

**The
Truth-in-Lending Act**

**A Standard for Comparing
Consumer Credit**

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- Enacted in 1969 as Title I of the Consumer Credit Protection Act
- The Federal Reserve Board was given the responsibility of creating Regulation Z which is the “how to” comply with the TILA Legislation.
- Establish a common measuring stick for consumers: the APR.

The APR is easily the most recognizable of all the disclosure values required by the Truth-in-Lending Act.

- meant to supply consumers with a common standard to shop and compare credit offers.
- required to be the “most conspicuous” of the TILA disclosure items.

The official definition of the APR is “the cost of credit as an annual percentage”.

The APR represents the relationship of the Amount Financed to the Finance Charge taking into account the time value of money.

To fully understand the APR, it is essential to understand the components; the Amount Financed and the Finance Charge.

Amount Financed

(“What you get”)

The amount disbursed to or on behalf of the consumer.

+

Finance Charge

(“What it costs”)

The cost of credit expressed as a dollar amount.

=

Total of Payments

(“What you pay”)

The total amount repayable

Since “everything” is in the Total of Payments (T.O.P.), the Amount Financed is a by-product of what is included in the finance charge.

Thus, Finance Charge becomes a very key definition.

Finance Charge:

Any charge that is,

- payable directly or indirectly by the consumer
- imposed directly or indirectly by the creditor
- incident to or a condition of the extension of credit

Originally, every “other charge” for a transaction was considered to be ‘finance charge’. Regulation Z provides a listing of reasons for “excluding” a charge from the finance charge. Over time, the concept has evolved to one of “some are in , some are out”.

Examples of Finance Charge:

- a) Interest and Time Price Differential
- b) Points, Loan Fees
- c) Premiums for credit life, accident & health insurance
- d) Assignment charges imposed by a creditor if passed on to the consumer.

Examples of Charges Excluded from Finance Charge:

- a) Voluntary credit life, accident & health insurance premiums
- b) Application fees charge to all applicants.
- c) Fees paid to public officials
- d) Late payment charges

RETAIL INSTALLMENT CONTRACT AND SECURITY AGREEMENT No. Date	Seller	Buyer
	"We" and "us" mean the Seller above, its successors and assigns.	"You" and "your" mean each Buyer above, and guarantor, jointly and individually.

TRUTH IN LENDING DISCLOSURES

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate. %	FINANCE CHARGE The dollar amount the credit will cost you. \$	AMOUNT FINANCED The amount of credit provided to you or on your behalf. \$	TOTAL OF PAYMENTS The amount you will have paid when you have made all scheduled payments. \$	TOTAL SALE PRICE The total cost of your purchase on credit, including your down payment of \$ 0.00 <hr/> \$ 0.00
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Payment Schedule: Your payment schedule will be

Number of Payments	Amount of Payments	When Payments Are Due

Security: You are giving a security interest in (description of other property)
 the Goods purchased.

Late Charge: If all or any portion of a payment is not paid within 10 days of its due date, you will be charged a late charge of \$17.00. This amount may change pursuant to Indiana Code §§ 24-4.5-1-106 and 24-4.5-2-203.5.

Prepayment: If you pay off this Contract early, you may will not have to pay a Minimum Finance Charge.

Contract Provisions: You can see the terms of this Contract for any additional information about nonpayment, default, any required repayment before the scheduled date, and prepayment refunds and penalties.

