Reference Guide

Lender*VP

Interest Payment Only Loans

CBX Mortgage Products

INSIDE THIS GUIDE:

This guide describes how to configure and service loan products where members are required only to make interest payments, such as construction loans, home equity loans, and the like.

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Introduction

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. Member and staff education on the specific ways payments should be made will be critical to the success of your program.

*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 **"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.

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Overview

Interest Payment Only loans let members make payments toward only the loan's interest for specified period of time and are often marketed as a way to help the member get the lowest possible payment on the funds borrowed. Interest-only loans are commonly used for construction loans, mortgages, and home equity lines of credit (HELOCs).

In the case of a HELOC, this plan lowers the monthly payment, and the actual appreciation of the home offsets the ultimate principal repayment. 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.

If interest-only payments are required only for a short period, CBX lets you automate the switch from an interest payment only payment calculation to a standard principal & interest calculation, with or without the loan moving to a different loan category. This is helpful for construction loans where the member pays interest only for the first 12 months; after which, the member begins making normal principal & interest payments through the rest of the loan term. **See page 5 for more details on switch interest-only LOCs.**

> ***IMPORTANT:*** *Careful member and staff education is critical. These loans do not behave the same as other loans, and factors such as the timing of when payments are made, how much is being paid, whether escrows are attached, whether multiple payments are paid during the same month, and whether the member is past due or not (even one day!) will all have an impact on how payments can be applied in an automated fashion.*

How CBX Calculates the Monthly Payment Amount

Simply put, once a month on a specific day configured in the loan category, during beginning-of-day processing, CBX 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 after daily processing.

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, CBX 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).

> ***Note:*** *For Interest Only Loans, when the loan is at a $0 balance and $0 owing for accrued interest, the system will not recalculate the payment amount down to $0. The payment amount will remain at whatever it was prior to the loan going to a $0 balance. This can potentially cause your members to show delinquent. Therefore, we recommend monitoring the Zero Dollar Balance Report in* ***Tool #1010 Zero Balance Line of Credits*** *to advance the members next payment due date to avoid them showing delinquent.*

Will Payments be Consistent Over Time?

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

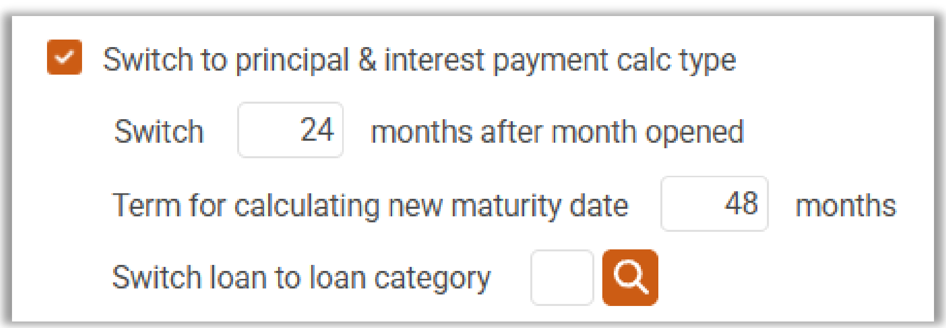
- If interest is being computed using the 365-day calculation method, the difference in the number of days for each month would affect the payment amount.
- Members may request to make an occasional or regular payment to principal, changing the balance on which the interest due is based.
- Overline situations such as insurance premiums or a stepdown product could result in an overline amount being added to the payment for a particular month (see page 11 for more details).
- 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.

Switching from Interest-Only to a P&I Payment Calc

Your credit union might want to offer an interest-only loan product where the member makes interest-only payments for a set number of months, then begins making normal principal & interest payments from that point on. This might be useful for a construction loan that requires interest-only payments for 12 months, then requires regular payments of principal & interest from that point on.

This can be done automatically on a CBX interest-only product by activating the *Switch to principal & interest pmt calc type* setting in the loan category:

Loan Category Definition (Tool #458 *Loan Category Configuration*)



You will specify the time frame for the switch to occur (measured from the month when the account was opened), a term to be used for calculating a new maturity date for the loan account, and optionally, a new loan category to switch to when switching the payment calculation.

At the time of the switch, CBX will automatically re-amortize the loan and change the following:

- The payment calc type on the loan account record will change from interest-only to principal & interest.
- The payment maturity date will be advanced according to this configuration.
- A new payment amount will be calculated using a standard P&I calculation with that new term.

- The loan category for the loan will change to the "switch" loan category, if configured.

All loans that are switched remain MEMBER5/MEMBER6 loans and are tied to the same loan category (unless configured to switch) but will be driven by different settings on the account record for servicing. Monthly payment changes would no longer be calculated as before.

Features

- The switch process happens when the configured number of months in the *Switch xx months after month opened* field has passed from the open date. This process happens on the same day of the month as when the loan was opened. For example, if the loan was opened on the 5th, the switch will happen on the 5th of the month when the configured number of months has passed.

- The loan's new maturity date will be based on the *next payment due date* as of when the switch is happening. So, if on 12/31/2024 when payment changes and switches are processed a loan's payment due date is 1/25/2025, then the new maturity date will be xx months from 1/25/2025, not from 12/31/2024.

- The switch process changes only one date on the MEMBER5/MEMBER6 record: the maturity date. Due date and other dates are unaffected.

- If a loan is frozen, past due (even one day), or has a zero balance on the switch/payment calc day, the account is not switched and instead gets written to the daily exception report. If that occurs, you could:

  - Manually perform the switch by maintaining the fields (payment calc type, payment amount, and maturity date) on the MEMBER5/MEMBER6 record for that loan, or

  - Leave the account alone. Once the member is caught up, the switch will happen during the next month's regular payment change process.

    In this case, the loan term would essentially be extended by however many months it took for the member to catch up. For example, a loan in good standing on 1/xx/2022 would be switched and given a new maturity date of 1/xx/2024, while another loan that was delinquent when the switches were done in January and didn't get caught up until the March payment would get a new maturity date of 3/xx/2024 instead.

    Therefore, if you choose not to watch these exception reports and manually adjust past-due loans, understand that the amortization will push the date out further than you might have imagined when the loan was originally set up.

Daily Switch Reports to Review

Once you activate this feature, two new daily reports (PLNI2P) will be generated. The first report shows loan accounts that have been switched from interest-only to P&I:

```
5/01/19  13:14:07                              [redacted] CREDIT UNION                   PLNI2P          PAGE    1
   RUN ON 05/01/19                     Switched from Interest Only to Principal & Interest                USER [redacted]
                            NEXT   INTR LOAN                        FINAL      PMTS   MATURITY     REVIEW
   ACCOUNT NO      BALANCE   PAY DATE   RATE CTGY          PAYMENT     PAYMENT TERM LEFT       DATE       DATE
   707890-620       284.79 06/15/2019 13.000   T7           100.00    1,034.89    5    5 07/15/2019 07/15/2019 OLD
                                                             25.31       25.22   12   12 05/15/2020 07/15/2019 NEW
   739240-620     4,871.45 06/15/2019 13.000   T7           100.00    1,034.89    5    5 07/15/2019 07/15/2019 OLD
                                                            432.83      432.72   12   12 05/15/2020 07/15/2019 NEW
   952810-620     3,000.00 06/15/2019 12.000   T4            81.18    1,525.45    2    2 04/15/2019 06/15/2019 OLD
                                                            267.86      267.82   12   12 05/15/2020 06/15/2019 NEW
                                                       ** END OF REPORT **
```

This second report shows loans that were unable to switch, usually due to delinquency or a zero balance:

```
5/01/19  13:14:07                                  CREDIT UNION                       PLNI2P          PAGE    2
    RUN ON 05/01/19                        Exceptions: Interest-Only Loans not Switched                    USER
                                  NEXT   INTR LOAN                                FINAL MNTH DAYS
    ACCOUNT NO       BALANCE    PAY DATE   RATE CTGY          PAYMENT          PAYMENT DELQ DELQ REASON
    332820-620      3,000.00  02/15/2019 10.000   T1            67.24         3,029.59    2   16 Delinquent
    812240-620      5,000.00  03/15/2019 13.000   T7           201.14         1,034.89    2   16 Delinquent
   3015490-620           .00  05/15/2019 12.000   T4             8.00         1,525.45    0    0 Zero/Negative Balance
                                                          ** END OF REPORT **
```

As already described, you can leave these accounts alone, and they will switch once the conditions change (member catches up a past-due loan, takes a distribution, etc.), or you can manually switch the loan by updating the maturity date, calc type, and payment amount via **Tool #20 *Update Account Information***.

