



## How to Read a Truth-in-Lending Disclosure

[http://www.msmoney.com/mm/banking/articles/truth\\_lending.htm](http://www.msmoney.com/mm/banking/articles/truth_lending.htm)

By Jill Terry for MS Money

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Truth-in-Lending disclosures are designed to standardize the way loan features are presented to borrowers. While they do accomplish that mission, most consumers have little idea what they're looking at. Here's a crash course in reading a Truth-in-Lending disclosure.

### What Does It Look Like?

A PDF version of a Truth-in-Lending Disclosure Statement can be seen at the [Genesis Web Builder site](#). You'll need Adobe Acrobat Reader to view it.

### When Do You Get One and Why?

Your bank (or lender) has to give you a Truth-in-Lending disclosure before the first transaction (i.e., before the loan period officially begins or the first payment is due). You also have a right to request a Truth-in-Lending disclosure whenever you shop for credit, even if you aren't planning to transact business with that particular lender. The form helps you compare lenders to find the best rates, fees, minimum payments, and other payment terms.

### What's On It?

Many fees and charges are provided, but the primary aspects are set off in boxes at the top. The idea behind making them so prominent is to allow you to scan those boxes quickly and get a general sense of how much a loan will cost with that creditor.

- **Annual Percentage Rate:** This is the cost of your credit expressed as an annual rate. This is not the same as the interest rate. The APR takes into account the finance charge amounts--helpful information if you're pricing loans among several banks. Financial institutions may advertise the same interest rate but when you compare their APRs, you'll probably see differences. Higher APRs generally mean you're paying more fees.
- **Finance Charge:** This is the dollar amount you will pay for both interest and certain fees. The writers of Regulation Z (the federal Truth-in-Lending Act) determine what fees qualify as finance charges. Read more about finance fees in another [MsMoney article](#).
- **Amount Financed:** Basically, this is the amount of money being loaned to you, but there are some complications. The amount financed represents:
  - The principal loan amount.
  - Amounts financed by the creditor but not part of the finance charge (you see this most often in real estate loans).
  - Less any prepaid finance charges. (Common examples of prepaid finance charges include: buyer's points, service fees, loan fees, finder's fees, loan guarantee insurance, credit investigation fees. However, in order for these or any other finance charges to be considered prepaid, they must be either paid separately in cash or check or withheld from the proceeds. Prepaid finance charges include any portion of the finance charge paid prior to or at closing or settlement.)
- **Total of Payments:** The scariest disclosure of all. This figure tells you what you will have paid the lender at the end of the loan. It represents the loan amount, plus fees, finance charges and interest.

Comparing these four components of a Truth-in-Lending disclosure provides you with the basic loan costs. Rely on it when you're shopping for credit and also to learn about how much an approved loan ultimately will cost you.