
Interest Payment Only Loans

CU*BASE Mortgage Products

INTRODUCTION

Occasionally credit unions wish to offer loans where for a specified period of time they only require the member make interest payments, such as construction loans, home equity loans, and the like. Generally, these loans are processed this way as a marketing tool for helping the member get the lowest possible payment on the funds borrowed.

In the case of a construction loan, an interest payment only plan helps keep the payments down until the member actually moves into the house, offsetting the cost of alternative housing. In the case of a home equity line of credit, this plan provides the lowest payment, and the actual appreciation of the home is designed to offset the ultimate principal repayment.

CU*BASE Interest Payment Only loans let you offer these loans to your members with the same automated servicing and delinquency monitoring as other loan products, with the only difference being that payments are calculated automatically each month using the interest due as the payment amount.

It is very important that you read this entire document carefully and understand the nuances of how payments are calculated and posted, prior to starting your interest-only program and communicating your repayment plan to members and credit union staff.

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Revision date: March 19, 2017

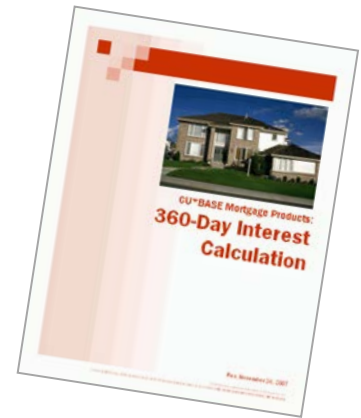
For an updated copy of this booklet, check out the Reference Materials page of our website:
<http://www.cuanswers.com/resources/doc/cubase-reference/>
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SPECIAL NOTE: 360 MORTGAGES AS INTEREST-PAYMENT ONLY LOANS

To read more about the special nature of interest-payment only loans that are also set up with the 360-day mortgage interest calculation type, be sure to refer to the separate **“CU*BASE Mortgage Products: 360-Day Interest Calculation”** booklet.

That booklet describes special messaging and additional rules that are in place for loan products set up to be compatible with industry standards for mortgages sold in the secondary market.



HOW CU*BASE CALCULATES THE MONTHLY PAYMENT AMOUNT

Simply put, once a month on a specific day configured in the loan category, during beginning-of-day processing CU*BASE takes the total amount of interest due on the loan, and moves that amount into the Regular Scheduled Payment field on the member loan record. In effect, the interest due becomes that member's payment amount on that day.

If interest is calculated using the 365-day method, interest continues to accrue as usual every day, and on the configured day of the month, CU*BASE just looks at how much is owed as of that day to determine the new payment amount. For 360-day products, the loan category would be configured so that the new payment is calculated just after the interest is calculated for the month (interest for 360-day products is calculated once a month, typically between the 15th and the 31st).

Because the payment amount is based on the rate and balance on the loan account, changes to the rate (variable rates) or payments to principal will cause the daily interest accrual amount to change, resulting in a new payment amount. Therefore, the normal payment change features used by other open-end and LOC loans, where payments are changed upon disbursements or payments, will not apply to interest payment only loans.

HANDLING OVERLINE SITUATIONS

A special situation occurs when credit life and/or disability insurance premiums are added to these types of loans. Because the member isn't paying down the principal, the loan balance on these loans usually remains at the original disbursement limit. When an insurance premium is added to the loan account, it causes the account balance to go *above* the disbursement limit, making it appear as though the account is overline, and the amount never gets caught up until the note comes due.

To prevent this, you can activate the optional *Add overline to pmt* flag on the Loan Category configuration (see Page 7). If this flag is checked, when the system calculates payments it will add any amount owed above the disbursement limit to the payment amount for that month. (Although the intent was primarily to handle insurance premiums, the calculation would apply in any situation where the member's balance is over the maximum disbursement limit.)

For example, say a \$75 life and disability insurance premium is added to a loan with a disbursement limit of \$12,000, bringing it to a principal balance of \$12,075. The next time a payment is calculated, it will include the normal accrued interest amount, plus the \$75 overline amount.

If a member makes a principal payment anywhere along the way, bringing the balance far enough below the disbursement to leave a "buffer" for future insurance premiums, the payment will no longer need to include the overline amount and may actually go down significantly.

For example, if the member makes a \$1,000 principal payment on his \$12,000 loan, bringing the principal balance down to \$11,000, when future premiums are added they will no longer bring the balance above the

disbursement limit, and will therefore not need to be added to the payment amount.

When calculating the payment amount on these loans, the system first determines the overline amount, if any, using this formula:

$$\text{Maximum Disbursement Limit} - \text{Current Balance} = \text{Overline Amount}$$

If the result of the calculation is negative, the account is considered overline, and the difference should be added to the interest amount due to calculate that month's payment.