The Stepdown Interest-Only LOC

A special feature available for interest-only line-of-credit loans is the **Stepdown LOC**, which combines the benefits of a term loan with the flexibility of a revolving line of credit. This type of loan product allows you to extend an interest payment only line-of-credit and then shrink (lower) the disbursement limit incrementally each month, reducing the amount available for additional disbursements.

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.

As the disbursement limit is reduced, the system automatically calculates any amount between the current balance and the new disbursement limit as “overline” and applies it to the payment amount being calculated for that month. The member is then required to pay both the interest due as well as that overline amount.

Assuming the member takes a full draw on the loan, over time as the disbursement limit is reduced, they will start paying down principal; therefore, their monthly payment amount will also go down.

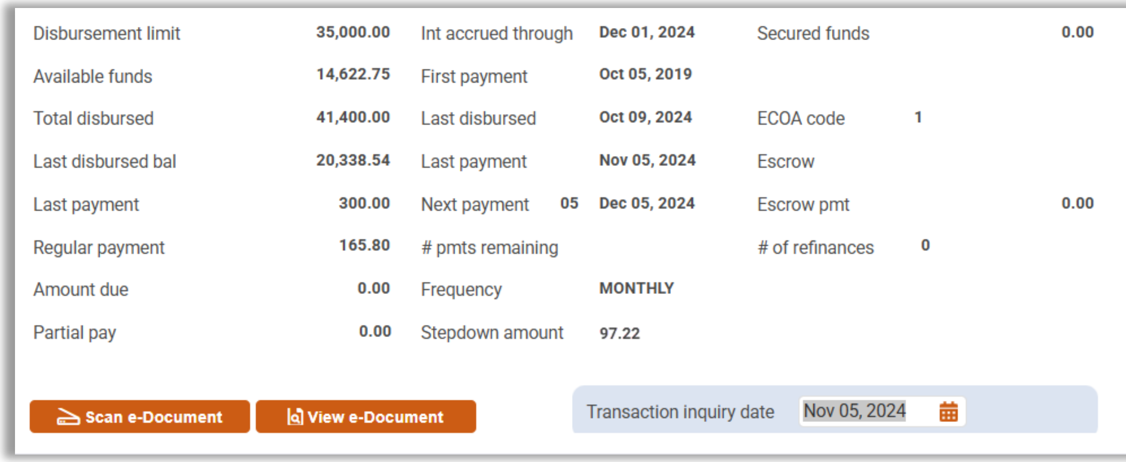
Features

- The monthly stepdown amount is calculated by CBX by dividing the original disbursement limit by the number of loan payments.

  > *For this calculation the system uses the # of payments (NOPAY) in MEMBER5/MEMBER6, or the amortization term (BALLNTRM) for balloon loans.*

- The calculated stepdown limit for an account will appear on the account inquiry screen for the loan account:

Member Account Inquiry



The loan's current disbursement limit is displayed. The original disbursement limit is stored and used to calculate the stepdown amount but is not displayed on this screen. *(In this sample, it happens to match the original limit, so the stepdown is $35,000 divided by 360 months, or $97.22.)*

The stepdown amount is not stored on the account but rather calculated on the fly for this screen and during the monthly payment change routine.

- When the payment is calculated each month, the system will also calculate the new disbursement limit. This happens during beginning-of-day processing on the Update payment on day in the loan category, which must be set to 31 (last day of the month) for stepdown loans.
- Since the stepdown calculation is done at the same time as the payment calculation, this means the payment amount will include the overline amount and be written to the EOM files and therefore available to be printed on the member's monthly statement.
- The monthly payment will include interest only unless the loan balance is greater than the disbursement limit. In that case, principal will also be due with the payment. This means that the member's payment wouldn't include any principal amount unless they take a full disbursement on the loan.

Example

Suppose a stepdown LOC has a 36-month term, and the original distribution limit on the loan was $18,000, making the monthly stepdown amount $500. The member takes the full $18,000 when the loan is created. The following simplified example shows the effect of a $500/month stepdown on how the payment is calculated:

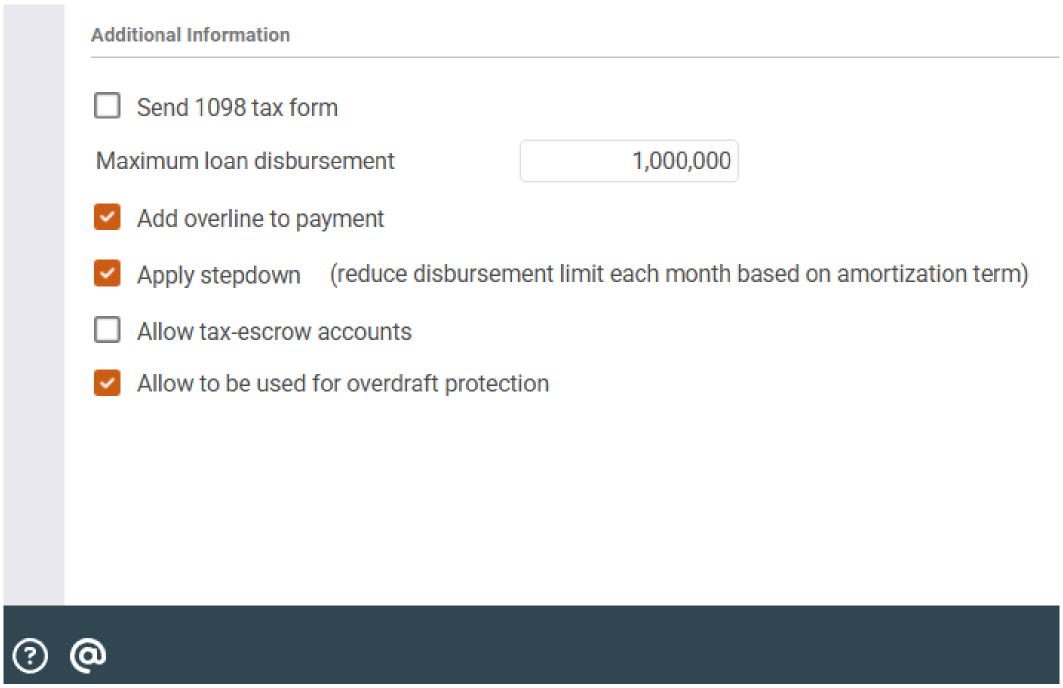
	New disbursement limit	*Loan balance*	*Payment is calculated as*
Month 1	$18,000	$18,000	Interest due + $0
Month 2	$17,500	$18,000	Interest due + $500
Month 3	$17,000	$17,500	Interest due + $500
Member makes $7,500 principal payment		$10,000	
Month 4	$16,500	$10,000	Interest due + $0

If the member didn't take a full draw, the payment would only include interest due until such time as the disbursement limit was reduced to an amount *below* the current balance on the account.

Configuring a Stepdown LOC

When configuring an interest-only loan category (see page 14), you'll check the Apply stepdown flag to activate the stepdown functionality:

Loan Category Definition (Tool #458)



Other settings on the loan category must be set as follows:

- Must be Process type L (LOC).
- Payment calculation type must be Interest only.
- Add overline to payment must be checked.
- Update payment on day must be set to 31 (last day of the month).

Rules for Interest Payment Only Loans

> *For interest-only products, careful member and staff education is critical. These loans do not behave the same as other loans, and things such as the timing of when payments are made, whether they are full payments or partial, whether escrows are attached, whether multiple payments are paid during the same month, and whether the member is past due or not (even one day!) will all have an impact on how payments can be applied in an automated fashion.*

- 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 14 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. Payments are changed once a month on the day configured in the loan category. See page 14 for details.

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

- The payment matrix must be set up so that interest is paid first, before fines, to avoid interest being carried over into the next period. See page 18 for details.

- Create loan requests as usual, calculating the first interest payment manually and using the Override feature to enter the initial payment amount. Payment frequency must be Monthly. See page 19 for details.

- Because payment amounts are set once a month, early payments (meaning before the payment change date) should not be allowed. See page 25 for details.

- Remember this is an interest payment only loan, not a principal-optional loan. The system is designed to assume that the member will pay the exact designated payment each month, and that, as a general rule, they will not make payments to principal. If a member wishes to make a principal-only payment (principal curtailment), special steps must be taken when posting to ensure that the payment is booked properly and does not affect the next pay date or all get posted to the interest due based on the payment matrix. This can be done several places in CBX, as well as by the member in online banking, if you wish. See page 22 for details.

