



Your Fair Lending Advocate in Delaware!

# Borrowing Basics

## Read, Know, Understand, Question, Then Sign!

### Truth in Lending Act Disclosure Form

Applicant information \_\_\_\_\_ Preparer information including date prepared \_\_\_\_\_

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit. APR is often higher than interest rate.	Dollar amount this will cost. This includes only an estimate of interest you will pay over the life of the loan. It does not include late fees, etc.	Amount you borrowed.	After all is said and done, this is what you will pay—again assuming that you don't incur other costs along the way.

**Required Deposit:** Amount you must pay upfront

**Payments:** Your payment schedule will be

Number of Payments	Amount of payments	When payments are due
How many payments you will make. If there are more than 2 rows, you most likely have an adjustable rate. For example, a 30 year mortgage may have two rows with first row of 359 and second row of 1	How much payment you will make each time/month. The payment generally includes principal and interest (if you purchased insurance, it may include insurance). For mortgages this does not include your insurance and taxes. If there are two rows in the case of a mortgage the first row may have 1234.56 and second row 1212.12.	The date payment is due. Generally, it will list when your first payment is due. In the mortgage example, the two rows may say: January 1, 2009 January 1, 2039

**Demand feature:** Under what circumstances the lender will demand that you pay in full. Generally, when you are late with your payments, the lender may ask you to pay the loan balance with fees and interest in full.

**Variable Rate Feature:** This is where you know if you have an adjustable rate. **This check the box feature requires one box to be checked.** If the loan has a variable rate, there may also be a Rider that you must sign.

**Balloon Payment:** If there is a balloon payment, this is where you may see it. **Make sure at least one of the boxes is checked.**

**Credit Life/Credit Disability:** You do not have to purchase this to borrow. Premiums will be disclosed. You will sign if you want this feature. **We don't recommend this option. If you do, keep this and your insurance papers very carefully.**

**Insurance:** If the loan requires that you purchase insurance (Credit Life, Credit Disability, Property Insurance, Flood Insurance). You should see that you have an option to buy this insurance elsewhere. In addition, if the lender is providing insurance, they will disclose how much your annual premium will be. **We suggest that you shop elsewhere for required insurance.**

**Security:** You are giving security in the property—**if you don't pay, they can take the collateral.**

**Filing Fees:** Disclosure of any fees that may be associated with this loan. **If there is a security interest, there may be a fee.**

**Late Charges:** If a payment is more than \_\_\_\_\_ days late, you will be charged \_\_\_\_\_% of the payment. **Make sure you pay on time. Remember, 35% of your score is based on this.**

**Prepayment:** If there is a prepayment penalty, it will be disclosed here. **We recommend against a loan with such penalty. Make sure at least one of the boxes is checked.**

**Assumption:** If the lender allows someone else to assume this loan, they will disclose it here along with conditions under which such assumptions are allowed.

**Signature:** **You must sign and date this disclosure and make sure you ASK for a copy of this important document for your records.**

**“Let us not bankrupt our todays by paying interest on the regrets of yesterday and by borrowing in advance the troubles of tomorrow.”**

**Ralph Sockman**

**Terminology for a mortgage**

**Balloon loan:** The low monthly payments are not enough to pay off the entire loan amount, so a balloon, or lump-sum payment, is due at the end of the loan term.

**Closing (or settlement):** A meeting at which the sale of a property is finalized. The buyer pays the mortgage, and closing costs.

**Closing costs:** Fees required by the lender at closing. The fees vary but may include the application fee, origination fee, points, appraisal fee, title search, title insurance, etc.

**Foreclosure:** The legal process through which a mortgaged property or home may be sold when a loan is in default.

**Equity:** The difference between the current market value of a property and the amount the homeowner owes on the property.

**Fee:** Any charge added to a loan.

**Home-equity loan:** A loan based on the equity that a borrower has in his or her home.

**Interest:** The fee paid to borrow money. It is a percentage of the amount borrowed.

**Points (or loan discount points):** A one-time charge by a lender to lower the interest rate on a loan. Each point is equal to 1 percent of the loan amount.

**Prepayment penalty:** A penalty some lenders charge for paying a loan off early.

**Principal:** The amount of money borrowed.

**Refinancing:** The process of paying off one loan with the proceeds from a new loan secured by the same home or property.

**Other terms you should know**

**APR** Annual Percentage Rate – this shows the overall cost of a loan, taking into account the term, interest rate and other costs.

**Card issuer** The bank, or store whose name is on your card.

**Credit limit** The maximum amount you may owe through spending on the card. If you go over this limit, you will pay fees.

**Direct Debit** also called automatic withdrawal, regular payments taken directly from your bank account on an agreed date.

**Interest-free period** The time between when you buy something on a credit card and the date when you must pay your monthly bill. If you settle your bill in full every month, it's free borrowing.

**Introductory rate** An interest rate that applies for a limited period when you first take out a credit card or loan.

**Minimum payment** The minimum amount you must pay to keep to the terms of the agreement. Try to pay more than the minimum each month.

**Outstanding balance** Any money you owe on your credit card or loan.

**Overdraft/overdrawn** If you spend more money than you have in your account, you will be overdrawn and pay a fee.

**Secured** When a loan is 'secured' against a collateral and you do not pay, it means the lender can repossess that collateral.

**Sub-prime lender** specializes in offering loans or mortgages to people with poor credit ratings.

**Variable interest** An interest rate on a loan that can change according to circumstances.

**MORTGAGE PAYMENTS**

**Monthly Loan Payments for different types of \$200,000 mortgages**

Interest Rate	30-Yr Fixed	5/1 ARM	5/1 I/O ARM	Option Arm
5%	\$1,104	\$1,074	\$875	\$643
6.5%	\$1,104	\$1,244	\$1,350	\$1,472
Monthly Increase	\$0	\$170	\$475	\$829

**MORTGAGE LOAN BASICS**

**When you borrow money, make sure you know the answers to the following questions:**

1. What is your APR?
2. What is your interest rate?
3. Is the rate fixed or adjustable?
4. How many years will you pay the mortgage?
5. What is your monthly mortgage payment?
6. Does it include insurance and taxes?
7. Is there a balloon payment?
8. Are there prepayment penalties?

**At Closing:** BEFORE you sign, ask for an explanation of terms you don't understand AND get a COPY of all papers you signed.