

LOAN CLAUSE CHECKLIST

11 clauses your lender hopes you never find — before you sign anything

11

Clauses to Check

3

Red Flag Categories

0

Seconds to Sign Back

100%

Free — No Email Needed

■ **For educational purposes only. Not legal advice.** Loan terms vary by lender, state, and loan type. Always read your full contract and consult a licensed attorney or HUD-approved counselor before signing any loan agreement.

■ QUICK ANSWER — WHAT IS THIS CHECKLIST?

Most loan contracts are 10–30 pages of dense legal language. Lenders count on you not reading it. This checklist identifies the 11 most dangerous clauses — the ones that can trigger hidden fees, destroy your credit, or strip away your legal rights. Check every box before you sign. If you find even one of these, you have the power to ask questions, negotiate, or walk away.

BORROWER'S TRUTH SERIES — 30 DAYS · WEEK 3: THE FINE PRINT FILES

This checklist is part of the Borrower's Truth Series — a 30-day educational series that exposes what lenders hope you never learn about borrowing money. This is your master reference — return to it every time you receive a new loan offer or contract.

By Laxmi Hegde, MBA in Finance · ConfidenceBuildings.com

The 3 Red Flag Categories

■ COST TRAPS

Clauses that increase what you pay — often hidden in fine print after signing.

■ RIGHTS REMOVALS

Clauses that strip away your legal ability to dispute, sue, or seek relief.

■ CONTROL CLAUSES

Clauses that give the lender access to your accounts or assets beyond the loan.

01

Prepayment Penalty Clause

■ COST TRAP

WHAT IT IS

A fee charged if you pay off your loan early — even if you're paying in full. Often expressed as a percentage of the remaining balance or a set number of months' interest.

WHERE TO FIND IT IN YOUR CONTRACT

Search your contract for: "prepayment penalty," "early payoff fee," "early termination fee," or "yield maintenance."

■ RED FLAG SIGNALS

Any fee over 1–2% of the remaining balance. Any prepayment restriction lasting more than 3 years. Any clause that prevents you from refinancing without penalty.

■ ACTION

Ask the lender: 'What is the exact prepayment penalty if I pay this off in full in 12 months?' Get the answer in writing. Compare this against potential refinancing savings.

■ I have searched for and reviewed the prepayment penalty terms

02

Variable Interest Rate Clause

■ COST TRAP

WHAT IT IS

Your interest rate can change — usually tied to an index like the Prime Rate or SOFR (Secured Overnight Financing Rate). Your monthly payment can increase significantly with no warning.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "adjustable rate," "variable rate," "rate cap," "index rate," "margin," "SOFR," or "Prime Rate +."

■ RED FLAG SIGNALS

No rate cap (maximum rate limit). Rate adjustment periods shorter than 12 months. Rate margin above 5% over the index. No floor guarantee on your rate.

■ ACTION

Calculate your payment at the maximum possible rate cap. If you cannot afford that payment, do not take a variable rate loan.

■ I understand the index, margin, rate cap, and maximum possible payment

03

Balloon Payment Clause

■ COST TRAP

WHAT IT IS

Your monthly payments are calculated as if you had a long-term loan (e.g. 30 years), but the entire remaining balance is due in a lump sum at the end of a shorter term (e.g. 5 years).

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "balloon payment," "balloon amount," "lump sum due," "final payment," or compare the loan term vs. amortization schedule.

■ RED FLAG SIGNALS

Any balloon payment you cannot realistically pay or refinance. A balloon due within 3–5 years on a large balance. No refinancing guarantee.

■ ACTION

Ask: 'What is the exact balloon payment amount and date?' Model your finances — will you have that amount or be able to refinance? If not, this is not your loan.

■ I know the exact balloon amount, date, and my plan to meet it

04

Automatic Renewal / Rollover Clause

■ COST TRAP

WHAT IT IS

Your loan automatically renews — or your interest resets — without your explicit action. Common in short-term and payday-type loans. You think you're almost paid off; you're not.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "automatic renewal," "rollover," "re-loan," "loan renewal offer," "unless you notify us," or "automatically extends."