Example 1: *New interest-only loan, or a loan where the member has been making interest payments but no payments towards the principal balance:*

Disbursement limit	\$12,000
Life insurance premium added to loan balance on 1st (?) of month	\$60/month
Disability insurance premium added to loan balance on 1st (?) of month	\$10/month
<hr/>	
Balance on loan as of the time the payment is being calculated (per loan category configuration)	\$12,070
Accrued interest due at time the payment is being calculated	\$100
Calculated overline amount	\$12,000 - 12,070 = (70)
<hr/>	
New payment amount	\$100 + \$70 = \$170

Example 2: *If at some point the member makes a principal payment on the loan, bringing the balance far enough below the disbursement limit that any insurance premiums are not enough to put the loan overline, then the payment would be calculated as just the amount of accrued interest:*

Disbursement limit	\$12,000
Life insurance premium added to loan balance on 1st (?) of month	\$60/month
Disability insurance premium added to loan balance on 1st (?) of month	\$10/month
<hr/>	
Balance on loan as of the time the payment is being calculated (per loan category configuration)	\$5,070
Accrued interest due at time the payment is being calculated	\$60
Calculated overline amount	\$12,000 - 5,070 = 6,930 <i>(positive result = NOT overline)</i>
<hr/>	
New payment amount	\$60 + \$0 = \$60

This concept should be explained to member service staff so that they can answer member questions about changing payment amounts on these types of loans.

THE STEP-DOWN LOAN

Interested in adding a competitive advantage and attracting new member business loans in an ever increasing competitive marketplace? Why not add another type of loan product to your arsenal – the “step-down” line-of-credit loan which combined the benefits of a long-term open-credit loan with the flexibility of a revolving line of credit.

This type of loan product allows you to extend a line of credit and then shrink (lower) the available balance (and loan payment) incrementally each month. For example, you might extend \$10,000 for a construction project and then lower the available balance and loan payment by an incremental portion of the initial loan amount each month.

- The monthly “step down” amount is calculated by CU*BASE by dividing the original loan balance by the number of loan payments.

Additional special settings on the second loan category screen are also required. See the configuration section of this booklet for more information.

Additional

Send 1098 tax form

Maximum loan disbursement

Apply stepdown
(reduce disbursement limit each month based on amortization term)

RULES FOR INTEREST PAYMENT ONLY LOANS

- Configure the loan category using a Payment Calculation Type of “I” (interest only) and a Delinquency Control setting of “P” (single payment per period). A payment update day must be specified, along with a minimum payment amount. **See Page 7 for details.**
- Interest payment only loans can be used with both 365 and 360-day interest calculation types, including both closed- and open-end loans and lines of credit. NOTE: For LOCs, payment changes are recalculated only as outlined above; normal payment change calculators (interactive, daily, upon disbursement, variable rate changes, etc.) do not apply to these loans. Payments are changed once a month on the day configured in the loan category. **See Page 7 for details.**

*For details about the special configuration required for the 360-day interest calculation type, be sure to review the separate “**CU*BASE Mortgage Products: 360-Day Interest Calculation**” booklet.*

- Payment Matrix should be set up so that interest is paid first, before fines, to avoid interest being carried over into the next period. **See Page 11 for details.**
- Create loan requests as usual, calculating the first interest payment manually and using the Override feature to enter the payment amount. Payment frequency must be Monthly. **See Page 12 for details.**
- Because payment amounts are set once a month, early payments (before the payment update date) should not be allowed. **See Page 16 for details.**
- If a member wishes to make a payment onto principal, the Teller Proc. Code “L” must be used to ensure that the payment is booked only to principal and does not affect the next pay date. **See Page 15 for details.**
- Payments made via Auto Funds Transfer (AFT) must be set up with the *Amount* field left blank on the AFT record. Automated payments made via Payroll and ACH will require an estimate of the payment amount that is high enough to avoid delinquency. **See Page 16 for details.**
- The system uses the Payment Change History file to handle payments on delinquent interest-only loan accounts. This means that even if a loan is more than one month delinquent, the system will be smart enough to keep track of which payment is being made, and advance the due date correctly. **See Page 19 for details.**

CONFIGURING INTEREST PAYMENT ONLY LOAN PRODUCTS

The first step in setting up an interest payment only loan product is to configure the loan category itself. This can be any loan type, either open- and closed-end, using any process type and calculation method.

Loan Category Configuration (Tool #458) > Screen 1

Inquiry systems do not display the payment calculation type setting, so be sure to indicate "interest payment only" somewhere in the category description.

Payment Calculation Type should be set to interest only.

Delinquency Control should be set to Single payment per period.