- If a member makes a current payment that is higher than usual, assuming they are paying after the payment calc date but on or before their due date (remember that even one day past the due date is considered past due!), the system will apply the extra amount toward principal automatically.

  - See page 21 for details about payments that are not current.

  > *NOTE: Member education is critical here. Because of the timing nuances, the most reliable way to make a regular payment and pay extra on principal at the same time is to post two separate transactions – one for the regular payment amount and then a separate one to principal only.*

- The normal payment change features used by other open-end and LOC loans, where payments are changed upon disbursements, payments, or variable rate changes, will not apply to interest payment only loans. Payments are only adjusted as part of the monthly payment change process unique to interest-only loans.

- 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 and a thorough understanding of the ramifications of the timing of payments being posted. See page 25 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 28 for details.

- A maximum of 15 loan categories can share the same payment calc date. You can create additional categories if you wish, but they must use a different payment calc date.

Sample Calculation Schedule

Event		Accrued Interest	Payment Amount on Loan Account
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 *per diem*: $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, plus any overline amounts added to the payment, if applicable (see pages 7 and 11).

For delinquent loans, 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).

- 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).

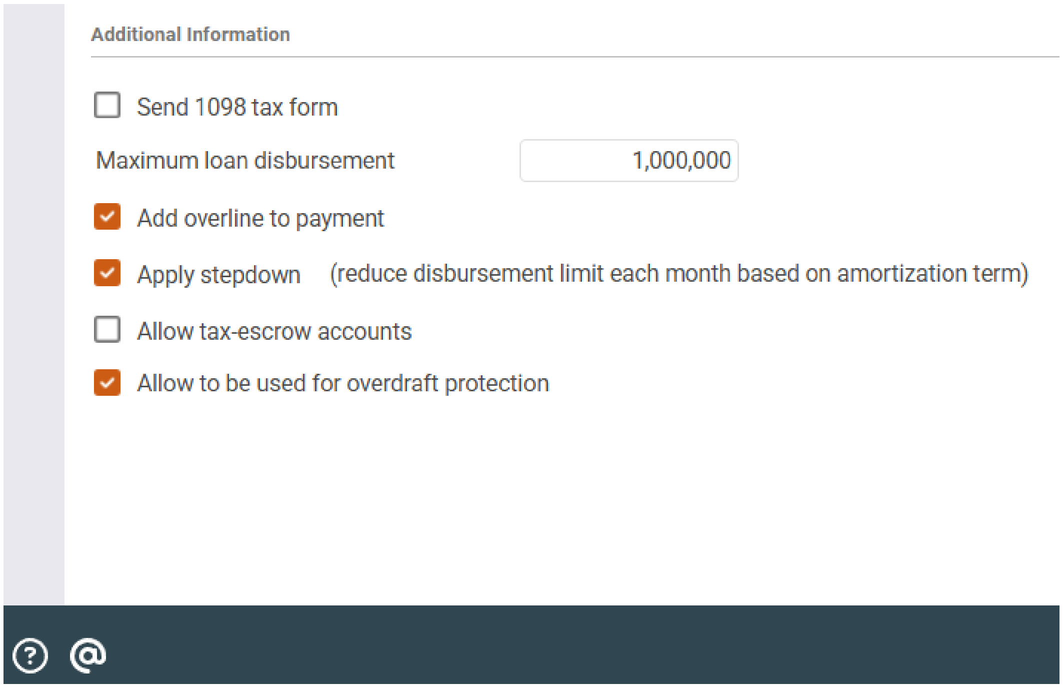
Handling Overline Situations

A special situation occurs when credit life and/or disability insurance premiums are added to normal interest-only loans. Assuming the member isn't applying payments directly to 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 payment* flag on the Loan Category configuration (see page 14).

Loan Category Definition (Tool #458)



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 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 curtailment 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 curtailment 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:

> *Disbursement limit - Current balance = Overline amount*

If the result of the calculation is negative, the account is considered overline, and the difference should be <u>added to</u> 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
Monthly life insurance premium added to loan balance	$60/month
Monthly disability insurance premium added to loan balance	$10/month
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)
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
Monthly life insurance premium added to loan balance	$60/month
Monthly disability insurance premium added to loan balance	$10/month
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 *(positive result = NOT overline)*
New payment amount	$60 + $0 = **$60**

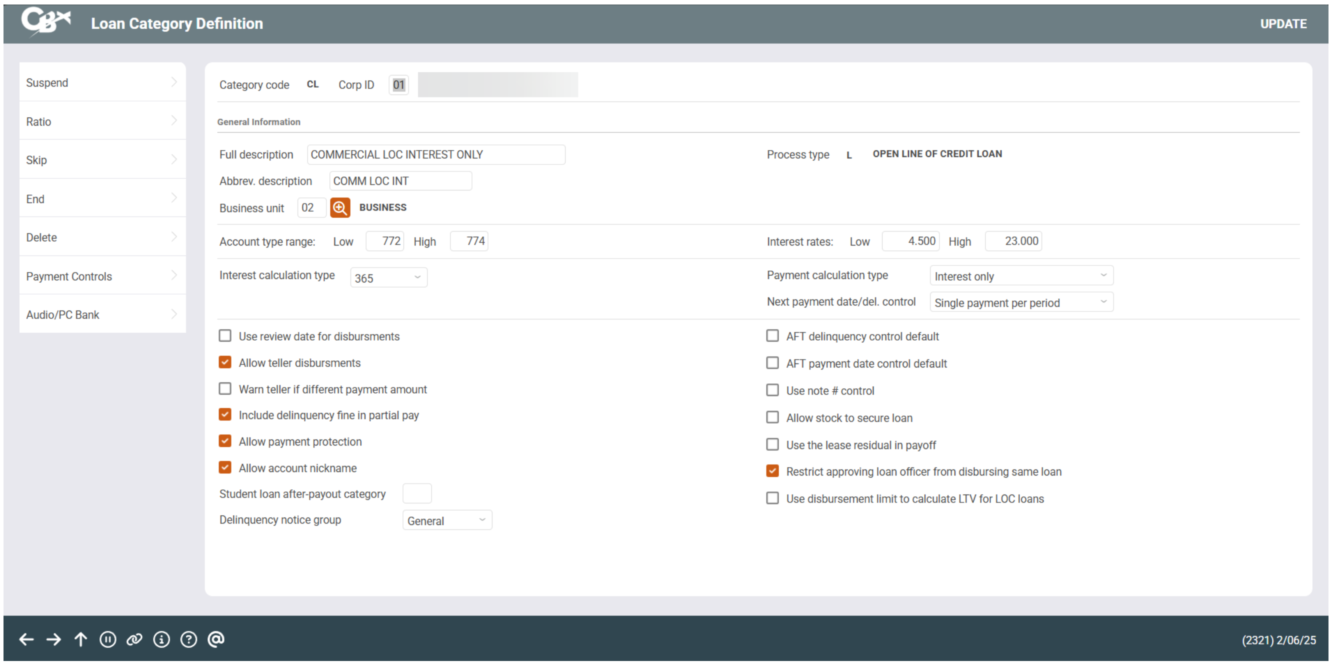
This concept should be explained to member service staff so that they can answer member questions about changing payment amounts on these types of loans.

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. Most open- and closed-end loans are supported, using any process type and calculation method.