■ RED FLAG SIGNALS

Any auto-renewal you didn't opt into. Any renewal that resets interest to the original amount. Short notification windows (less than 10 days to cancel).

■ ACTION

If a rollover clause exists: set a calendar reminder for 30 days before the renewal date. Decide in advance whether to renew or pay off — don't let inaction decide for you.

■ I know whether this loan auto-renews and what the opt-out window is

05

Mandatory Arbitration Clause

■ RIGHTS REMOVAL

WHAT IT IS

You waive your right to sue the lender in court — including joining a class action lawsuit. All disputes must go through a private arbitration company often chosen by the lender.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "arbitration," "dispute resolution," "binding arbitration," "class action waiver," or "waiver of jury trial."

■ RED FLAG SIGNALS

Arbitration administered by a company with ties to the lender. No option to opt out within 30 days. Class action waiver bundled with the arbitration clause.

■ ACTION

Check if there's a 30-day opt-out window — some lenders are required to offer one. If you opt out: send written notice via certified mail within the window. See Day 16 of this series for full details.

■ I understand whether I have waived my right to sue in court

06

Cross-Collateralization Clause

■ RIGHTS REMOVAL

WHAT IT IS

Collateral you pledged for Loan A also secures Loan B (and any future loans) with the same lender. Miss a payment on one loan — and the lender can seize assets tied to both.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "cross-collateralization," "all obligations," "all indebtedness," "collateral secures all loans," or "future advances."

■ RED FLAG SIGNALS

Any clause that links your current collateral to past or future debts with the same institution. Common with credit unions and banks where you have multiple accounts.

■ ACTION

If this clause exists and you have other loans or accounts with this lender: understand that defaulting on any single loan could put all your secured assets at risk.

■ I know whether this collateral is tied to any other loans with this lender

07

Due-On-Sale Clause

■ RIGHTS REMOVAL

WHAT IT IS

If you sell or transfer the property used as collateral, the full remaining loan balance becomes immediately due. Most common in mortgages — prevents you from transferring the loan to a buyer.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "due-on-sale," "acceleration on sale," "transfer of ownership," or "alienation clause."

■ RED FLAG SIGNALS

Any due-on-sale clause that includes transfers to family members or trusts — some lenders apply it even to estate planning transfers.

■ ACTION

Know this clause exists before you plan to sell. Budget for paying off the loan or refinancing at closing — it cannot be assumed by a buyer without lender approval.

■ I understand the due-on-sale terms and their impact on future property transfers

08

ACH / Automatic Payment Authorization

■ CONTROL CLAUSE

WHAT IT IS

The lender has your authorization to withdraw payments directly from your bank account — and in some contracts, to retry failed withdrawals multiple times, triggering multiple NSF fees.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "ACH Authorization," "Automated Clearing House," "electronic payment authorization," "automatic debit," or "electronic fund transfer."

■ RED FLAG SIGNALS

Unlimited retry attempts on failed payments. Authorization language covering 'any amounts owed' (not just scheduled payments). No clear revocation procedure stated.

■ ACTION

You have the legal right to revoke ACH authorization at any time under Regulation E. Download the ACH Revocation Kit from Day 18 of this series: confidencebuildings.com/2026/03/09/auto-pay-loan-traps/

■ I understand the ACH terms and know how to revoke authorization if needed

09

Default Trigger Clauses

■ CONTROL CLAUSE

WHAT IT IS

Conditions beyond missed payments that trigger a default — including declining credit score, job loss, change in marital status, insurance lapse, or even a default on an entirely separate loan with a different lender.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "events of default," "material adverse change," "cross-default," "acceleration," or "default without notice."

■ RED FLAG SIGNALS

Any default trigger unrelated to payment history. Cross-default clauses (defaulting on any loan anywhere = default here). Triggers that allow acceleration without a cure period.

■ ACTION

List every default trigger in your contract. Ask: 'Could any of these realistically happen to me?' If a credit score drop triggers default and you're in a volatile income period, this is a serious risk.

