit transactions, closed-end credit transactions by mail or telephone under § 226.17(g), and certain closed-end credit transactions involving an insurance plan that limits the total amount of indebtedness subject to coverage.
(3) ***Voluntary debt cancellation fees.*** (I) Charges or premiums paid for debt cancellation coverage of the type specified in paragraph (d)(3)(ii) of this section may be excluded from the finance charge, whether or not the coverage is insurance, if the following conditions are met:
(A) The debt cancellation agreement or coverage is not required by the creditor, and this fact is disclosed in writing;
(B) The fee or premium for the initial term of coverage is disclosed. If the term of coverage is less than the term of the credit transaction, the term of coverage also shall be disclosed. The fee or premium may be disclosed on a unit-cost basis only in open-end credit transactions, closed-end credit transactions by mail or telephone under § 226.17(g), and certain closed-end credit transactions involving a debt cancellation agreement that limits the total amount of indebtedness subject to coverage;
© The consumer signs or initials an affirmative written request for coverage after receiving the disclosures specified in this paragraph. Any consumer in the transaction may sign or initial the request.
(ii) Paragraph (d)(3)(I) of this section applies to fees paid for debt cancellation coverage that provides for cancellation of all or part of the debtor's liability for amounts exceeding the value of the collateral securing the obligation, or in the event of the loss of life, health, or income or in case of accident.
(e) ***Certain security interest charges.*** If itemized and disclosed, the following charges may be excluded from the finance charge:
(1) Taxes and fees prescribed by law that actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest.
(2) The premium for insurance in lieu of perfecting a security interest to the extent that the premium does not exceed the fees described in paragraph (e)(1) of this section that otherwise would be payable.
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(3) ***Taxes on security instruments.*** Any tax levied on security instruments or on documents evidencing indebtedness if the payment of such taxes is a requirement for recording the instrument securing the evidence of indebtedness.
(f) ***Prohibited offsets.*** Interest, dividends, or other income received or to be received by the consumer on deposits or investments shall not be deducted in computing the finance charge.

[Codified to 12 C.F.R. § 226.4]

AMOUNT FINANCED (Box C in the table above):

The Amount Financed is defined under the Federal Deposit Insurance Corporation Regulation Z as the loan amount less and prepaid Finance Charges (PFC). Your principle and interest payments will be based on the loan amount, not the amount financed.

TOTAL PAYMENTS (Box D in the table above):

The Total Payments equal the amount that will have been paid after all the payments are made, including the loan amount, interest (full term and interim) and PMI, if applicable.

Additional Disclosures:

In addition to these four major figures, a Schedule of Payments is provided that breaks down the monthly payments you will make on the loan including principle and interest, and mortgage insurance, if applicable.

REMEMBER THAT THE FIGURES ON THIS DISCLOSURE ARE ONLY ESTIMATES. THE TIMING OF THE PAYMENTS ON YOUR HOME LOAN MAY AFFECT THESE NUMBERS, PARTICULARLY BOXES A, B, AND D.

Why is my Annual Percentage Rate different than the interest rate I was initially quoted?

Type of Loan	Fixed Rate
Initial Interest Rate	12.00%
Loan Term	30 years
Amount of Loan	$50,000.00
Total Prepaid Charges	$2,000.00
APR	12.553%

The APR is computed from the amount financed and is based on what your proposed payments will be on the actual loan amount credited to you at settlement. On a $50,000 loan with $2000 Prepaid Finance Charges, a 30 years term and a fixed interest rate of 12%, the payments would be $ 514.31 (Principle and interest), since the APR is based on the amount financed ($48,000) while the payments is based on the actual loan amount given ($50,000). Using the regulation's formula, the APR (12.553%) is higher than the Note Rate, which will always be the case.

Does this mean I will get a smaller loan than I applied for?

No. If your loan is approved in the amount requested, you will receive credit toward your home purchase or refinance for the full amount for which you applied. In the example above, you would therefore receive a $50,000, not a $48,000 loan.

<u>My Disclosure says that if I pay the loan off early, I will not be entitled to a refund of part of the finance charge. What does this mean?</u>

This means that you will be charged interest for the period of time in which you used the money loaned to you. Your prepaid finance charges are generally not refundable, nor is any interest which has already been paid. If you pay the loan off early, you should not have to pay the full amount of the "finance charges" shown on the disclosure.

<u>What is the Filing Fee?</u>

The Filing Fee is an estimate of the cost of recording the legal documents (mortgage, deed of trust, deed, etc.) connected with your transaction. The fee will be collected at settlement.

<u>Estimates?</u>

Please note that all figures are estimates and are subject to change at time of settlement depending on final investor charges and or loan-to-value ratio changes causing private mortgage as well as actual settlement date which determines interim interest.

If you would like more information on the **TRUTH IN LENDING** disclosure, try these links:

http://www.fdic.gov/regulations/laws/rules/6500-1400.html

http://www.msmoney.com/mm/banking/articles/truth_lending.htm

http://www.mortgage101.com/pdf/til.pdf