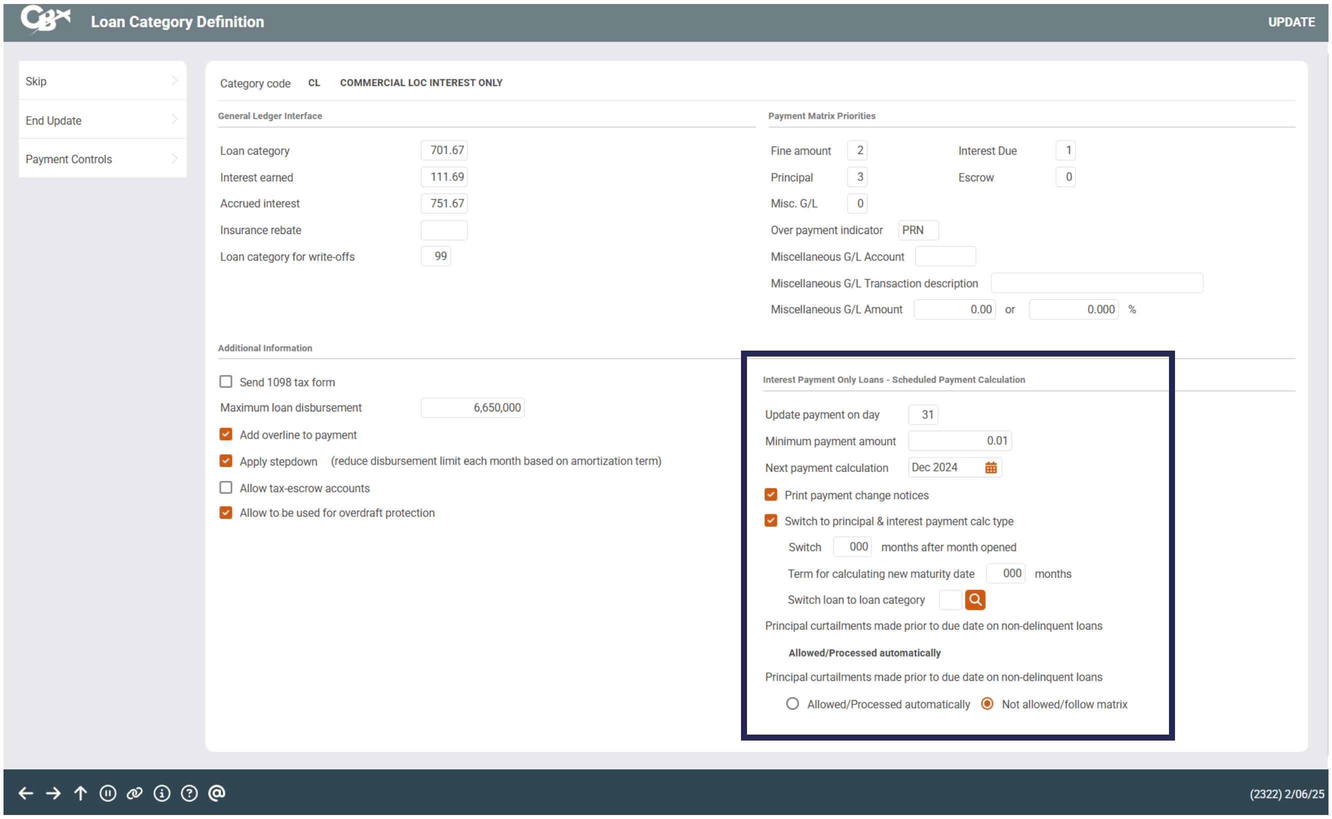
- Important note: Credit card loan categories with interest-only calculation type are NOT supported.

Loan Category Definition (Tool #458)



- *Payment calculation type* must be set to Interest Only.
- The *Next payment date/del. control* must be set to Single payment per period.
- NOTE: Inquiry screens do not display the payment calculation type setting, so be sure to indicate “interest payment only” somewhere in the category description.

Loan Category Definition (Tool #458)



- To avoid carryover of interest to the next period, the payment matrix must be set up so that interest is paid first, then fines (see page 18).
- The *Add overline to payment* flag lets you add any overline amount (current balance over the disbursement limit) to the monthly payment. Designed primarily to handle the addition of insurance premiums to the loan balance. Also see page 11.
- When you check the *Apply stepdown* box, the loan automatically reduces the disbursement limit each month based on the amortization term. When *Apply stepdown* is checked, *Add overline to payment* must also be checked. See page 7 for more details.

The section outlined above is used to specify when payment changes should happen for these loans, as well as a minimum payment amount. See below for a description of these and other settings related to interest-only loans.

NOTE: For details about other fields on this screen, refer to online help. There will be no third configuration screen (Payment Changes) for these loan types.

Key Field Descriptions

Field Name	***Description***
Interest Payment Only Settings	
Update payment on day	This is the day on which a new payment amount is calculated each month (also referred to as the payment calc date). It can be set to any valid day of the month. If "31" is entered, the system will always use the last day of

Field Name	**Description**
	the month, automatically compensating for months with less than 31 days. *SPECIAL NOTE FOR 360-DAY CALCULATION TYPES: If you are setting up an interest-payment-only loan that uses the 360-day calculation type, be sure to enter the day after you are using as the Day to calculate interest (on the first loan category configuration screen) so that payment amounts are changed after interest is calculated. (Payments for these types of loans change during either beginning-of-day processing or end-of-day processing (depending on your master parameters configuration for* Int-only payment change cycle*). Interest accrues at end-of-day processing.)* NOTE: A maximum of 15 loan categories can share the same payment calc date. You can create additional categories if you wish, but they must use a different payment calc date.
Minimum payment amount	If the total amount of interest due on the update day is less than this amount, CBX will use this amount as the new payment. **A minimum payment is <u>required</u>; 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. *CAUTION: Generally, this should NOT be changed on an existing category. Contact a CSR for assistance.*
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. *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. **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.)*
Switch to principal & interest pmt calc type	Check this flag to automate the switch from an interest-only loan to a loan where the member pays off both the balance (principal) and interest. *BE CAREFUL: If activating this feature on an existing category, all existing loans associated with this category,*

Field Name	*Description*
	including previously created loans, will begin obeying these settings the next time payments are calculated. **See page 5 for more details on this feature.**
Switch x months after month opened	If the *Switch to principal & interest pmt calc type* flag is checked, use this to specify the period during which interest-only payments should be calculated. Once this period has passed (compared to the month the loan was opened), the system will automatically re-amortize the loan and calculate a new payment to include both principal & interest.
Term for calculating new maturity date x months	If the *Switch to principal & interest pmt calc type* flag is checked, use this to specify the loan term that should be used when re-amortizing the loan and calculating the new P&I payment amount that will be used from that point on.
Switch to Loan Category	You may use this field to select a new loan category to switch the loan to when the payment calculation switches from interest only to principal and interest. *Loan category must calculate principal and interest payments and be the same process type as the original loan category.*
Principal curtailments made prior to due date on non-delinquent loans	Non-input capable, informational only. This shows how the system handles payments that contain additional funds above the scheduled payment amount, if the payment is received by the due date on an otherwise current loan. ▪ For example, say the member owes a payment of $150 on the 20th, and the loan isn't delinquent. If they pay $200 prior to or on the 20th, the system will automatically process the additional $50 as a principal curtailment
Principal curtailments after due date until next calc date	This controls what happens if a loan payment is made that contains additional funds above the normal payment but is received after its due date. **Allowed/processed automatically (A**) **–** Compare # of days delinquent to # of days between the due date and the next I/O calc date in the loan category (minus one); if # of days delq is less than or equal to that value (or if it's 0 days or less, meaning not delinquent), then process extra funds as a principal curtailment. Otherwise, follow the payment matrix. **Not allowed/follow matrix (M) (Default) –** If the loan is even one day delinquent, post any additional funds according to the payment matrix. ▪ For example, say the member owes a payment of $150 on the 20th, and the normal day on which payments are calculated

Field Name	*Description*
	(the "cycle date") is the 28th. The member makes a payment of $200 just a couple of days late on the 23rd. Since there are 7 days* between the due date and the next cycle date, and the member is only 3 days delinquent. If this flag is set to "Allowed", then the extra $50 will be put toward principal. If this flag is set to "Not allowed", then the system will follow the payment matrix instead (putting the extra toward interest due, for example). * Not counting the cycle date itself, since changes are done in beginning-of-day processing.
Miscellaneous Related Settings	
Add overline to payment	Check this flag if you want to add any amount owed over the loan disbursement limit to the monthly payment, when payment changes are calculated. For example, if the disbursement limit is $5,000 but the member's current balance is $5,030, then when calculating that month's payment, an extra $30 would be added to the interest due amount. *IMPORTANT: This means the overline amount must be paid in order to advance the due date on the loan.* This flag must be checked if the *Apply stepdown* flag is checked. **See page 11 for complete details on how this should be used for insurance premiums.**
Apply stepdown	This allows you to configure a line-of-credit category as a stepdown loan, which allows you to reduce the disbursement limit each month based on the amortization term. If this is checked, the *Add overline to payment* flag must also be checked. **See page 7 for details about this special type of LOC.**

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. 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 $25 to the fine and $100 to interest due. There would be $25 remaining in the interest due bucket to be carried over into the next payment amount calculated on June 30, along with the interest accrued since the last payment calculation.

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 his calculated payment amount along with the fine ($150.00).

