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§12–126.

(a) This section applies only to a loan that:

(1) Is secured by a mortgage or deed of trust on the borrower's primary residence; and

(2) Is not a commercial loan.

(b) Except to the extent expressly provided otherwise in the loan contract, a borrower may prepay all or part of outstanding unpaid indebtedness under a loan at any time.

(c) In the event of prepayment of the entire loan, the lender shall refund or credit to the borrower the unearned portion of the precomputed interest charge. This refund or credit shall be in an amount not less than the amount which would be refunded or credited if the unearned precomputed interest charge were calculated in accordance with the actuarial method, except that the borrower may not be entitled to a refund or credit of less than $5. The unearned portion of the precomputed interest charge is, at the option of the lender, either:

(1) That portion of the precomputed interest charge which is allocable to all originally scheduled or, if deferred, all deferred payment periods, or portions of payment periods, ending subsequent to the date of prepayment. The unearned precomputed interest charge is the total of that which would have been earned for each period, or portion of a period, had the loan not been prepaid, by applying to the unpaid balances of principal, according to the actuarial method, an annual percentage rate based on the precomputed interest charges, assuming that all payments were made as scheduled, or as deferred, if deferred. The lender, at its option, may round this annual percentage rate to the nearest 1/4 of 1 percent; or

(2) The total precomputed interest charge less the earned precomputed interest charge. The earned precomputed interest charge shall be determined by applying an annual percentage rate based on the total precomputed interest charge, under the actuarial method, to the unpaid balances for the actual time those balances were unpaid up to the date of prepayment.

(d) As used in subsection (c) of this section, the following terms have the meanings indicated.

(1) "Actuarial method" means the method of allocating payments made on a loan between the outstanding principal balance of the loan and interest, by which a payment is applied first to the accumulated interest, and any remainder is subtracted from the outstanding principal balance of the loan.

(2) “Payment period” means the time period within which scheduled payments on a loan are due as provided in the agreement, note, or other evidence of the loan.

(3) “Precomputed interest charge” means interest as computed by an add on, discount, or other similar method.

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