Voya loan recordkeeping guide - EASE

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The following information outlines regulatory criteria that govern retirement plan loans. These rules apply to loans taken from a participant's account in the Plan ("Plan Loan").

Internal Revenue Code section 72(p) and Final Loan Regulations

IRC Section 72(p) set forth that a loan from an employer plan to a participant or beneficiary is treated as a deemed distribution and will be considered a taxable event unless certain criteria are met. Specifically Section 72(p) identifies (1) The amount of the loan; (2) The term of the loan; (3) Repayment schedule and amounts; (4) Interest charged on the loan. IRC Final Loan Regulations ("Loan Regulations"), under Section 1.72(p)-1 further clarify the details of loan administration in a question and answer exhibit. These questions address issues presented to plan sponsors that occur in the life of the loan, including missed payments and participant leaves of absence and are discussed below.

Employee Retirement Income Security Act of 1974 ("ERISA")

ERISA Section 406 "Prohibited Transactions" identifies that it is a prohibited transaction to lend money or extend credit between the Plan and a "party in interest" (e.g. a plan participant) ("Prohibited Transaction").

ERISA Section 408 "Exemptions From Prohibited Transactions" recognizes an exemption from a loan being considered a prohibited transaction if such loans:

(A) Are made available to all plan participants
(B) Are not made to highly compensated employees in amounts greater than they are made to other employees
(C) Are made consistent with the terms of the Plan
(D) Bear a reasonable rate of interest
(E) Are adequately secured

Exceptions for Military Leave:

Uniformed Services and Reemployment Rights Act ("USERRA") - Recognizes that the repayment period may be extended for participants on qualified military leave. Repayments can extend for the period of time the participant performed qualified military service.

Veterans and Sailors Civil Relief Act of 1940 ("SSCRA") - Establishes that the interest rate on loans cannot exceed six (6%) percent, compounded annually.

Truth in Lending Act and Regulation Z – Retirement Plan Exemption

Background: The Truth in Lending Act ("TILA") was enacted in order to promote meaningful disclosure and consumer protection. Under TILA, lenders making more than 25 loans in a calendar year are required to disclose the costs and other financial terms of the loan. The Federal Reserve System, which maintains oversight of the TILA, created Regulation Z ("Reg. Z"), which established specific criteria that must be provided to borrowers. A loan subject to TILA is voidable by the borrower unless the borrower received the Reg. Z disclosures.

Current Status: Effective July 1, 2010, the Federal Reserve System published an amendment making employer sponsored retirement plan participant loans exempt from the requirements of Reg. Z. This exemption was primarily granted because the participant pays interest on the plan loan to himself or herself rather than to a third party. It is still essential that participants are provided with all loan-related fee information.

Requirements

A. Loan Amount

The IRS limits the amount of the retirement account that may be loaned to a plan participant. Section 72(p) provides a specific formula for determining the amount available for a loan.

The amount a participant may borrow from the plan is limited by rules under the Internal Revenue Code and US Department of Labor. When determining the amount available for a loan, the following limits must be taken into account, as any new loan, when added to the outstanding balance of all other loans from the Plan for a participant, will be limited to the lesser of:

(a) $50,000 reduced by the highest outstanding loan balance during the one year period ending on the day before the date of the new loan;

or

(b) ½ of participant's vested interest in the Plan.

B. Number of Outstanding Loans

The Final Loan Regulation does not establish a maximum number of loans that may be taken from a Plan at any one time. Although this may appear to permit an unlimited number of loans, the Loan Amount calculation limits the loan amount actually available. In addition, many plan sponsors establish a maximum loan number, as well as a minimum loan amount (e.g. $1,000). The loan provision must be established by the Plan or Plan Loan Program. The Voya® Loan Program may also limit the number of loans allowed per participant.

C. Loan Term

A Plan may set a minimum loan term such as one (1) year; however, IRC dictates the maximum term that a loan may be taken. It distinguishes between General Purpose Loans and Residential Loans.

General Purpose Loan – This type of loan may be taken for any reason.

The maximum term for a general purpose loan is 5 years (60 months). The Voya Loan Program limits the general purpose loan duration to 57 months. This approach ensures that a general purpose loan will not exceed 60 months including any applicable Cure Period permitted by the Plan.

Residential Loan – This type of loan is taken for the purchase of a *primary residence.*

The maximum term for a *primary residence* loan can be longer than 5 years, but is generally set by a plan sponsor to be consistent with applicable real estate loans (15, 20, 25 or 30 years). As the term of these loans is extended, there is a requirement that the participant provide evidence that the loan is being used to purchase his or her principal residence. The maximum duration allowed by the IRC is 30 years or 360 months. Plan elections may further limit the total duration.

