Calculating Loan Payoffs

March 2024

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Before We Start

The information in this tutorial applies to loan payoffs of conventional loans available under the MPF® Traditional and MPF Xtra® products.

Payoffs of MPF Government product loans will not be covered in this presentation.

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.

Basic Payoff Guidance

Mortgages are paid in arrears

- Monthly payments cover the interest for the previous month.

- For example, a monthly payment made/due on March 1st pays February's interest.

- Interest must be collected to cover the days between the last applied monthly payment and the loan payoff date.

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 of the loan payoff

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Basic Payoff Calculation Example

Paul and Jessie are selling their home

- Their last monthly payment was made on **March 1st**

- The loan will pay off on **March 14th**

> **In this case, their loan is paid up to March 1st**
>
> - Add **13** days of interest to the principal balance
>
> - Do not count interest for the day of the payoff (March 14th)

What if Paul and Jessie decide to not make their March 1st payment?

Let's look…

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Basic Payoff Calculation Example

If Paul and Jessie's last monthly payment was made on February 1st, they would owe interest for all of February plus interest up to the date of payoff (March 14)

- When a full month of interest needs to be included, always use **30** days, no matter how many days are in that month.

- In this scenario, **43** days of interest should be added to the outstanding principal balance.

  February interest = **30** days
  March interest = **13** days

General Payoff Guidelines

- For partial months of interest, count the number of days beginning on the 1st day of the month up to the day before the payoff date.

- Full months always use **30** days of interest no matter how many days are in the month(s).

- Remember, do not include the day of payoff in the interest calculation.

Unique Pay Off 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 Reporting

- Report the liquidation on/by the 5th business day of the following month.

- The payoff interest should be calculated using the the principal balance after the $200 curtailment has been applied.

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

- The **borrower's** payoff amount is calculated using the outstanding principal balance **after** the curtailment is applied.

- The **servicer** is required to remit payoff funds calculated using the borrower's unpaid principal balance as of the borrower's last monthly payment due date (prior to any curtailments being applied).

- **As a result of this difference, the servicer will remit a slightly higher amount than what the borrower pays.**

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Loans Paid in Advance

Susan just started a job in England. Before leaving, she made six months worth of mortgage payments.

Her next mortgage payment isn't due until **August 1.**

Somone offered to purchase Susan's home and the closing is set for **June 14.**

- Ensure all 6 payments have been applied.

- Calculate the payoff based on the principal balance remaining after all six payments were applied.

- Since her interest is paid through June 30, she's due an **interest refund.**

- **Subtract 16 days of interest from her principal balance.**

Avoiding Reporting Errors

Always report the next payment due date

- This confirms the date of the borrower's last monthly payment.

- Also confirms that no additional monthly payments were made during the month of payoff.

If pay off 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

- Should be using the 360/365 method