

The federal government requires lending institutions to disclose several pertinent facts about a loan. The disclosure helps the borrower understand the contractual obligations of the loan. These facts must be disclosed *in writing, before* the borrower is asked to sign the promissory note. This requirement is specified in the Truth in Lending Act.

The Truth in Lending Act requires lending institutions to classify the cost of credit of every loan into two categories.

1. **Finance charges** such as interest, carrying charges, and service charges
2. Other charges such as insurance premiums, investigation of credit fees, and filing fees

Although the *other charges* may be paid at the time of the loan, they are often incorporated into the loan. Together with the loan proceeds, they make up the **amount financed**, or the **principal**.



#### EXAMPLE 4 Applying the Truth in Lending Act

You buy a washer and dryer for \$1395.00 plus \$83.70 in sales tax. You pay \$100.70 down and finance the remainder. There is an insurance charge of \$60.95 and a finance charge of \$122.97. Complete the Truth in Lending disclosure for this loan.

Loan Proceeds	\$ _____	Annual Percentage Rate = <u>8</u> %
Other Charges	+ \$ _____	
Amount Financed	\$ _____	Payable in <u>24</u> payments
Finance Charge	+ \$ _____	of \$ <u>65.08</u> each.
Total Amount Due	\$ _____	

#### SOLUTION

	<b>Insurance</b>	$1395.00 + 83.70 - 100.70$	
Loan Proceeds	\$ <u>1378.00</u>	Annual Percentage Rate = <u>8</u> %	
Other Charges	+ \$ <u>60.95</u>		
Amount Financed	\$ <u>1438.95</u>	Payable in <u>24</u> payments	
Finance Charge	+ \$ <u>122.97</u>	of \$ <u>65.08</u> each.	
Total Amount Due	\$ <u>1561.92</u>		

#### ✓ Checkpoint

Help at [Math.andYOU.com](http://Math.andYOU.com)

You borrow \$2000. There is an insurance charge of \$89.73. The annual percentage rate is 10%. You make monthly payments of \$67.43 for 36 months. Complete a Truth in Lending disclosure for this loan.