

Prepayment Clause

The "prepayment" clause can be confusing. One option states that the borrower "will not be entitled to a refund of part of the finance charge." This means that you will not be refunded part of your prepaid finance fees or any interest you have already paid when you pay the loan off in full. A confusing term is "finance charge." The finance charge on the disclosure form gives the total dollar amount the loan will cost if you paid it monthly until the mortgage is retired. For example, the total amount paid on a 30-year mortgage for \$300,000 at 8.25 percent is more than \$500,000. If you pay off the loan early, you do not have to pay the full finance charge disclosed to you. You only pay for the money for as long as you use it. The prepayment clause explains exactly how much you will pay and how long you are obligated to pay.