Screen 2

Session 0 CU*BASE GOLD Edition - ABC TEST CREDIT UNION
File Edit Tools Help

Loan Category Definition UPDATE

Category code 26 BUSINESS LOC INTEREST ONLY

General Ledger Interface		Payment Matrix Priorities	
Loan category	701.14	Fine amount	1
Interest earned	111.17	Principal	3
Accrued interest	751.14	Misc. G/L	0
Loan category for write-offs	99	Over payment indicator	PRN
		Miscellaneous G/L account	
		Miscellaneous G/L transaction description	
		Miscellaneous G/L amount	0.00 or 0.000 %

Additional Information

Send 1098 tax form

Maximum loan disbursement 1,000,000

Apply stepdown
(reduce disbursement limit each month based on amortization term)

Mortgage Loans

Allow tax-escrow accounts

Interest Payment Only Loans - Scheduled Payment Calculation

Update payment on day 31

Minimum payment amount 0.01

Next payment calculation Feb 2016 [MMYY]

Print payment change notices

Add overline to payment

Skip
End Update
Payment Controls

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To avoid carryover of interest to the next period, the payment matrix should be set up so that interest is paid first, then fines.

This option lets you add any overline amount to the monthly payment. Designed primarily to handle the addition of insurance premiums to the loan balance. Also see Page 3.

This option change this to be available as a step-down loan and to reduce the disbursement limit each month based on the amortization term. See page 5 for more details.

Use this section to specify when payment changes should happen for these loans, as well as a minimum payment amount. Also choose whether or not you want the standard payment change notice to be generated when payment changes are calculated for these loans.

Session 0 CU*BASE GOLD Edition - ABC TEST CREDIT UNION

File Edit Tools Help

Loan Category Definition UPDATE

Category code 26 BUSINESS LOC INTEREST ONLY

General Ledger Interface	Payment Matrix Priorities
Loan category <input type="text" value="701.14"/>	Fine amount <input type="text" value="1"/>
Interest earned <input type="text" value="111.17"/>	Interest Due <input type="text" value="2"/>
Accrued interest <input type="text" value="751.14"/>	Principal <input type="text" value="3"/>
	Misc. G/L <input type="text" value="0"/>
	Over payment indicator <input type="text" value="PRN"/>
	Miscellaneous G/L account <input type="text"/>
	Miscellaneous G/L transaction description <input type="text"/>
Loan category for write-offs <input type="text" value="99"/>	Miscellaneous G/L amount <input type="text" value="0.00"/> or <input type="text" value="0.000"/> %

Additional Information

Additional Information	Interest Payment Only Loans - Scheduled Payment Calculation
<input type="checkbox"/> Send 1098 tax form	Update payment on day <input type="text" value="31"/>
Maximum loan disbursement <input type="text" value="1,000,000"/>	Minimum payment amount <input type="text" value="0.01"/>
<input type="checkbox"/> Apply stepdown (reduce disbursement limit each month based on amortization term)	Next payment calculation <input type="text" value="Feb 2016"/> [MMYY]
	<input type="checkbox"/> Print payment change notices
	<input type="checkbox"/> Add overline to payment

Mortgage Loans

Allow tax-escrow accounts

Skip
End Update
Payment Controls

FR (2322) 5/12/16

NOTE: There will be no third configuration screen (Payment Changes) for these loan types.

Key Field Descriptions

Field Name	Description
Update payment on day	Can be set to any valid day of the month. If "31" is entered, the system will always use the last day of the month, automatically compensating for months with less than 31 days. SPECIAL NOTE FOR 360-DAY CALCULATION TYPES: Since interest for 360-day mortgage-type loans is calculated once a month, if you are setting up an interest payment only loan that uses the 360-day calculation type, be sure to use the same day here (can also be a day <i>after</i> that day if preferred) so that interest is calculated <u>before</u> the payment amount is changed.
Minimum payment amount	If the total amount of interest due on the update day is less than this amount, CU*BASE will use this amount as the new payment. A minimum payment is required; this field cannot be set to zero.
Next payment calculation	This field tells the system when new payments should be calculated next for these loans (month and year). This field is required when setting up a new interest payment only loan category. This will automatically increment forward when the new payments are calculated each month.
Print payment change notices	Check this box if you wish to generate a notice showing the new payment amount each time the new payment calculation is performed. Leave it unchecked if you do not want notices.