CREDIT INSURANCE: Credit life, credit disability (accident and

ITEMIZATION OF AMOUNT FINANCED

Loan Proceeds	\$1,000.00
Single Credit Life Pr	11.25
Loan Fee	<u>30.00</u>
Principal Amount	\$1,041.25
Less Loan Fee	<u>30.00</u>
Amount Financed	\$1,011.25
Interest Amount	45.59
Plus Loan Fee	<u>30.00</u>
Finance Charge	75.59
Total of Pmts	\$1,086.84
12 Pmts @	\$ 90.57
Interest Rate	8.00%
Amortizes Principal amount produces interest amount	
APR	13.52%
Amortizes Amount Financed produces Finance Charge	

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8% Interest Rate

Principal

\$1,041.25

13.52% APR

Amount Financed

\$1,011.25

Pmt. No	Payment	Interest	Principal Paid	Balance
1	90.57	6.94	83.63	957.62
2	90.57	6.38	84.19	873.43
3	90.57	5.82	84.75	788.68
4	90.57	5.26	85.31	703.37
5	90.57	4.69	85.88	617.49
6	90.57	4.12	86.45	531.04
7	90.57	3.54	87.03	444.01
8	90.57	2.96	87.61	356.40
9	90.57	2.38	88.19	268.21
10	90.57	1.79	88.78	179.43
11	90.57	1.20	89.37	90.06
12	90.66	0.60	90.06	0.00

Pmt. No	Payment	FC	AF	Balance
1	90.57	11.40	79.17	932.08
2	90.57	10.50	80.07	952.01
3	90.57	9.60	80.97	771.04
4	90.57	8.69	81.88	689.16
5	90.57	7.77	82.80	606.36
6	90.57	6.83	83.74	522.62
7	90.57	5.89	84.63	437.94
8	90.57	4.93	85.64	352.30
9	90.57	3.97	86.60	265.70
10	90.57	2.99	87.58	178.12
11	90.57	2.01	88.56	89.56
12	90.57	1.01	89.56	0.00

Annual Percentage Rate APR

The rate that will amortize the TILA Amount Financed, produce the TILA Finance Charge given the disclosed schedule of Payments.

The TILA APR shall be considered accurate if it is not $\frac{1}{8}$ of 1 percent above or below the APR computed according to Appendix J (Sec. 226.22) of Regulation Z.

If the transaction is irregular (odd payment amounts, payments not consecutive etc.), the tolerance is .25%

The precise APR, from which the tolerance will be measured, may be computed by one of two allowable methods:

1) Actuarial Method

2) United States Rule Method

Actuarial Method

In the event that a payment amount for a stated unit period does not cover the accumulated interest, the remaining interest for the period will be added back to the balance of the amount financed. The compounding of interest is inherent in the actuarial method.

United States Rule Method

In the event that a payment amount does not cover the accumulated interest for the interval between events, the earned but uncollected interest is kept in a separate “escrow type” account.

Actuarial Method vs. U.S. Rule Method

- As a general rule, an actuarial A.P.R. is slightly less than one computed by the U.S. Rule for the same data
- If there are no irregularities, i.e. long first interval, balloon payment, skipped payment, actuarial and U.S. Rule will return the same value
- Most examiners use “APR WIN” which was created by the OCC. It computes only an actuarial method A.P.R.

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File Edit Options Help Insurance Objectives

Input Information	
Contract date	4/1/2005
Payment date	5/1/2005
Maturity Date	4/1/2015
Amount Financed	\$10,000.00
Days Per Year	360
Payments Per Year	12 - Months
Time Counting	Fed Calendar
110 payments of	\$181.48

APR Check Information	
U.S. Rule APR	18.281%
Actuarial APR	18.281%
Amount Financed	\$10,000.00
Finance Charge	\$11,777.60
Total Payments	\$21,777.60

New Loan Change Input Print Quota

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File Edit Options Help Insurance Objectives

Input Information		APR Check Information	
Outpaid date	4/1/2009	U.S. Rule APR	17.997%
Payment date	5/16/2009	Adjusted APR	17.991%
Maturity Date	4/1/2019	Amount Financed	\$10,000.00
Amount Financed	\$ 0.000.00	Finance Charge	\$11,777.80
Days Per Year	360	Total Payments	\$21,777.80
Payments Per Year	12 - Monthly		
Time Counting	Real Calendar		
124 payments of	\$131.48		

New Loan Change Input Print Quote

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