D. Interest Rate

The interest rate charged to plan participants must be consistent with commercially reasonable standards for obtaining a loan. By requiring a reasonable interest rate, the participant may partially compensate for the lost investment growth opportunity that would have existed had the funds remained in the Plan. Given that commercial loan rates change, it is essential that the loan rates be monitored and, as applicable, updated on a regular basis. Voya offers an automatic loan interest rate monthly update. Contact your Plan Manager for details.

Setting the Rate: Based on plan elections, Voya can automatically update the loan interest rate on the first business day of each month. If the automatic update is not elected, the plan sponsor must review and update the interest rate using the Loan Interest Rate Change Form.

Exceptions for Participants in the Military: Participant loan interest accrued during the active military service period is generally limited to no more than 6%. The participant must supply a copy of the military orders to the plan sponsor and must ask that the 6% interest rate limit be applied.

E. Loan Documentation

A loan must be evidenced by an enforceable agreement. The Agreement may include more than one document that specifies the amount and date of the loan, as well as the repayment schedule. The Agreement does not have to be signed provided it is enforceable under applicable law without being signed.

General purpose loans: May/may not require paper forms. This depends on your specific plan service elections.

Residential loans: Require a copy of a recently signed purchase agreement demonstrating that the principal residence is being purchased. Note: Refinancing does not qualify as a residential loan.

Leave of Absence (Military and otherwise): Leave of absence data is reported to Voya using a Leave of Absence Form.

F. Loan Repayment

Repayment Frequency: Loan repayments must be received at least quarterly and there is a level amortization over the term of the loan. Plan elections dictate a choice be made based upon an employer's established payroll frequency (monthly, semi-monthly, bi-weekly and weekly).

Method of Repayment: The method of repayment may have some variables depending upon whether a participant is currently employed by the plan sponsor ("active participant") or if permitted by the plan, has continued loan repayment after terminating employment with the plan sponsor.

Active Participants: Repayments are submitted via payroll deduction based on the plan frequency elected.

Terminated participants:

Option 1 - Unless the plan elects to use Voya's Loan Repayment for Terminated Participants service, terminated participants will automatically receive loan default notification letters under the Loan Monitoring Program. Terminated participants are given the option of remitting a lump-sum payment of the entire outstanding loan amount directly to Voya to avoid the loan being reported as a taxable distribution.

Option 2 - If permitted in the plan document and if the sponsor has elected Voya's Loan Repayment for Terminated Participants service, a terminated participant has the option to continue sending scheduled payment amounts directly to Voya to avoid default. As part of this service, when Voya receives a participant's termination date their loan will be automatically re-amortized to allow for monthly payments. If the terminated participant wishes to use this service, they can add their banking data online and an automatic ACH will be processed monthly for the expected loan payment amount until the loan is paid in full. If a participant does not elect this service, they will be subject to the options outlined in Option 1 above.

Important Note: If a participant's loan has already defaulted, the Loan Monitoring Program does not permit the participant to participate in the Loan Repayment for Terminated Participants service for that particular loan.

G. Leave of Absence

Standard Leave of Absence: A participant may take a leave of absence (suspending the loan payments) for up to one year. Upon returning from leave, the participant may either (1) re-amortize the loan over the remaining period to increase their expected payment amount, or (2) may make one lump sum payment, due immediately upon the leave end date, to repay the deferred amount.

Military Leave of Absence: The participant must resume loan repayments when the active military service ends with the payment frequency and amount at least equal to the pre-military schedule. The rehired veteran must repay the full loan amount (including interest accrued during the active military service period) by the end of the maximum term of the original loan plus the military service period. In other words, if the participant has a military leave of 2 years, the loan repayment period will be extended for 2 years.

If you have an employee on a standard or military leave of absence, reference Exhibit 2 for more information.

H. Loan Re-amortization (Distinguished from Loan Refinance)

Loan Re-Amortization: This is common when plan sponsors change a payroll frequency, or a participant returns from a leave of absence. When a loan is re-amortized, a new payment schedule will be calculated using the remaining outstanding loan balance and the original loan maturity date. The loan maturity date cannot be extended beyond the original terms of the loan (unless it is the result of a military leave as described above). The interest owed over the life of the loan may increase when the re-amortization is processed.