Field Name	Description
	<p>IMPORTANT: If this box is checked, be sure to include notice event PAYCHG in one of your laser notice forms so that the notices can be printed.</p> <p>This is the same notice event that is used for notices for regular LOC payment changes, so you may need to adjust the text of that notice so that it is clear no matter which type of loan account is being referenced. (See the “Member Notices” booklet for details about setting up text for notice events.)</p>
Apply stepdown	<p>This allows you to configure this category for a step-down loan offering, which allows you to reduce the disbursement limit each month based on the amortization term. Read more on page 5.</p>
Add overline to payment	<p>Appears only when the <i>Payment calculation type</i> flag for this category was set to “I” for Interest Only.) Check this box if you want to add any amount over the loan disbursement limit to the monthly payment, when payment changes are calculated.</p> <ul style="list-style-type: none"> IMPORTANT NOTE: If this field is checked, the overline amount is <u>required</u> to advance the due date. <p>For use with Credit Cards</p> <p>When this box is checked, the balance on the card is compared to the credit limit. If the limit has been exceeded, at statement generation that amount is added to the regular payment due to calculate the total payment due.</p> <p>SEE ALSO: Credit Cards: Configuration Guide</p> <p>For use with Insurance Premiums</p> <p>This box is used to handle the addition of insurance premiums. Because the member isn't paying down the principal, the loan balance on these loans usually remains at the original disbursement limit. When an insurance premium is added to the loan account, it causes the account balance to go <i>above</i> the disbursement limit, making it appear as though the account is overline, and the amount never gets caught up until the note comes due.</p> <p>If this box is checked, when the system calculates payments it will add any amount owed above the disbursement limit to the payment amount for that month. (Although the intent was primarily to handle insurance premiums, the calculation would apply in any situation where the member's balance is over the maximum disbursement limit.)</p> <ul style="list-style-type: none"> For example, say a \$75 life and disability insurance premium is added to a loan with a disbursement limit of \$12,000, bringing it to a principal balance of \$12,075. The next time a payment is calculated, it will include the normal accrued interest amount, <i>plus</i> the \$75 overline amount. <p>If a member makes a principal payment anywhere along the way, bringing the balance far enough below the disbursement to leave a “buffer” for future insurance premiums, the payment will no longer need to include the overline amount and may actually go down significantly.</p>

<i>Field Name</i>	<i>Description</i>
	For example, if the member makes a \$1,000 principal payment on his \$12,000 loan, bringing the principal balance down to \$11,000, when future premiums are added they will no longer bring the balance above the disbursement limit, and will therefore not need to be added to the payment amount.

SETTING UP THE PAYMENT MATRIX

To ensure that interest is paid in full each month, with no carryover of interest due into the following month (which could cause the payment to fluctuate more than expected), the payment matrix should be set up as follows:

Interest = 1
 Escrow (only if applicable) = 2
 Fines = 3
 Principal = 4

Example:

The payment for John Smith's construction loan is calculated using the interest due on the last day of each month. On May 31, the system calculates John's payment as \$125.00. John does not make his normal payment on June 15 and the loan becomes delinquent, and by June 20 a fine of \$25 has been added and the interest due on the loan, which has been accruing daily, is now at \$185.00 (\$125 from the previous month, and \$60 accrued from the current month). John finally makes his \$125.00 payment on June 20.

If fines were first in the payment matrix, the system would make a payment of \$100 to interest due and \$25 to the fine. The leftover \$25 would remain in the interest due bucket and carried over into the payment amount the next time the payment was updated on June 30.

But if fines are after interest in the payment matrix, the entire \$125 would go toward interest due, and the fine would be paid only if the member paid the full amount including the fine (\$150.00).

CREATING INTEREST PAYMENT ONLY LOANS

Once the loan category has been set up, you may begin creating loan requests using the new loan category. CU*BASE will calculate a payment amount using the same amortization routine as all other loans.

Therefore, before creating the loan you must manually calculate the first interest payment and use **Override** (F13) on the Loan Recap screen to record the payment amount:

Loan Recap

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File Edit Tools Help

Loan Request Recap Application # 128225

Account base **MARY MEMBER**

Loan category **26 BUSINESS LOC** Application created **NO**

Loan product **054 BUSINESS INTEREST ONLY** Application date **Aug 14, 2013**

Processing Details		Payment Summary	
Disbursement date	Aug 14, 2013	Amount requested	15,000.00
First payment date	Sep 14, 2013	Total amount financed	15,000.00
Maturity date	Aug 14, 2018	+ Total finance charges	2,401.15
Amort term date		+ Total CDI premiums	0.00
Frequency	MONTHLY	+ Total SCL premiums	0.00
Payment	290.03	+ Total JCL premiums	0.00
Final payment	289.38	Total amount in payments	17,401.15
# of payments	060	Misc coverages in loan	0.00
Interest rate	6.000	Other misc coverages	0.00
Modified APR	6.000		
Loan fees to include in modified APR	0.00		

[Edit Loan](#) Centralized Underwriting [Complete Loan App](#) [Create Loan Account](#)
[UW Comments](#) Code
[Checklist](#) ID
[Save/Done](#) PW (Control Off)
[Override](#)
[View/Print Amort](#)

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Use **Override** (F13) to manually enter the first interest payment.