> *Remember that because of this unique matrix setup, payments that aren't made according to the standard rules for timing and payment amount may not be applied as the member expects and may cause amounts to be posted against interest due when not intended. Member and staff education about the best way to post payments, especially principal curtailments, is important.* ***See page 22 for more details.***

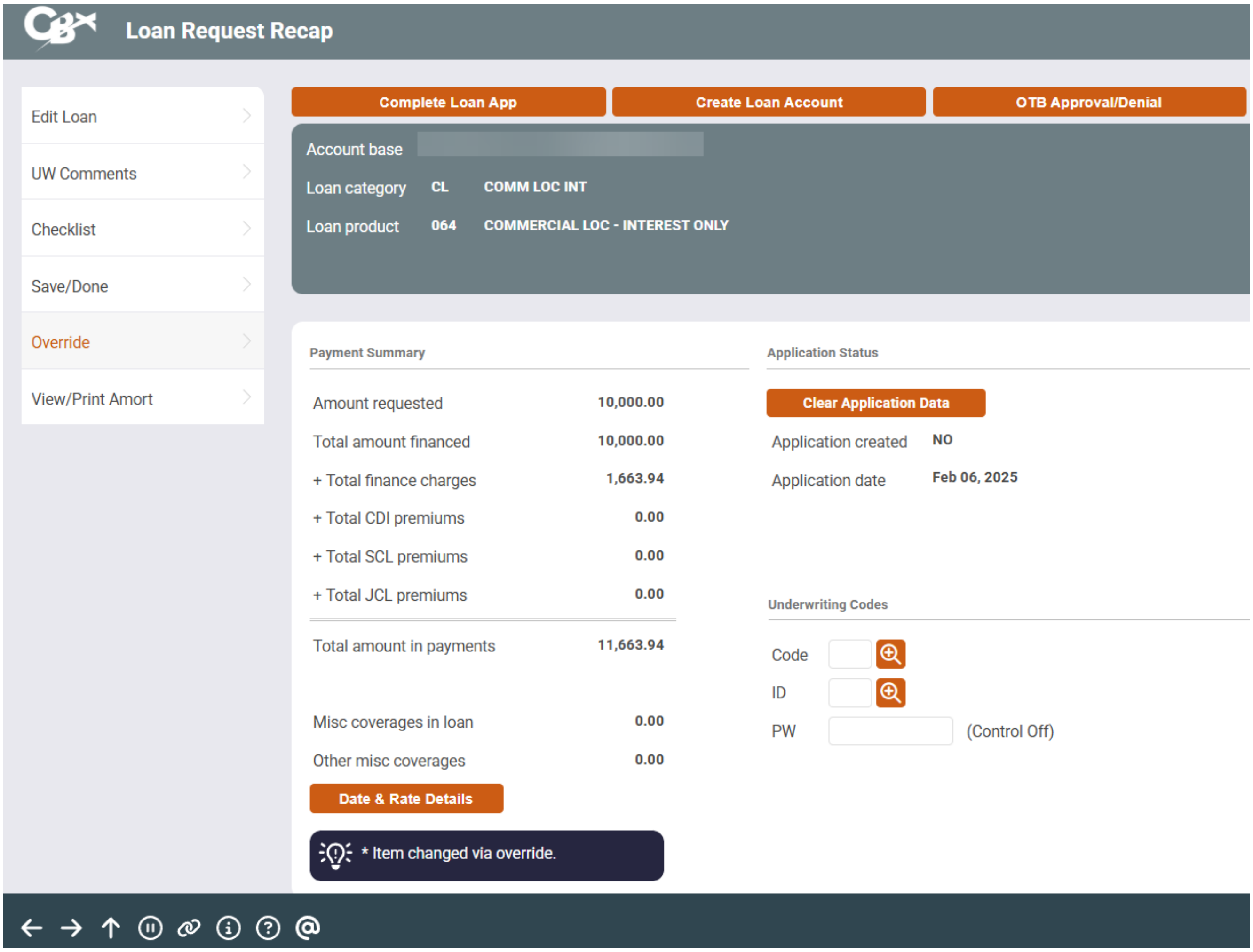
Creating Interest Payment Only Loans

Once the loan category has been set up, you may begin creating loan requests using the new loan category.

- 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 29 for a list of options for communicating payment changes to members.

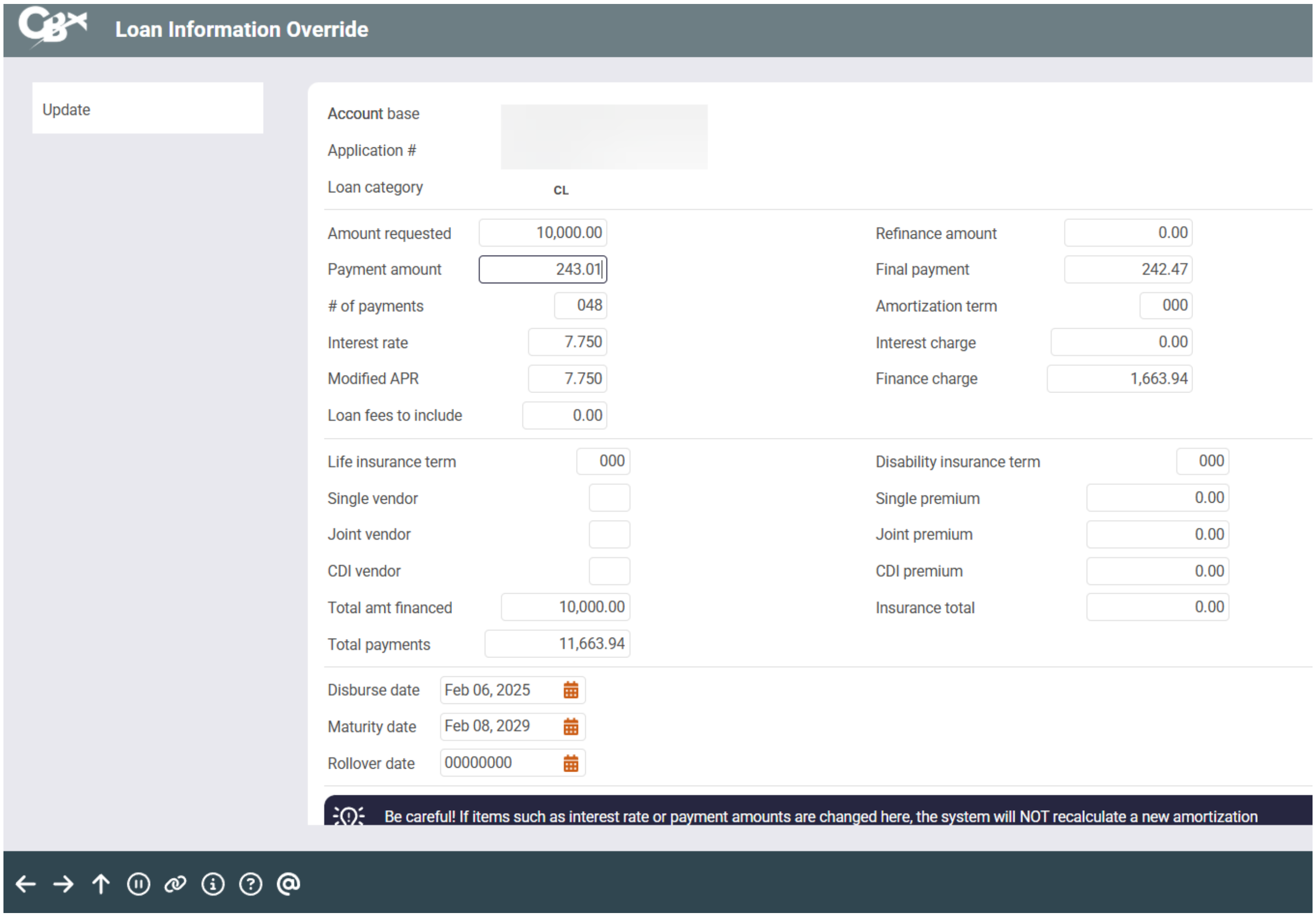
CBX will calculate a payment amount using the same amortization routine as all other loans. Therefore, before creating the loan you must manually calculate the first interest payment and use ***Override*** on the Loan Recap screen to record the payment amount:

Loan Request Recap (Tool #2 Work/View Application Status)



Calculate the first month's interest manually and enter the first payment amount in the *Payment amount* field.

