

Servicers of MPF Xtra® product loans must ensure that payoff interest is calculated, reported, and remitted correctly. Principal curtailments made during the same month as a payoff are subject to different calculation, remittance, and reporting requirements. In this scenario, Servicers must calculate the interest owed using the unpaid principal balance both before and after the curtailment was applied. Failure to do so will result in remittance and reporting discrepancies.

The following example* will explain the per diem interest calculation requirements for loans with principal curtailments applied during the month of payoff.

- The borrower is paying off their mortgage on **April 29**.
- Their last monthly payment was made on April 1. On the 15th of each month, they make an automatic principal curtailment payment of **\$500**.
- Their balance on April 1 **before** the curtailment was applied was **\$89,286.39**.
- Their balance **after** the curtailment was applied on April 15 is **\$88,786.39**.

How to Calculate the Borrower's Payoff to the Servicer

The borrower gets the benefit of the curtailment; therefore, the interest should be calculated using the unpaid principal balance after the curtailment is applied. In this example:

- The starting balance is \$89,286.39 once the curtailment is applied the unpaid principal balance is **\$88,786.39**.
- At a 5.000% interest rate, the interest per diem is \$12.16.
- 28 days of interest is owed $\$12.16 \times 28 = \340.55
- Add \$340.55 (28 days of interest) to the borrower's unpaid principal balance to cover the interest owed for April.
- Which is $\$88,786.39 + \$340.55 = \mathbf{\$89,126.94}$
- **The borrower's total payoff amount is \$89,126.94.**

How to Calculate the Servicer's Payoff to the MPF Provider

Why is this different from the borrower's payoff calculation?

It's different because the Investor for the MPF Xtra product, Fannie Mae securitizes loans they purchase. The investors of those securities are expecting to be paid interest based upon the unpaid principal balance after the borrower makes their regular, monthly principal and interest payment, not after any curtailments are applied.

Because of this, the interest calculation for the remittance and reporting amounts provided to the Investor must be based on the borrower's principal balance **before** any curtailments are applied.

The following represents the interest calculation due from Servicer to ensure compliance with Investor requirements:

- Using the borrower's balance prior to the application of a principal curtailment on April 1st which is **\$89,286.39**.
- At a 5.000% interest rate, the per diem is \$12.23.
- 28 days of interest of interest is owed: $\$12.23 \times 28 = \342.44
- Add \$342.44 (28 days of interest) to the borrower's current unpaid principal balance to cover the interest owed for April.
- Which is $\$342.44 + \$88,786.39 = \mathbf{\$89,128.83}$
- **The amount owed to Fannie Mae is \$89,128.83, however, since the amount required to be collected from the Borrower was \$89,126.94, the Servicer is responsible for including the \$1.89 interest owed in their remittance.**
 - The difference in interest is $\$89,128.23 - \$89,126.94 = \$1.89$

Fannie Mae requires the amount of interest charged to the borrower to be based on the Unpaid Principal Balance of the mortgage loan, as of the Last Paid Installment date, but not including the date the payoff funds are received and using the current interest accrual rate.

As a result, the Servicer's payoff remittance is different from what the Borrower owes. **Servicers are responsible for remitting and covering the additional \$1.89 of interest owed to the Investor.** The borrower should not be paying this difference.

Servicers are required to calculate a payoff for MPF Xtra loans that includes the interest to the Investor and must maintain a copy for their records that is available to the MPF[®] Program or the Investor upon request.

*Please note that the figures represented in this scenario may not be 100% accurate as they are for example purposes only.

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