Loan Refinance: This feature is not supported by Voya. Given the original loan amount tracking requirements, the majority of plan sponsors do not permit Loan Refinancing. Sometimes referred to as a "replacement loan," it is a loan that: (1) repays a prior loan; (2) provides additional loan proceeds; and (3) establishes a new maturity date for the refinanced loan. Although this may sound like a desirable feature, the Final Loan Regulations establish very strict criteria for refinanced loans and mandate a specific calculation to ensure that the repayment of the original loan amount (included in the refinanced loan) does not exceed the maturity date of the original loan. Loan refinancing must be specifically permitted by the Plan document or Plan Loan Program.

I. Loan Defaults and Resulting Plan Distributions

Final Loan Regulations establish that loans must be repaid based on the established loan repayment schedule. If an installment payment is not made in a timely manner the loan will be considered in a default status. Understanding that there may be extenuating circumstances, the Final Loan Regulations permit the Plan Sponsor to establish a "Cure Period," which cannot exceed the last day of the calendar quarter following the calendar quarter in which the required installment payment was due. The Cure Period is the time frame that the plan may allow a participant to make up for missed loan payments to prevent the loan from defaulting. The Cure Period must be set forth in the Plan document or Plan Loan Program. The loan monitoring service with Voya uses the "Cure Period" definition established in the final regulations (see above definition).

Once the Cure Period has expired, the outstanding loan balance will officially be treated as a Loan Default. Under the umbrella of Loan Defaults, there are two distinct statuses: (1) Deemed Loan Distribution and (2) Loan Offset. These processes are often collectively referred to as "Loan Defaults." The specific process applied depends on the participant's employment status; however, they have the same end result of having the outstanding loan amount and accrued interest being reported as a taxable distribution to a plan participant.

Deemed Distribution of a Loan: Plans have specific rules related to in-service plan withdrawals and distributions. Because a loan default is treated as a plan distribution, and there may not be a distributable event under the plan at the time of default, the default is a "Deemed Loan Distribution." The Final Loan Regulations recognize and permit this "hypothetical distribution." The Deemed Loan Distribution is reported as a taxable distribution from the plan. Until the defaulted loan (in the form of a Deemed Distribution) is repaid in full, the Deemed Loan Distribution will continue to accrue "hypothetical interest." A Deemed Loan Distribution counts against the loan amount available for future loans as well as the number of loans available under the plan.

Paying Back a Loan after Deemed Distribution: If the plan allows for only one outstanding loan, a participant with a Deemed Distributed loan cannot take out a new loan in the future until the Deemed Distributed loan is paid off. Paying off a Deemed Distributed loan will not change the tax consequences of the original loan that was deemed to be distributed. Because Deemed Distributed loans have already been reported as a taxable distribution, repayments made after a Deemed Distribution are characterized as after-tax money when they are distributed.

Offset of a Loan: If the participant has a distributable event (ex. termination from service or 59.5 distribution), there is no need to establish a "hypothetical distribution" through a Deemed Distribution. In such instances the outstanding loan amount will be offset from the participant's account balance. The Loan Offset will be reported as a taxable distribution from the plan and will not continue to accrue "hypothetical interest," count against the available loan amount, and it will not impact the number of future loans available to the participant.

Services provided by Voya

A. **Loan Issuance:** Participants initiate loan requests online or via telephone with a Customer Service Associate. These may be paper or electronic.

B. **Loan Repayments:** Plan sponsors set up the participant loan in their payroll system using the loan data on the applicable Payroll Feedback File. It is critical for the sponsor to set up the loans timely to ensure the first payment is not remitted late, causing the loan to start off delinquent. The first payment date may not match the sponsor's payroll periods. The first payroll deduction should be remitted on or before the first payment due date listed on the payroll feedback file.

C. **Loan Pre-Payment or Escalated Payments:** If additional payments are made to the loan, the payments allow participants to pay off the loan in a shorter time frame, but it will not reduce the amount of interest owed. When multiple payments are processed, the principal/interest split will match the original payment schedule and will not alter the original terms of the loan. This method is acceptable under the loan regulations. Voya requires additional payments to be made in multiples of the original payment amount.

D. **Loan Payoff:** Participants may request to pay off loans in full with a lump sum payment at any time. Participants may submit a check for the full payoff amount or set-up an ACH debit option directly through the Participant Website. Loan payoffs will be reported via the Payroll Feedback File and payroll deductions should be stopped immediately.