Loan Information Override (Tool #2 > Override)



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-only payment calc type loans, when a payment is applied, the system does a comparison[1] of the next payment due date on the loan to the next interest-only payment calculation date[2] (the "calc date") on the loan category. Based on this comparison, assuming the loan is NOT past due, the payment will be applied according to the configuration in your loan category. See fields *Principal curtailments made prior to the date on non-delinquent loans* and *Principal curtailments after due date until next calc date* on page 15.

> *NOTE: Member education is critical here. In most cases the safest way to ensure the payment is applied the way the member expects is to post two separate transactions – one for the regular payment amount and then a separate one to principal only.*

[1] *The point of the comparison is to determine which payment period we're in, so we can determine if a payment is intended to be satisfying the next payment or if it's really intended to be extra on top of that period's normal payment.*

[2] *Since payment calculations are done during beginning-of-day, that means if it's October 27, 2025, and the day in the category is 28, then the next interest-only payment calc date is 10/28/2025. If it's October 28, 2025, then the next calc date would be November 28, 2025.*

Posting Payments: All Funds to Principal

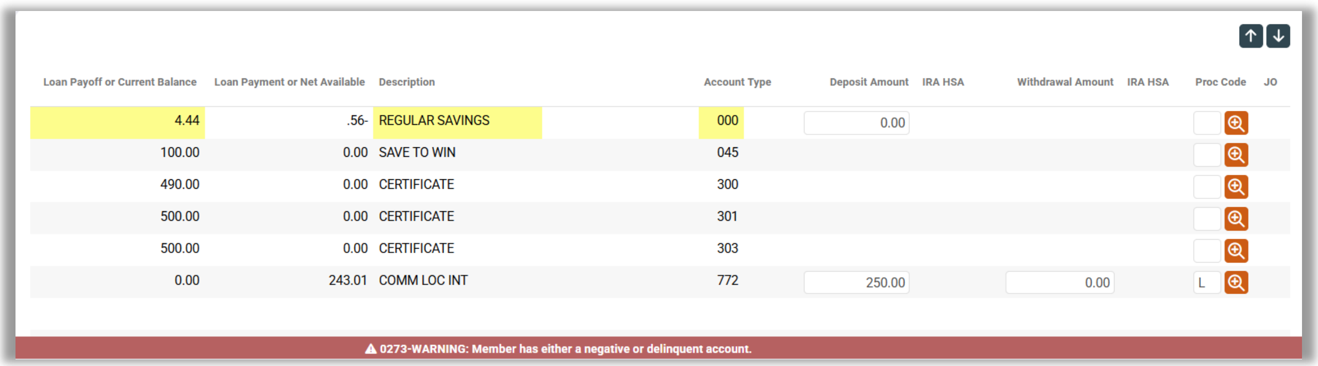
In situations where a member wishes to make an extra payment just on the loan principal, use one of the following techniques to post a principal-only payment (also referred to as a principal curtailment). Principal curtailments posted this way will not affect the partial pay nor advance the next payment date on the loan.

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 the steps described below to handle principal-only payments.

Method 1: Principal-only Payments via Teller Posting

In standard teller processing, enter "L" in the Proc Code field next to the loan deposit. The total amount will automatically be posted directly to principal when **Post** is used:

Individual Account (Tool #1 *Teller Line Posting*)



Loan Payoff or Current Balance	Loan Payment or Net Available	Description	Account Type	Deposit Amount	IRA HSA	Withdrawal Amount	IRA HSA	Proc Code	JO
4.44	.56-	REGULAR SAVINGS	000	0.00					
100.00	0.00	SAVE TO WIN	045						
490.00	0.00	CERTIFICATE	300						
500.00	0.00	CERTIFICATE	301						
500.00	0.00	CERTIFICATE	303						
0.00	243.01	COMM LOC INT	772	250.00		0.00		L	

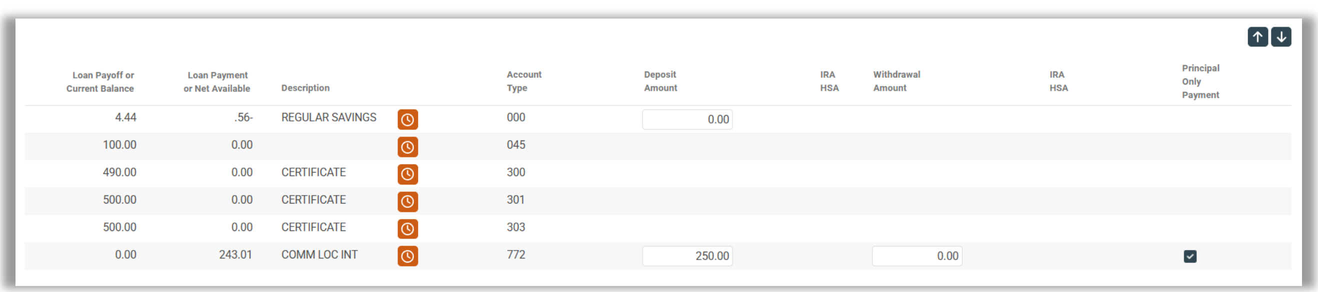
0273-WARNING: Member has either a negative or delinquent account.

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*** *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.*

Method 2: Principal-Only Payments via Xpress Teller

In Xpress Teller, you'll check the box at the right edge of the screen next to the loan deposit:

Tool #1600 *Xpress Teller* > Deposits/Withdrawals

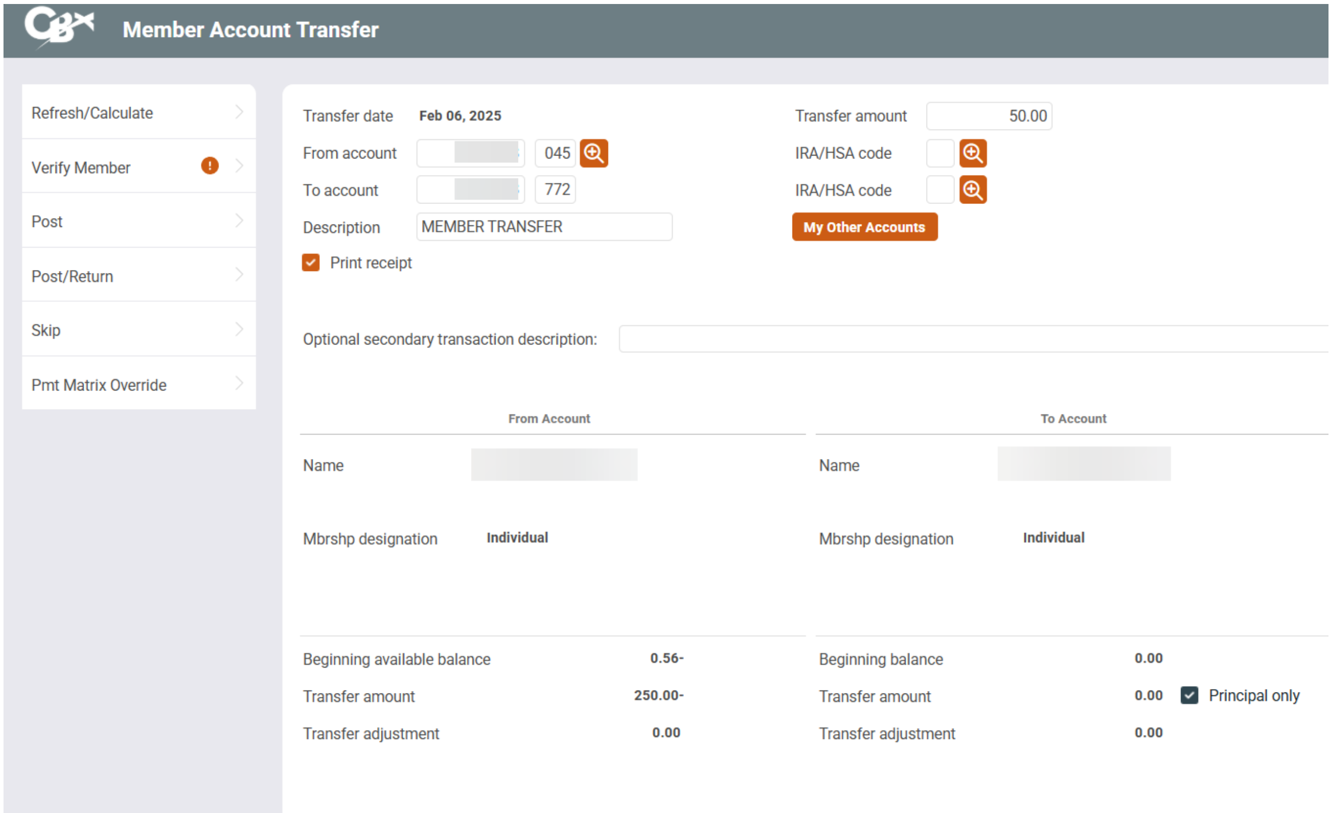


Loan Payoff or Current Balance	Loan Payment or Net Available	Description	Account Type	Deposit Amount	IRA HSA	Withdrawal Amount	IRA HSA	Principal Only Payment
4.44	.56-	REGULAR SAVINGS	000	0.00				
100.00	0.00		045					
490.00	0.00	CERTIFICATE	300					
500.00	0.00	CERTIFICATE	301					
500.00	0.00	CERTIFICATE	303					
0.00	243.01	COMM LOC INT	772	250.00		0.00		☑