“Override” (F13)

Session 0 CU*BASE GOLD Edition - ABC TESTING CREDIT UNION

File Edit Tools Help

Loan Information Override

Account base MARY MEMBER

Application # 128225

Loan category 26

Amount requested	15,000.00	Refinance amount	0.00
Payment amount	352.00	Final payment	289.38
# of payments	060	Amortization term	000
Interest rate	6.000	Interest charge	0.00
Modified APR	6.000	Finance charge	2,401.15
Loan fees to include in modified APR	0.00		

Life insurance term	000	Disability insurance term	000
Single vendor	<input type="checkbox"/>	Single premium	0.00
Joint vendor	<input type="checkbox"/>	Joint premium	0.00
CDI vendor	<input type="checkbox"/>	CDI premium	0.00
Total amount financed	15,000.00	Total debt protection	0.00
Total payments	17,401.15		

Disburse date Aug 14, 2013 [MMDDYYYY]

Maturity date Aug 14, 2018 [MMDDYYYY]

Rollover date 00000000 [MMDDYYYY]

i BE CAREFUL: If items such as interest rate or payment amounts are changed here, the system will not recalculate a new amortization schedule.

Update

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FR (2314) 8/14/13

Calculate the first month's interest manually and enter the first payment amount here.

- Payment frequency must be set to *Monthly* when the loan request is created.
- When setting up the payment due date, keep in mind the payment update day configured in the loan category, as well as how you plan to communicate payment changes to the member. Be sure to allow sufficient time for notification to be given and received before the new payment is due. See Page 23 for a list of options for communicating payment changes to members.

SERVICING INTEREST PAYMENT ONLY LOANS

Once an interest payment only loan has been created, payments can be made through the normal channels as usual. Teller and Inquiry screens will show the member's payment due as of the last time it was calculated, and a full payment must be made to satisfy the loan for delinquency monitoring.

POSTING PAYMENTS: EXTRA FUNDS TO PRINCIPAL

For interest payment only loans where interest is calculated according to a 365-day schedule, making extra payments to principal can require special attention on the part of the teller or member service representative. Because of the way the payment matrix must be set up for these types of loans, CU*BASE will always attempt to satisfy all interest due whenever a payment is made, regardless of the scheduled payment amount. Since interest would continue to accrue every day after the scheduled payment was set, the timing of when payments were applied would significantly affect how much of the extra funds would be applied to principal.

For example, Mary Smith's home equity loan accrues interest at \$10 per day. On the 25th, the system sets the regular payment using total interest due as of that day, for a payment of \$250. On the 30th, the interest due has increased to \$300, but the scheduled payment is still \$250.

On the 30th, Mary makes a payment of \$310, asking that the extra funds (\$60) be applied directly to principal. Assuming the payment matrix is set up to pay interest first, the system would automatically pay \$300 toward total interest due, with only the remaining \$10 applied toward principal.

To correct this situation, the teller would need to use the Payment Matrix Override feature to allocate funds according to Mary's wishes.

Using Proc Code "X" - Payment Matrix Override

The following window appears when you use the Override Payment Matrix processing code ("X") on the "Deposits/Withdrawals" screen in teller posting:

	Priority	Amount
Principal	3	252.00
Interest	2	0.00
Fine	1	0.00
Total		252.00

i Making adjustments to these amounts will alter the way the loan payment is applied. Make sure the amounts add up to the total payment being made.

Delete

FR (402)

The Override Payment Matrix feature lets a teller override the normal payment matrix on a loan account and post the payment according to the situation. The system displays how the payment is going to be credited (principal, interest due, fines, etc.), and adjustments can be made to all of the bucket totals according to the situation and credit union policy.

When the window first appears, it will show how the funds will automatically be distributed among the matrix components. Enter the override amounts, making sure that the total equals the payment being deposited (use Enter to recalculate.)

Use the *Amount* field to enter the appropriate amounts to be distributed (the items listed will vary depending on the loan's payment matrix). The total funds distributed must equal the amount of the payment being made. Use Enter to record the payment matrix and exit the window.

For example, if the member wishes to make a principal payment over and above the normal interest payment (assuming no fines or escrow), enter the normal payment amount in the Interest field and the remaining funds in Principal.

IMPORTANT: Remember that using Proc Code "X" will affect the amount in the Partial Pay field, and therefore, depending on the amount being paid, may affect the next due date on the loan. If you wish to make a payment toward principal that does not affect the next payment date, use Proc Code "L" instead (described below).

POSTING PAYMENTS: ALL FUNDS TO PRINCIPAL

In situations where a member wishes to make an extra payment just on the loan principal, use Teller Processing Code "L" for a loan principal-only payment. This will not affect the partial pay nor advance the next payment date on the loan.

NOTE: For mortgages with the 360-day interest calc type you can post a payment and extra to principal all in one step, but for interest-payment only LOCs or other types of loans that use a 365-daily accrual calculation, use these steps to handle principal-only payments.