E. **Loan Default Monitoring:** For plans using this service, Voya monitors all participant loans and generates monthly reports which are placed on the Sponsor Website. An automatic email notification will be sent to the Sponsor designated contacts when available. Loan reports should be reviewed regularly to determine if action is required for loans in warning or delinquent status. In addition to these automated reports, Voya will directly mail to the participant loan default warning letters if the participant's loan is in jeopardy of being defaulted. Participant loans will automatically default at the end of the calendar quarter after the calendar quarter in which payments were missed or one month after the maturity date.

F. **Loan Program Reports:** The Loan Report Chart contains a detailed explanation of each of the reports, where they are located on the Sponsor Website and the data contained within each report. Reference Exhibit 1.

G. **Frequently Asked Questions:** Reference Exhibit 2.

H. **Annual Percentage Rate (APR) Demonstration:** Reference Exhibit 3.

Exhibit 1

Loan report chart			
Reports for Plan Sponsor	**Description of data included on report**	**Sponsor website path**	**Frequency**
Payroll Feedback Report	Actionable loan transactions during the period. Plan sponsor will set up the loan on their payroll system. Loan re-amortizations, payoffs, deemed defaults &/or offset defaults are included. Notification is sent to sponsor the day the report is available.	**Select:** • Processing Center - Payroll Feedback • Scroll down and select the time period needed Payroll Feedback File (.CSV) version (left portion of screen) is created each period regardless of activity Import .CSV file directly into the payroll system Payroll Feedback Report (.PDF) version (right portion of screen) is created only when there is activity during the time period	Daily Weekly Bi-weekly Semi-monthly (frequency elected by sponsor)
Supplemental Payroll Feedback	Supplemental Payroll Feedback complements the Payroll Feedback by allowing ad hoc report data for a specified date range. This report provides data for activities impacting participants' payroll deductions based on plan provisions and service elections: enrollments, contribution rate changes, and loan data.	**Select:** • Processing Center - Payroll Feedback • Scroll down to the bottom and input date range	Ad Hoc
Loans Past Maturity Date Report	Loans with expected maturity date in the current month. Action message on the report is "Warning". A number may appear next to the word "Warning" indicating how many notifications the participant has received.Participants receive warning letters to inform them that the loan must be paid off by the end of the following month to avoid default.Participant notification is generated on the last business day of the month and mailed to participants within two business days. If no action is taken by the participant, the loan will default at the end of the month after the expected maturity date. Notification is sent to sponsor the day the report is available.	**Select:** • Reports - Sponsor Reports - Participant - Loan Monitoring – Loans Past Maturity Date Report - Continue - Select the appropriate link for the desired time period	Monthly
Delinquent Loan Report	Participant loans that are two or more pay periods behind. Action message on this report is "Delinquent" if the loan is two payments behind. "Delinquent" does not produce a participant notification. Action message of "Warning" generates participant notification. Notification includes the amount needed to bring the loan current as of the prior quarter and the amount needed to bring the loan current as of the date of the notification. The number after the word "Warning" represents the number of notifications sent to the participant. Notification is sent to sponsor the day the report is available.	**Select:** • Participant Information • Participant Data Reports • Expand the Report Type list • Select Loan Monitoring - Delinquent Loans Report • Select Display • Select the appropriate link for the desired time period	Monthly
Missed First Loan Payment Report	Contains participant loans where the first payment was not received by the first payment date. Important to review this report and make the necessary updates to the payroll system. Missed payments must be sent as soon as possible. Notification is sent to sponsor when report is available.	**Select:** • Participant Information • Participant Data Reports • Expand the Report Type list • Select Loan Monitoring - Missed First Loan Payment Report • Select Display • Select the appropriate link for the desired time period	Monthly

