Understanding The Truth-in-Lending Disclosure Statement

One of the many important documents received by Escrow from a lender is the Truth in Lending Disclosure Statement (TIL). The TIL disclosure statement is one of the most misunderstood documents required for closing, and Escrow Officers are often faced with many questions from the borrower regarding this document.

A truth in lending disclosure statement is a document that federal law requires lenders to provide to loan applicants which discloses all the costs associated with making and closing the loan. These costs include the annual percentage rate, finance charges, amount financed and total payments the borrower will make over the term of the loan. The lender must give this statement to the borrower within three business days of receiving the loan application. For home purchase loans, it may be revised just prior to closing because it is based on the good faith estimate (GFE) of closing costs.

The truth in lending statement contains five primary boxes:

Annual Percentage Rate (APR): The APR is the cost of a borrower's credit calculated as an annual rate. This APR is defined by the federal Truth in Lending Act, as including finance charges, the contractual interest rate, the required private mortgage insurance paid during the term of the loan, and the amount of prepaid finance charges paid at or before the loan closing. The APR shown on the truth in lending disclosure statement always exceeds the interest rate quoted on the note and mortgage. This discrepancy tends to confuse borrowers.

Finance Charge: The dollar amount the credit will cost the borrower. It is the borrower's estimated closing costs. It includes any charge (including interest) paid by the borrower as a condition of the loan (unless excluded by regulation).

Amount Financed: The amount of credit provided to the borrower or on the borrower's behalf. It is the borrower's loan amount.

Total of Payments: The total amount of money the borrower will have paid after he or she has made all scheduled payments, including principal, interest, prepaid finance charges, and mortgage insurance, if the borrower makes minimum required payments for the term of the loan. This amount is usually a very large monetary amount, as it most often spans a 25 to 30 year mortgage term. It is a total of all interest the borrower will pay over the loan's life- time plus the original mortgage amount.

Payment Schedule: The breakdown of the borrower's monthly payments. It sets forth the principal and interest amounts, as well as all tax and hazard insurance amounts and how those payments are to be made. It also indicates any late payment charges or prepayment charges to be levied.

Annual Percentage Rate:	Finance Charge:	Amount Financed:	Total of Payments:
The cost of your credit at a yearly rate	The dollar amount the credit will cost you	The amount of credit provided to you or on your behalf	The amount you will have paid after you make all payments as scheduled

For more specific questions related to this document or any other escrow related issues, please feel free to contact us immediately.

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