Using Proc Code "L" in Teller Posting

The screenshot shows the 'Individual Account' screen for 'MARY MEMBER'. The account type is 'PLATINUM member'. The table below shows the transaction details:

Loan Payoff or Current Balance	Loan Payment or Not Available	Description	Account Type	Deposit Amount	IRA	Withdrawal Amount	IRA	Proc Code	JO
1,932.25	1,927.25	REGULAR SAVINGS	800	0.00		0.00			
35,945.44	35,720.44	GROWTH SAVINGS	060	0.00		0.00			
0.00	0.00	GROWTH SAVINGS	062	0.00					
0.00	0.00	CHECKING	110	0.00					
500.00	0.00	CERTIFICATE	300						
1,500.00	352.00	BUSINESS LOC	755	252.00		0.00		L	

Enter "L" in the Proc Code field next to the loan deposit. The total amount will automatically be posted directly to principal when *Post* (F5) is used.

CU*TIP: If the member is also making a regular payment and you wish to use this method for posting the additional principal funds, first post only the regular payment amount to the loan. Use the **Bal Fwd/This Mbr** (F11) feature to carry the remaining funds over, then perform a second transaction on this same account using Proc. Code L to post just the principal amount to the loan.

POSTING EARLY PAYMENTS

If a member wishes to make next month's payment before the system has recalculated the payment due for that month, Teller and Inquiry screens will still show the previous month's scheduled payment amount. Therefore, it is not recommended to allow early payments prior to the recalculation date.

AUTOMATED PAYMENTS

The current Auto Funds Transfer software will work well with this loan type, **as long as the AFT record is set up with the Amount field left blank** (assumes the payment amount on the loan record).

However, systems such as ACH and payroll, where dollar amounts are required, will not work well due to the fluctuating payment amount. Members may still request to make fixed payments via these systems; if so, estimate the fixed payment so that it is *larger* than the expected interest payment required to satisfy delinquency.

Remember that because of the payment matrix settings, the system will always attempt to satisfy all outstanding interest due first, before applying any funds to principal. Therefore, for loans that accrue interest every day (365-day calc. type), the most effective way to ensure that funds are applied to principal is to make the AFT transfer date happen on the same date as the payment update day.

RECOMMENDATION FOR LOAN PAPERWORK AND DISCLOSURES

When putting together the loan paperwork and disclosures for the member's signature, be sure that the materials clearly explain how principal payments can be made according to your credit union's internal policies and procedures. **In particular, make sure that it is understood that without special intervention, the member must satisfy all outstanding interest due before a payment to principal is made.** Careful coordination of due dates, payment update dates, and notification dates will be important to make sure members understand how their payment will be handled.

DAILY PAYMENT CHANGES REPORT

A daily report will be generated to show the payment changes that have been calculated and put in place on member loans. Following is a sample of the report (report name is PIPOPY):

5/18/99 9:05.40		CU*BASE TEST CREDIT UNION				PIPOPY	PAGE 1
		Interest Payment Only Loans: Applied Payment Changes					
Loan Category	Account No.	Balance	--- Payment Amount ---		Next Payment		
			Old	New	Due Date		
-----	-----	-----	-----	-----	-----		
01	12-700	6,837.12	224.85	118.50	6/15/99		
01	12-702	990.90	39.10	30.00	6/14/99		
01	38-700	987.61	260.32	28.21	6/13/99		
01	46-700	4,962.34	143.64	88.48	6/15/99		
01	70-700	3,988.22	156.68	51.33	6/12/99		
01	74-700	5,574.25	349.25	104.00	6/15/99		

SAMPLE CALCULATION SCHEDULE

The following schedule shows how the system will calculate the payment amount on a typical interest payment only loan using a 365-day interest calculation:

<i>Event</i>		<i>Accrued Interest</i>	<i>Payment Amount on Loan Account</i>
1	9/1 Loan Created First payment due on 10/20	\$0	Payment amount set manually using Loan Override
2	9/1 through 9/30 Interest <i>per diem</i> : \$1	Increasing daily by \$1	Minimum
3	9/30	\$29.00	System updates payment to be \$29.00
4	10/20 - Payment due	\$49.00	\$29.00
5	10/22 - Member makes \$29.00 payment	\$51.00 - \$29.00 = \$22.00	\$29.00
6	10/27	\$28.00	\$29.00 (still from previous month) (NOTE: If member wanted to make an early payment for 11/20 now, the system would have to use prior month payment total because recalculation hasn't been done yet this month.)
7	10/31	\$31.00	System updates payment to be \$31.00
8	11/20 - Payment due	\$51.00	\$31.00
9	11/20 - Member makes \$31.00 payment	\$51.00 - \$31.00 = \$20.00	\$31.00

For non-delinquent loans, the scheduled payment will always reflect one monthly interest amount calculated from one calculation date to the next calculation date.

For delinquent loans, each calculation will just update the scheduled payment amount with the outstanding interest due.