Loan report chart (*continued*)			
Reports for Plan Sponsor	**Description of data included on report**	**Sponsor website path**	**Frequency**
Deemed/ Offset Loans Report	Contains potential loan deemed and/or offset. These loans will default at month/quarter end. Notification sent to sponsor when report is available.	**Select:** • Participant Information • Participant Data Reports • Expand the Report Type list • Select Loan Monitoring - Deemed/Offset Loans Report • Select Display • Select the appropriate link for the desired time period	Monthly
Loan Amortization Report	Participant loan payment schedules. Detailed loan payment schedule broken down by payment and principle/interest split. First payment due date is 30 days after the loan is issued. If plan utilizes online loan processing, this first payment date can be selected by TPA or sponsor prior to loan approval. Participants do not receive copies of these schedules.	**Select:** • Participant Information • Participant Data Reports • Expand the Report Type list • Select Loan Amortization Report • To search by date range: • Enter a date range to see all schedules for a specific time period • Select Display • Select the appropriate link by participant SSN to view a single Loan Amortization Report • To search by individual participant: • Enter the participant's 9-digit SSN (without hyphens) • Select Display • Select the link to view the participant's Loan Amortization Report	Report is available 24 hours after the loan is issued
Loan Audit Report	This report provides information regarding loan activity that transpired during the report time period. The annual report is part of the annual audit reports provided to sponsors during the plan audit.	**Select:** • Participant Information • Participant Data Reports • Expand the Report Type list • Select Loan Audit Report • Select Display • Select the appropriate link for the desired time period	Monthly/Annually
Loans Nearing Payoff Report	Loans within two months of having their loan paid off and/or the outstanding loan balance is less than $100. Loan payoff amounts are located in the participant's account.	**Select:** • Participant Information • Participant Data Reports • Expand the Report Type list • Select Loans Nearing Payoff Report • Select Display • Select the appropriate link for the desired time period	Monthly

Exhibit 2

Frequently asked questions

What if a full-time participant changes to a part-time position, should loan payments stop?

No, loan payments must continue.

What if the participant's salary has decreased and they no longer make enough to cover their expected loan payment?

The expected loan payment amount is still required, or the loan may default.

The loan was not set-up timely and multiple payments were missed. What are the options?

The missed payments must be made up prior to the end of the Cure Period. The Cure Period is the time frame that the plan may allow a participant to make up for missed loan payments to prevent the loan from defaulting. Final Loan Regulations permit the Plan Sponsor to establish a "Cure Period," which cannot exceed the last day of the calendar quarter following the calendar quarter in which the required installment payment was due. This loan should not be re-amortized due to missed payments, loan must be brought current.

How does Voya calculate the loan's first payment date?

The first payment date is calculated by adding 30 days to the date the loan was processed. Plans that utilize online loan processing and approval service have the ability to change the date to match their payroll schedule. This must be done prior to the TPA or sponsor approving the participant's loan.

Can I change the loan schedule payment frequency?

The loan may only be re-amortized to change payment frequency if the participant's payroll frequency changes.

Can a participant make a payment larger than the expected amount?

Yes, as long as it is a multiple of the original payment amount. Note: sending an increased payment will not change the original terms of the loan. In addition the overage is applied to interest first and then to the principal.

Can a participant make additional payments separately from the payroll deduction?

No, this is not a service available at this time.

Can a participant pay off the loan in full? If so, how?

Yes, a participant can request a full loan payoff via the Participant Website. The loan payoff will be handled through an ACH transaction from the participant's bank account to Voya. Participants may also mail a check to pay off the loan.

I have a terminated participant who wants to continue making payments. What is the process?

If the plan uses the "ACH Loan Repayment For Terminated Participants" service, the participant can set up future loan payments via their account on the Participant Website. If the plan does not use this service, the participant cannot send in payments – they may only pay off the balance of their loan at the time of termination.

How soon after termination will the loan default if the participant does NOT initiate a full distribution?

The loan will default at the end of the Cure Period. For definition of Cure Period, refer to Loan Defaults and Resulting Plan Distributions section.

The first payment date on this loan does not match the payroll dates. When should the loan deductions start?

The loan deduction should be sent to Voya before the first payment date listed on the payroll feedback file or amortization schedule.

What should be done if a participant is on a leave of absence?

Complete the Leave of Absence Form and fax or mail it to Voya in order to update the participant account. Once the form is received and the account is updated, loan payments will be suspended while the participant is on a leave of absence. Payments should resume on the earlier of the participant's return to work or 12 months. Contact your Plan Manager if you have a person on military leave of absence and once participant has returned to work.

Can a participant on a leave of absence send payments directly to Voya?

Yes, but payments must be made through the plan sponsor and remitted to Voya on the contribution remittance file.

Why are some loans behind when we just started with Voya?

Loan repayments may have started later than the original first payment date, or may have been missed or may have been amortized under the wrong payroll frequency or an incorrect loan balance was provided to Voya during the transition.

The loan is paid off on our payroll system, why does Voya still show a balance?

Verify that the original loan balance on the payroll system was the total of principal and interest owed. Please contact your Plan Manager for any additional research.

What can I view to determine if a loan is paid off?

