Mortgage Partnership Finance

Calculating Loan Payoffs

March 19, 2025

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Overview

When a loan is liquidated, the amount required to pay off the loan in full must be calculated and reported correctly

Errors can be attributed to incorrect calculations made by both humans and loan servicing systems (or both)

Calculation errors may result in borrowers being overcharged for interest, or a shortage of funds needed to pay the loan in full

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Basic Payoff Guidance

Mortgage interest is paid in arrears

- Monthly payments cover the interest for the previous month
- For example, a monthly payment made/due on April 1st pays the interest due for March

Determining the number of days of outstanding interest to add to the principal balance of the loan is based upon:

- The borrower's last applied monthly payment and;
- The date the loan is being paid off

Basic Payoff Calculation Example

Paul and Jessie are selling their home

- Their last monthly payment was made on **March 1st**
- The loan will be paid off on **March 27th**

In this case, their loan is paid up through February 28

- Add **26** days of interest (March 1-26) to the principal balance
- **Do not include the day the loan is being paid off in the interest per diem total**

Interest Calculations

Bart is paying off his mortgage on April 9th

His last payment was made on March 1st, and he's not making the April 1st payment

Bart's loan is paid through February 28

The **30/360** calculation is used when a full month's worth of interest is owed. Always use 30 days, even for February and months with 31 days

How many days of interest does he owe for March? 30

*UPB * Interest Rate / 360 *30 = monthly interest*

The **30/365** calculation is used to determine the per diem interest for the month of the payoff (partial month)

How many days of interest does he owe for April? 8

UPB Interest Rate / 365 * number of days = partial month's interest*

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Complex Payoff Scenarios

Liquidations with Curtailments

When Fred receives his paycheck on the 15th of each month, he makes a $200 payment towards principal

He recently received an inheritance, and he paid off his mortgage on February 28

MPF Traditional Product

- **Report the liquidation on/by the 5th business day of the following month**
- **The payoff interest should be calculated using the UPB after the $200 curtailment has been applied**

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Liquidations with Curtailments

When Fred receives his paycheck on the 15th of each month, he makes a $200 payment towards principal

He recently received an inheritance, and he paid off his mortgage on February 28

MPF Xtra® Product

- Fred owes 27 days of interest which must be based upon his UPB after the curtailment was applied
- The Servicer owes the investor interest based on Fred's UPB prior to the curtailment being applied (use the UPB after his last regular payment was made)
- The Servicer is responsible for covering the difference between the interest Fred owes and the interest the investor is expecting
- The interest collected from Fred will be less than what the Servicer is required to remit to the investor (two separate calculations)

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Multiple Curtailments

On January 1st, Vanessa made her regular P&I payment of $900 plus a $5,000 curtailment

On January 10th, she made another curtailment of $15,000

On January 25th, she sold her townhouse and paid off her loan

How many days of interest must be added to Vanessa's UPB? **24**

MPF Traditional product:
What UPB should be used to calculate Vanessa's owed interest?
The UPB *after both curtailments were applied*

MPF Xtra product:
What UPB should be used to calculate the interest that must be remitted to the investor?
The UPB before the curtailments were applied

MPF Xtra product:
What UPB should be used to calculate Vanessa's owed interest?
The UPB *after both curtailments were applied*

MPF Xtra loans with curtailments: the borrower's interest calculation and resulting payoff will differ from what the Servicer is required to remit to the investor. The Servicer covers the difference.

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Loans Paid in Advance

Susan recently started a job in England. Before leaving, she made several payments in advance

She is not scheduled to make another payment until **June 1st**

In the meantime, Susan accepted an offer on her home and the closing is set for **March 20th**

Susan's Payoff Scenario

- Susan's sale is closing on March 20th
- Her mortgage is pre-paid through May 1st (the next payment she is scheduled to make is June 1st)
- The interest rate is 6.000%

First, you'll want to look at how her pre-paid payments break out:

Payment Date	Beginning UPB	Principal	Gross Interest	Servicing Fee	Ending UPB
March 1	167,009.21	364.06	835.05	34.79	166,645.15
April 1	166,645.15	365.88	833.23	34.72	166,279.28
May 1	166,279.28	367.70	831.40	34.64	165,911.57

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Susan's March 20th Payoff

Payment Date	Beginning UPB	Principal	Gross Interest	Servicing Fee	Ending UPB
March 1	167,009.21	364.06	835.05	34.79	166,645.15
April 1	166,645.15	365.88	833.23	34.72	166,279.28
May 1	166,279.28	367.70	831.40	34.64	165,911.57

$165,911.57
-$833.23
-$831.40
+$520.48
$164,767.40

Start with Susan's UPB after all pre-paid payments have been applied

1. Back out the March interest (paid on April 1st) and the April interest (paid on May 1st)
2. Using the 30/365 calculation method calculate the per diem interest owed for March (base the calculation on the March 1 ending UPB)

UPB * Interest Rate / 365 = per diem interest

$166,645.15 x 0.06 ÷ 365 = $27.39 per diem
$27.39 x 19 days = $520.48

Avoiding Reporting Errors

Always report the next payment due date

- This confirms the date of the borrower's last monthly payment
- Also confirms if any additional monthly payments were made during the month of the payoff

If payoff errors are a regular occurrence, your servicing system may be calculating in a way that differs from the investor's requirements

- Watch for rounding issues
- When in doubt, double-check with a manual calculation

MPF Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com
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MPF Investor Accounting

mpfinvestoraccounting@fhlbc.com

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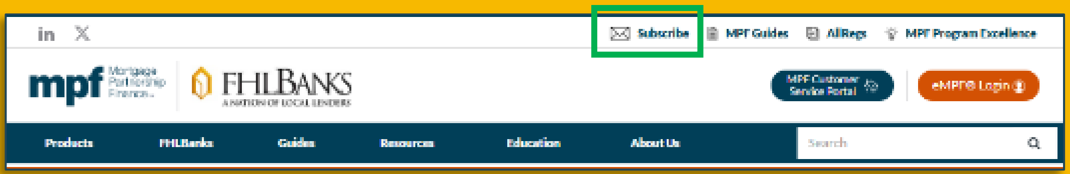

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