Method 3: Principal-Only Payments via Transfers

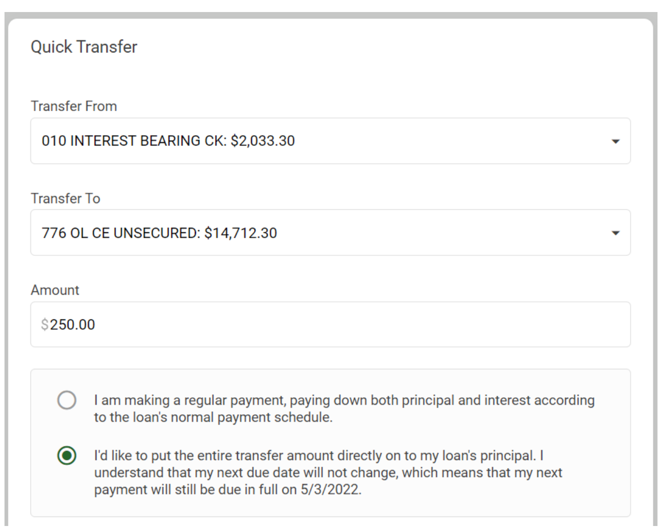
In the **Tool #516 *Member Transfers***, you can check the Principal-only box when making a transfer payment:

Member Account Transfer (Tool #516)



Method 4: Principal-Only Payments via Online Banking

If you wish, members can choose the option to put the entire amount towards principal when transferring funds to the loan via an online banking transfer. (This option will not appear if the member's payment is past due.)



*NOTE: This feature must be activated via the via the **Audio/PC Bank** feature on the first screen of loan category configuration. If you do not wish members to make principal curtailments this way, make sure that flag is turned off for your interest-only loan categories.*

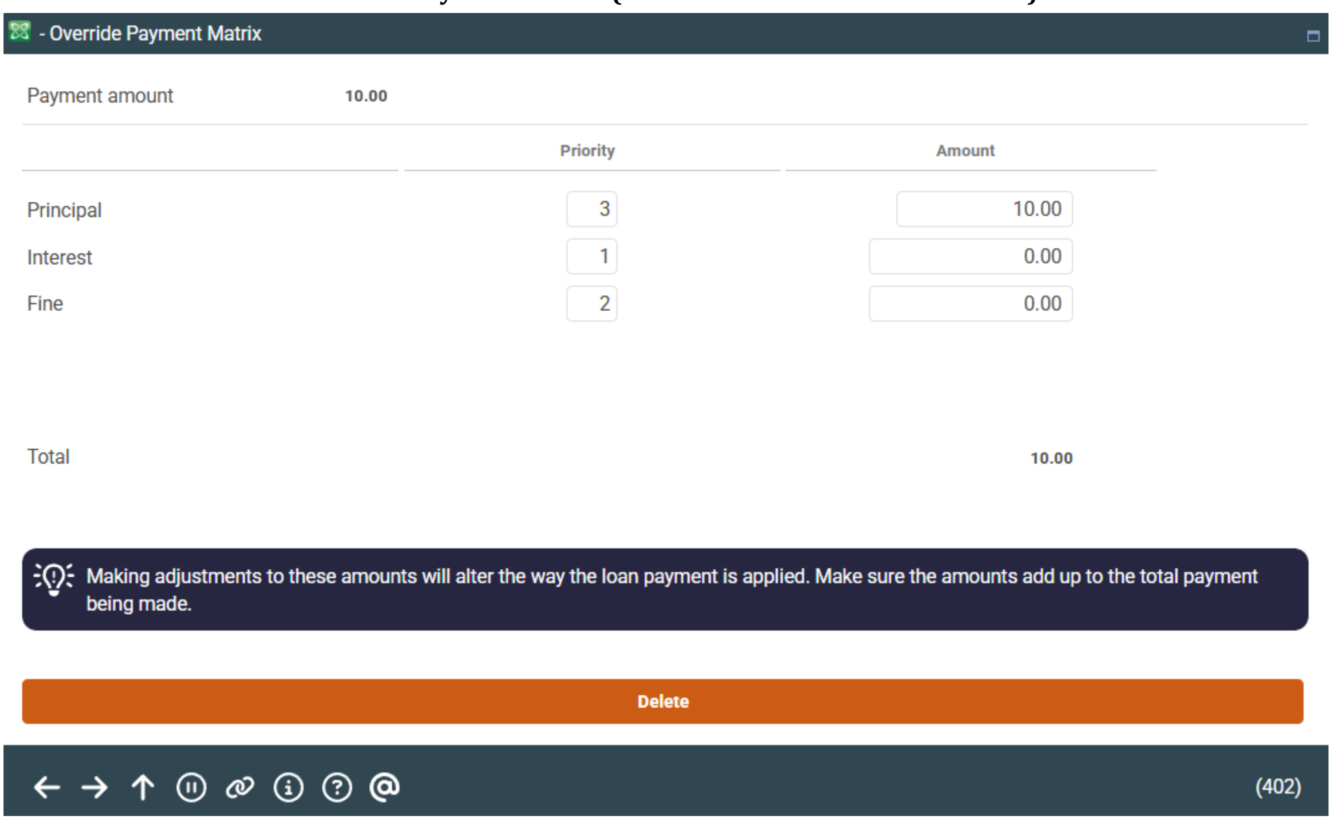
Overriding the Payment Matrix

The Override Payment Matrix feature in standard teller and member transfers posting 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.

> *IMPORTANT: Remember that this technique 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" or the other principal-only techniques already described instead.*

The following window appears when you use the Override Payment Matrix processing code ("X") on the Deposits/Withdrawals screen in standard teller posting, or the **Pmt Matrix Override** button on the Member Transfers screen:

Override Payment Matrix (Tool #516 > Pmt Matrix Override)



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 Payment amount. 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.*

Automated Payments

Members may choose to set up automated payments via AFT or ACH/payroll.

Via AFT

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). AFTs can also be set up with an amount that is *higher* than the expected normal payment, but to ensure the extra funds are applied to principal, make the AFT transfer date happen on or slightly before the payment due date. (If the payment arrives even one day late, the extra would go toward accrued interest.)

ACH and Payroll

Systems such as ACH and payroll, where dollar amounts are required, will not work as well, due to the fluctuating payment amount. ACH deposits can sometimes be delayed based on federal holidays, as well. 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.

Be aware, however, that depending on the timing and status of the loan, extra funds above the regular payment amount may be applied to principal (if paid on time) or against interest accrued (if paid late, by even one day).

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**.

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 clear how you recommend members handle principal curtailments** to help ensure payments are posted as the member wishes. 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 (PIPOPY) 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:

1/31/25 1:00.57 CREDIT UNION PIPOPY PAGE 1
RUN ON 25/01/31 INTEREST PAYMENT ONLY LOANS: APPLIED PAYMENT CHANGES USER OPER

LOAN CATEGORY	ACCOUNT #	BALANCE	PAYMENT AMOUNT OLD	PAYMENT AMOUNT NEW	NEXT PAYMENT DUE DATE
CL		148,607.38	264.26	1,119.40	2/28/25
CL		32,916.31	316.82	84.57	2/05/25
CL		91,350.13	804.69	617.93	4/07/25
CL		99,791.13	739.66	720.44	2/05/25
CL		40,735.22	302.85	294.19	2/13/25
CL		49,900.00	.01	335.67	2/01/25
CL		59,845.51	363.92	348.50	2/03/25

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), plus any overline amounts added to the payment, if applicable (see pages 9 and 11).