Loan payoffs are communicated on the Payroll Feedback File as well as the Supplemental Payroll Feedback File on the Sponsor Website. You can also view the information on the Sponsor Website for specific participants under Participant Information > Participant Account Data by searching the specific participant account by SSN or name and then selecting Loans from the Account menu on the participant home screen.

How can I obtain the current loan payoff amount?

You can obtain the loan payoff amount by accessing the participant's account on the Sponsor Website under Participant Information > Participant Account Data or by searching for the specific participant by SSN or name and then selecting Loans from the Account menu.

Can you tell me how much a specific participant has available for a loan?

This information is available on the Sponsor Website through the Participant Information > Participant Account Data by searching the specific participant account by SSN or name and then selecting Loans from the Account menu on the participant home screen. Participants may also access available loan amounts on the Participant Website or by calling into the Retirement Readiness Service Center.

If the participant pays off their current loan, how much is available for a new loan?

The amount a participant may borrow from the plan is limited by rules under the Internal Revenue Code and US Department of Labor. When determining the amount available for a loan, the following limits must be taken into account, as any new loan, when added to the outstanding balance of all other loans from the Plan for a participant, will be limited to the lesser of:

(a) $50,000 reduced by the highest outstanding loan balance during the one year period ending on the day before the date of the new loan;

or

(b) ½ of your vested interest in the Plan.

Please refer the participant to the Retirement Readiness Service Center if an estimated calculation is required.

Is there a loan report that shows all loan details including maturity date?

The plan sponsor can access the Loan Audit Report available on the Sponsor Website or the sponsor can create a custom loan report on the Sponsor Website in the On-Demand Reporting section.

Why is this loan on the delinquent report, all payments were sent timely?

Additional research is required in order to determine the variance. Please contact your Plan Manager.

Why can't Voya use the same loan number as we use on our payroll system?

Voya assigns loan numbers sequentially in order to store history of each loan separately.

Can we re-amortize a loan for a specific payment amount?

When participants request a loan, they may model the loan payment amount by shortening or lengthening the repayment period, up to the maximum allowed repayment period. Once a loan is processed, it cannot be re-amortized to change the original terms.

Why is the Annual Percentage Rate (APR) higher than the interest rate?

Please refer to Exhibit 3 for detailed information regarding APRs.

Exhibit 3

Annual Percentage Rate (APR) Demonstration

Annual percentage rate	Finance charge	Amount financed	Total of payments
The cost of your credit as 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 all payments are completed
A %	**B** $	**C** $	**D** $

Q. What is the Truth-In-Lending Disclosure and why do I receive it?

A. The Disclosure is designed to give you information about the costs of your loan so that you may compare costs with those of other loan programs or lenders.

Q. What is the Annual Percentage Rate? (Box A above)

A. The Annual Percentage Rate (APR) is the cost of your credit expressed as an annual rate. Because you may be paying loan discount "points" and other "prepaid" finance charges at closing. The APR disclosed is often higher than the interest rate on your loan. This APR can be compared to the APR on other loan programs to give you a consistent means of comparing rates and programs.

Q. Why is the Annual Percentage Rate different from the interest rate for which I applied?

A. The APR is computed from the Amount Financed and borrowed on what your proposed payments will be on the actual loan amount credited to you at settlement. In a $50,000 loan with $2,000 Prepaid Finance charges, a 30-year term, and a fixed interest rate of 12%, the payment would be $514.31 (principal and interest). Since the APR is based on the amount financed ($48,000) while the payment is based on the actual loan amount given ($50,000), the APR (12.553%) is higher than the interest rate.

Q. What is the Finance Charge? (Box B above)

A. The Finance Charge is the cost of credit expressed in dollars. It is the total amount of the interest calculated at the interest rate over the life of the loan.

Q. What is the Amount Financed? (Box C above)

A. The Amount Financed is the loan amount applied for minus the Prepaid Finance Charges. Prepaid Financial Charges include items paid at or before settlement, such as loan origination, commitment or discount fees ("points"), or adjusted interest. The Amount Financed is lower than the amount you applied for because it represents a NET figure. If you applied for $50,000 and the Prepaid Finance Charges total $2,000, the amount financed would be $48,000.

Q. Does this mean I will get a smaller loan than I applied for?

A. No, If your loan is approved in the amount requested you will receive credit toward your home purchase or refinance for the full amount for which you applied. In the example above, you would therefore receive a $50,000 not a $48,000 loan.

Q. What is the Total of Payments? (Box D above)

A. This figure represents the total amount you will have paid if you make the minimum required payments for the entire term of the loan. This includes principal and interest.