Example: 1st Month payment = \$30.00, 2nd month payment = \$60.00. Member makes a partial payment of \$25.00, then the system begins adding interest to the remaining \$35.00, and on the specified calculation day, the system will update payment to the total interest accrued as of that date (\$35.00 plus interest accrued for all additional days).

UNDERSTANDING DELINQUENCY

Even if a member does not make a payment during any given month, interest will keep accruing as usual. The next month when the new payment amounts are calculated, the member's payment will be updated to reflect the *total* amount of interest due (previous interest due plus the new interest accrued).

Therefore, loans with the "I" payment calculation type will simply use the current scheduled payment as the total amount delinquent.

Loan Account Inquiry, "Delq/Cr Rpt Hist" (F23) or the Lookup next to "Delinquency"

Use **Payment Change (F9)** to display the Payment Change History inquiry screen (shown following)

Session 0 CU*BASE GOLD Edition - Payment Information

Summary Escrow detail

Use the Reporting History feature to see a history of credit bureau reporting for this loan, showing each time the loan was reported to the bureau(s).

Delinquency Details				Credit Report Information	
Fine ID	1	10 DAY GRACE, 5% OF PAYMENT		Credit report #	0000000
Control	P	Mar 12, 2012		Report date	0/00/00
Notice level	0	Fines paid	0.00	Bureau	
Delinquent interest due			0.00	Risk score	0000
Actual # of days delinquent			611	MDS score	0000
Months	10	Days	24	# times	1
1st date delinquent	Nov 02, 2012	# pmts	11	CU risk level	

Amount Due		Regular Payment Information	
Amount delinquent	716.30	Regular payment	358.15
Fine amount	80.00	Escrow transfer	0.00
Amount due	796.30	Total payment	358.15
Partial payment	0.00	Next payment day 12	Date Dec 12, 2011

View Credit File
Payment Change
Reporting History

BT (182)

Since the system "stacks" the interest (i.e., it updates the scheduled payment to match the total interest due on the configured day each month), this method ensures that the amount delinquent will match the total amount due correctly. For example:

Member: John Doe
 April: Total Interest Due/Payment Amount = \$63
 May: Total Interest Due/Payment Amount = \$110

John misses his payment for April and is now 3 days into the payment due for May. Because this is an interest payment only loan, John owes \$110 to bring the loan current, which is the total interest due (not \$63 + \$110, as would be true for other types of loans where the payment amount changed from one month to the next).

In other words, the payment is based on the cumulative interest for each month not paid. This calculation provides a valid figure for the amount delinquent displayed in Teller, Inquiry and Phone Inquiry systems.

A WORD ABOUT PARTIAL PAY

For a delinquent interest-only loan, the **Partial pay** field means: of the total interest due, here's how much of it has already been paid. This amount, in combination with the payment change history, allows CU*BASE to determine how far to advance the due date when a payment is made.

EXCEPTION: *360 Mortgages do NOT use the Partial Pay field in any way to determine whether or not to advance a due date. Refer to the “CU*BASE Mortgage Products: 360-Day Interest Calculation” booklet for more details.*

Once a member satisfies the entire amount due on a delinquent loan and is caught up, the system will clear the *Partial pay* field.

ADVANCING THE DUE DATE

If a delinquent member makes a payment on an interest-only loan, CU*BASE will use the history of payment changes (see the inquiry screen shown below) to determine how far to advance the due date.

In our earlier example, if John Doe made a \$63 payment, CU*BASE would know from the payment change history that that amount represents his April payment, and would then be able to advance the due date forward to May. If he paid \$110 instead, CU*BASE would advance the due date to June and the member would be caught up.

NOTE: CU*BASE will never advance the due date more than one month ahead of the current month. This is because of the delinquency control setting of “P” (single payment per period) on the loan category configuration, which is required for interest-only loans because the payment can't be calculated until interest has actually been accrued.

PAYMENT CHANGE HISTORY

Loan Account Inquiry, "History" (F9)
Screen 1

Member SCOTT
Account 788 HOME EQUITY LOC Opened Oct 14, 2009

Change Date	Reason	Balance As of Change	Rate	New Payment As of Change	Int Due
Oct 18, 2011	IO PMT CHG	30,136.62	5.000	103.53	103.53
Sep 19, 2011	IO PMT CHG	30,385.68	5.000	84.30	84.30
Aug 18, 2011	IO PMT CHG	28,904.55	5.000	72.57	72.57
Jul 18, 2011	IO PMT CHG	25,688.13	5.000	59.70	59.70
Jun 18, 2011	IO PMT CHG	25,566.13	5.000	3.50	3.50
May 18, 2011	IO PMT CHG	24,638.93	5.000	40.56	40.56
Apr 18, 2011	IO PMT CHG	24,943.17	5.000	34.20	34.20
Mar 18, 2011	IO PMT CHG	23,726.54	5.000	22.75	22.75
Feb 18, 2011	IO PMT CHG	22,048.66	5.000	21.14	21.14
Jan 18, 2011	IO PMT CHG	21,360.08	5.000	11.72	11.72
Dec 18, 2010	IO PMT CHG	21,696.92	5.000	2.97	2.97
Nov 18, 2010	IO PMT CHG	22,348.15	5.000	80.99	80.99
Oct 18, 2010	IO PMT CHG	22,092.40	5.000	63.63	63.63
Sep 18, 2010	IO PMT CHG	22,400.12	5.000	64.65	64.65

■ Detail

This screen displays a history of each time the regular payment amount was changed on this loan account.