■ I have listed all default triggers and assessed my risk of each

10

Force-Placed Insurance Clause

■ CONTROL CLAUSE

WHAT IT IS

If your insurance lapses — even briefly — the lender can purchase insurance on your behalf and add the cost to your loan balance. Force-placed insurance is often 2–10x more expensive than standard coverage.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "force-placed insurance," "lender-placed insurance," "collateral protection insurance," or "insurance requirements."

■ RED FLAG SIGNALS

No notification requirement before insurance is placed. Retroactive billing for the period your coverage lapsed. No requirement to remove once you restore your own coverage.

■ ACTION

Set up auto-renewal on your insurance policies and provide your lender with proof of coverage annually. Never let your policy lapse — even for one day.

■ I understand the insurance requirements and the lender's placement rights

11

Venue / Choice of Law Clause

■ RIGHTS REMOVAL

WHAT IT IS

Any legal dispute must be filed in a specific state — often chosen by the lender — regardless of where you live. This makes litigation prohibitively expensive for most borrowers.

WHERE TO FIND IT IN YOUR CONTRACT

Search for: "governing law," "jurisdiction," "venue," "choice of law," or "disputes shall be resolved in [State]."

■ RED FLAG SIGNALS

A state with weaker consumer protection laws than your own. Any state you cannot practically travel to for hearings. Combined with a mandatory arbitration clause — double waiver.

■ ACTION

If the venue clause specifies a distant state: factor in the cost of legal action if things go wrong. This clause is one reason lenders encourage signing fast — they don't want you to notice it.

■ I know which state's law governs this loan and what that means for my rights

MASTER CHECKLIST — ALL 11 CLAUSES

Print this page. Check every box before signing any loan.

01	■ ■ Prepayment Penalty Clause	Reviewed / N/A
02	■ ■ Variable Interest Rate Clause	Reviewed / N/A
03	■ ■ Balloon Payment Clause	Reviewed / N/A
04	■ ■ Automatic Renewal / Rollover Clause	Reviewed / N/A
05	■ ■ Mandatory Arbitration Clause	Reviewed / N/A
06	■ ■ Cross-Collateralization Clause	Reviewed / N/A
07	■ ■ Due-On-Sale Clause	Reviewed / N/A
08	■ ■ ACH / Automatic Payment Authorization	Reviewed / N/A
09	■ ■ Default Trigger Clauses	Reviewed / N/A
10	■ ■ Force-Placed Insurance Clause	Reviewed / N/A

Loan Amount: \$ _____

Questions Asked: ■ Yes ■ No

Lender Name: _____

Signed Only After Review: ■ Yes ■ No

Date Reviewed: _____

Attorney/Counselor Consulted: ■ Yes ■ No

Frequently Asked Questions

Can I negotiate loan contract terms before signing?

Yes. Many borrowers don't realize loan terms are negotiable — especially interest rate, prepayment penalties, and automatic renewal clauses. Ask the lender to remove or modify any clause you find unacceptable. Get all changes in writing. If the lender refuses to negotiate at all, that itself is useful information.

Source: Consumer Financial Protection Bureau — consumerfinance.gov

What should I do if I find a mandatory arbitration clause?

Check immediately whether the contract includes a 30-day opt-out window. Some lenders are legally required to offer one. If an opt-out exists: send written notice via certified mail within the window. See Day 16 of the Borrower's Truth Series for the full arbitration clause guide and opt-out template.

Source: Federal Trade Commission — ftc.gov/consumers/arbitration

Is it legal for a lender to include all of these clauses?

In most states, yes — these clauses are legal unless they violate specific state consumer protection laws. Some states have stronger protections (e.g., California, New York). Always check your state attorney general's website for consumer lending rules in your state. An attorney can review your specific contract.

Source: State Attorney General offices — naag.org

What if I already signed a loan with one of these clauses?

Review your contract immediately for any opt-out windows — especially for arbitration clauses (often 30 days from signing). Contact a nonprofit credit counselor through NFCC.org (free service). If you believe the contract violated disclosure laws, file a complaint with the CFPB at consumerfinance.gov/complaint.

Source: National Foundation for Credit Counseling — nfcc.org

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