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

Payment Information (Inquiry > Lookup next to Delinquent)

- Payment Information

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

Summary | Escrow detail

Delinquency Details				Credit Report Information	
Fine ID	6	BUSINESS LATE FEE 2008		Credit report #	0000000
Control	P	0/00/0000		Report date	0/00/0000
Notice	0	Fines paid	0.00	Bureau	
Delinquent interest due			0.00	Risk score	0000
Actual # of days delinquent:				MDS score	0000
Months 0	Days 0	# times	0	CU risk level	
1st date delinquent	0/00/0000	# pmts	0		

Amount Due		Regular Payment Information	
Amount delinquent	0.00	Regular payment	243.01
Fine amount	0.00	Escrow transfer	0.00
Amount due	0.00	Total payment	243.01
Partial payment	0.00	Next payment day 08 Date	Mar 08, 2025

View Credit File | Payment Change | Reporting History | CPI History | Risk Level History | Write-Off History

(182)

Select **Payment Change** to display the Payment Change History inquiry screen (shown on page 28).

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 Payment Amount = $63

May 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 calculated 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. Just remember that a member is considered late even one day after the loan’s due date, regardless of any grace period you might have for applying fines or performing collections activities. The new payment will not be calculated until later in the month on the usual calc date.

> ***Note:*** *For Interest Only Loans, when the loan is at a $0 balance and $0 owing for accrued interest, the system will not recalculate the payment amount down to $0. The payment amount will remain at whatever it was prior to the loan going to a $0 balance. This can potentially cause your members to show delinquent. Therefore, we recommend monitoring the Zero Dollar Balance Report in* ***Tool #1010 Zero Balance Line of Credits*** *to advance the members next payment due date to avoid them showing delinquent.*

A Word About Partial Pay

For a delinquent interest-only loan, the *Partial payment* field shows how much of the total interest due (plus any overline amounts, if applicable) has already been paid. This amount, in combination with the payment change history, allows CBX 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 “****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 payment* field.

Advancing the Due Date

If a delinquent member makes a payment on an interest-only loan, CBX 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, CBX would know from the payment change history that the amount represents his April payment and would then be able to advance the due date forward to May. If he paid $110 instead, CBX would advance the due date to June and the member would be caught up.

NOTE: CBX 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

History of Payment Changes (Inquiry > History)

History of Payment Changes

Member

Account 772 COMMERCIAL LOC Opened May 30, 2019

Change Date	Reason	Balance As of Change	Rate	New Payment As of Change	Int due
Dec 01, 2024	VAR RT CHG	20,206.07	9.750	165.80	165.80
Nov 30, 2024	IO PMT CHG	20,206.07	10.000	165.80	165.80
Oct 31, 2024	IO PMT CHG	20,338.54	10.000	167.53	167.53
Oct 01, 2024	VAR RT CHG	18,479.04	10.000	159.50	159.50
Sep 30, 2024	IO PMT CHG	18,479.04	10.500	159.50	159.50
Aug 31, 2024	IO PMT CHG	18,810.49	10.500	168.55	168.55
Jul 31, 2024	IO PMT CHG	19,635.63	10.500	174.86	174.86
Jun 30, 2024	IO PMT CHG	19,997.87	10.500	137.76	137.76
May 31, 2024	IO PMT CHG	20,776.80	10.500	185.31	185.31
Apr 30, 2024	IO PMT CHG	21,149.33	10.500	127.47	127.47
Mar 31, 2024	IO PMT CHG	21,156.48	10.500	188.22	188.22
Feb 29, 2024	IO PMT CHG	21,199.05	10.500	157.43	157.43
Jan 31, 2024	IO PMT CHG	13,311.19	10.500	87.86	87.86
Dec 31, 2023	IO PMT CHG	13,657.00	10.500	122.83	122.83
Nov 30, 2023	IO PMT CHG	14,531.60	10.500	125.40	125.40
Oct 31, 2023	IO PMT CHG	5,500.00	10.500	31.60	31.60
Aug 01, 2023	VAR RT CHG	0.00	10.500	51.84	.00

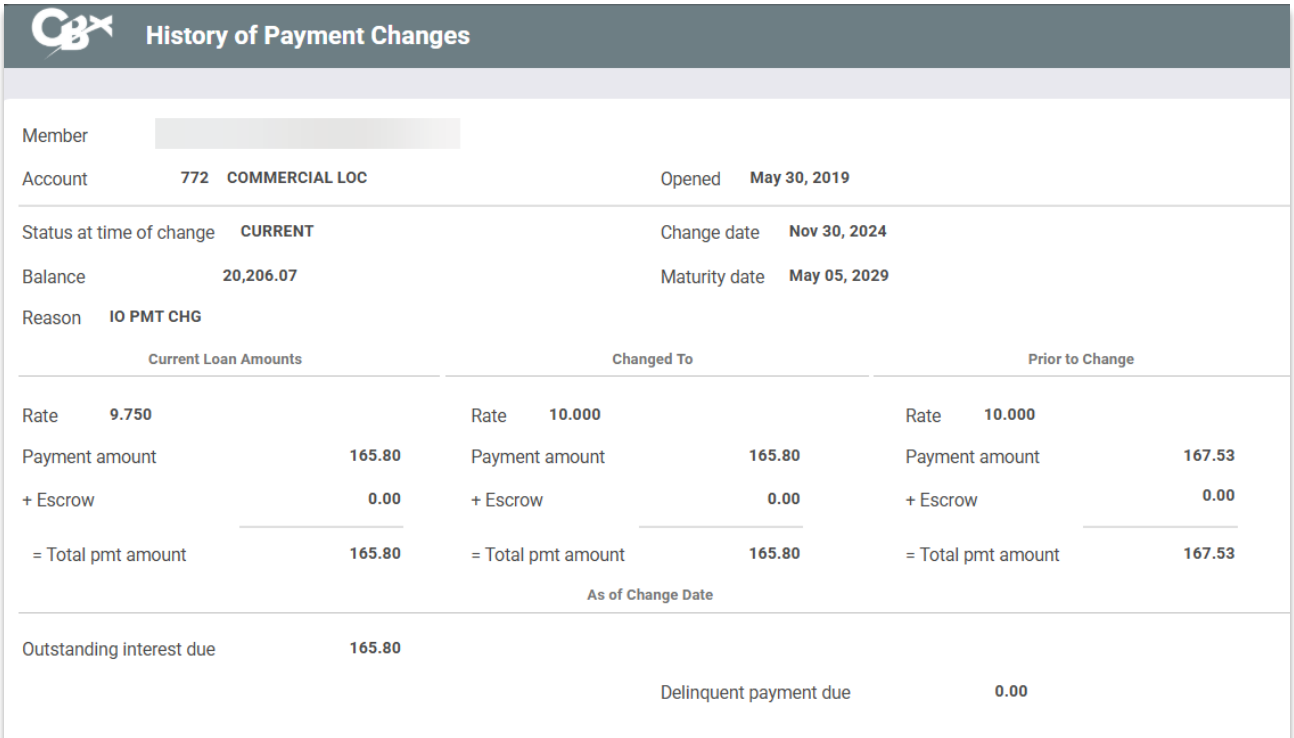
Options...

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 select the Select for more detail option to see more information about what was recorded at the time the payment change occurred:

History of Payment Changes (Inquiry > History > Detail)



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, the amount after the change, as well as information about where the loan is sitting at the current time.

CBX 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

As described on page 4, there are many factors that could result in fluctuations in the payment amount each month, including whether interest is accrued daily, whether principal-only payments are made, if there are overline situations caused by things such as credit insurance premiums, and whether the loan has a variable rate.

Therefore, how you communicate the payment to the member will be key to a successful program. CBX 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 CBX 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 <u>all</u> member loan accounts.*

> ***Online Clients:*** *Contact a CSR 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. We recommend using due dates no earlier than the 15th of the month, with a payment update day on the last day of the month (day = 31 in the config) or just before.

Notification via Audio Response and Online Banking

Whether or not you choose to notify members in writing via notices or statements, if your credit union uses audio response or online/mobile banking, members can find out their current payment at any time through either system.

- In CU*Talk, choose the Account Inquiries option (1), then Status of Loan Accounts (5).
- In **It's Me 247**, click the … next to the account and choose Account Details, then More Account Details.

Timing Issues: Advise your members to log in and check the new payment any time <u>after</u> the published payment update day.