NOTE: This history file began being populated after the Fall 2006 release, with some additional changes made in the Fall 2007 release. Payment changes made prior to those changes will not be included in the history.

Select an item in the list and click Detail to see more information about what was recorded at the time the payment change occurred:

Screen 2

Session 0 CU*BASE GOLD Edition - History of Payment Changes

File Edit Tools Help

History of Payment Changes

Member SCOTT
 Account 788 HOME EQUITY LOC Opened Oct 14, 2009

Status at time of change CURRENT Change date Oct 18, 2011
 Balance 30,136.62 Maturity date Oct 14, 2029
 Reason IO PMT CHG

Current Loan Amounts		Changed To		Prior to Change	
Rate	5.000	Rate	5.000	Rate	5.000
Payment amount	103.53	Payment amount	103.53	Payment amount	84.30
+ Escrow	0.00	+ Escrow	0.00	+ Escrow	0.00
= Total pmt amount	103.53	= Total pmt amount	103.53	= Total pmt amount	84.30

As of Change Date

Outstanding interest due 103.53
 Delinquent payment due 0.00

BT (368) 8/15/13

This screen shows a snapshot of the loan account status at the time the payment amount was changed. Notice that this detail screen shows the amount before the change, and the amount after the change, as well as information about where the loan is sitting at the current time.

CU*BASE uses the payment change history whenever a payment is made on a delinquent loan, to determine which payment is actually being made, and therefore how far ahead the next payment due date should be moved. This is true for interest-only loans as well as for regular loans where the payment amount changes on occasion (variable rates, LOC disbursements, etc.). Just remember that for an interest-only loan, the only time a payment amount changes is on your configured date, once a month (unless you change it manually, of course).

If for any reason a payment change history record does not exist, the system will use the last record it can find and assume that the payment was the same for any prior months.

COMMUNICATING PAYMENT CHANGES TO MEMBERS

At first glance, it may seem that because no principal is being paid on an interest payment only loan, the payment amount should be the same every month. In reality, however, there are several factors that could result in fluctuations in the payment amount each month.

First, if interest is being computed using the 365-day calculation method, the difference in the number of days for each month would affect the payment amount. Second, members may request to make an occasional or regular payment to principal, changing the balance on which the interest due is based. Also, if the loan account is tied to a variable interest rate, rate changes would have a major effect on the amount of interest being calculated each day.

Therefore, how you communicate the payment to the member will be key to a successful program. CU*BASE offers a variety of methods:

- **Custom Payment Change Notices** - Somewhat like sending an invoice for the monthly payment, this method involves printing payment change notices using a custom CU*BASE tool each month and mailing them to members. Costs associated with this method include printing, handling and mailing the notices each month.

*NOTE: This is a custom form and is subject to normal custom programming fees and lead times. Contact a CU*Answers representative for details.*

Timing Issues: When setting payment due dates on the loan accounts and a payment update day on the loan category, be sure to coordinate the dates to allow ample time for the notices to be printed and mailed prior to the new payments being due. For example, if payments are due on the 1st, and you wanted to give 10 days notice plus allow time for processing, the update day could be set to the 18th or earlier.

- **Printing the Payment on Member Statements** - An easy and cost-effective method, your credit union can simply change your member statement configuration so that the member's payment amount prints right on the monthly statement. NOTE: Payments amounts would be reported for all member loan accounts.

*Online Clients: Contact a CU*BASE representative for assistance in setting up this statement configuration parameter.*

Timing Issues: The payment amount will be reported as it appears on the member account at the end of the month when statements are generated. Therefore, the day on which the payment is updated (configured in the loan category) is usually set to that same time frame. In addition, the loan payment due dates should allow ample time for statements to be generated, printed, and mailed to the member in advance of the new payment being due. For on-line credit unions who wish to use this method, CU*Answers recommends using due dates no

earlier than the 15th of the month, with a payment update day on the 31st or just before.

- **Notification via CU*TALK and It's Me 247** - Whether or not you choose to notify members in writing via notices or statements, if your credit union uses CU*TALK Audio Response or **It's Me 247** Online Banking, members can find out their current payment at any time through either system. Simply advise your members to dial in and check the new payment any time after the published payment update day.