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# Variable Rate Loan Products

## INTRODUCTION

This booklet describes configuring, maintaining and updating variable rate loan products using CU\*BASE tools. It also covers using Indexed rates and automating the implementation of rate changes for your variable rate loan portfolio.

*IMPORTANT: Because of the complexity of these products, and the ramifications of the many different configuration options available, it will be important to plan ahead for the implementation of variable rate products. Contact a CU\*BASE representative for assistance in setting up an effective variable rate program for your loan products.*

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# OVERVIEW

There are three different types of Variable Rates that can be configured and tied to loan account as they are created:

- ◆ Update
- ◆ Group
- ◆ Contract

In addition, you can use a special feature on the Group variable rate configuration to offer a sort of “mini-contract” variable rate product that uses most of the features of a group code with a few customizable settings at the member loan level.

The three types of variable rate codes are split between *Indexed* variable rate codes and *Non-indexed* codes. *Indexed* simply means that the effective rate of the variable rate code is directly tied to a formula that is based upon some outside indicator, such as the current Prime Rate or the Consumer Price Index (CPI). Update types are non-indexed while Group and Contract types can be either indexed or non-indexed, depending on how changes to rates should be made.

## UNDERSTANDING INDEX CODES

The ability to tie rates to an Index code is a CU\*BASE tool designed to make calculating and updating variable rate codes easier, especially for credit unions with many different variable rate codes that are all tied to the same base rate. The feature lets you simply change the value of the Index, and any variable rate codes that are tied to that index will automatically calculate a new rate.

*For example, ABC Credit Union offers many different variable rate products that update quarterly, all tied to the Prime Rate. Each product might add or subtract a certain percentage value from the current Prime Rate to determine the rate used for the loan. An Index code would be created to store the value of Prime Rate. Each time the value in the Index code is changed, so would the variable rate codes tied to it.*

In addition, a credit union might also wish to have several variable rate codes tied to Prime which change quarterly, with a few other variable rate codes, also tied to Prime, that are changed only semi-annually. Two different Index codes would be created, one that would be maintained every quarter, the other twice a year. (Remember that when changes are made to the Index, all VR Codes tied to that Index will change—that’s why more than one Index Code may be needed to handle variable rates that change at different frequencies.)

Indexes are optional; credit unions which only have a few variable rate codes may find it easier to update the rate for each code manually. But for credit unions with many different variable rates to keep track of, the Index feature is simply an automated tool to make implementing rate changes easier and more efficient.

## “UPDATE” VARIABLE RATE CODES

This first type of variable rate is designed to be in place for a period of time when the loan is first created, and then “updated” to a different type of variable rate at a later date. This type of rate is always **non-indexed** because it is a fixed rate not tied to any index such as Prime or CPI, and remains fixed until updated to the final Group variable rate code.

This type of code is frequently used for “introductory rates” or other promotions where the member receives a special rate for a short period, and then the account becomes a standard variable rate loan after that point. The code can be updated to a Group type of variable rate (the most common), or even another Update type code if desired.

Upon expiration of the initial Update rate, the system checks the configuration for the new code and uses the current rate then in place.

### **Example:**

ABC Credit Union offers a variable rate home equity loan at a special 6-month introductory rate. Six months after the loan is created, it becomes a normal variable rate loan where the rate is updated quarterly.

The credit union creates two variable rates codes to accomplish this. The first is an Update type code “005” with the special introductory rate. The other is a Group type code “010” that is updated quarterly by the credit union.

When the loan is created, it is assigned variable rate code 005. Loan Maintenance is then used to indicate the 010 Group code and the effective date on which the roll-over will occur.

On that date, the loan account is automatically assigned the new variable rate code and takes on the rate in effect for the 010 code at that time.

*See Page 8 for more details on setting up an Update variable rate code.*

## “GROUP” VARIABLE RATE CODES

This variable rate is a “blanket” or “batch” type of code, meaning that all loans coded with a Group code work and update the same. Therefore, when a change is made to the rate on the Group code configuration, on the effective date of the change the system will update all loans that have that Group code. Loans can be updated either automatically during beginning-of-day processing or manually via tool that will process the loans on demand.

Changes to Group rates can either be **indexed** or **non-indexed**, depending on whether the rate is tied to a configured index code (such as Prime Rate or Consumer Price Index), or if the rate is changed manually by simply entering a new rate in the Group code configuration.

*See Page 10 for more details on setting up a Group variable rate code.*

## “CONTRACT” VARIABLE RATE CODES

This variable rate is designed to be used with the more sophisticated and complex products such as adjustable rate mortgages. The loan records update based individual configurations (the terms of the individual loan “contract”) combined with the variable rate code configuration.

With these types of loans, the variable rate code provides the base rate that is used by each individual loan contract to calculate the rate for that specific loan. The loan “contract,” or loan account record, sets controlling parameters such as:

- ◆ Independent rate changes by loan account
- ◆ Life minimum and maximum rates
- ◆ Per change minimum and maximum amounts (controlling the amount the rate can fluctuate at any one time)
- ◆ Number of rate adjustments to be made over the life of the loan
- ◆ Frequency of adjustments
- ◆ Timing of notices and payment change parameters
- ◆ Other calculation parameters such as rounding, incremental vs. straight rate basis, etc.

The contract also stores an ongoing history of rate changes that have been made throughout the entire life of the loan. The actual rate adjustments take place during beginning-of-day processing.

Contract codes not only let you record individual parameters for each member’s loan, they also let you notify your members that a rate change is coming, before the change actually takes place. In addition, corresponding changes to the loan payment amount can be delayed to allow for payments to be caught up before the rate change affects the payment due.

Changes to Contract rates can either be **indexed** or **non-indexed**, depending on whether the rate is tied to a configured index code (such as Prime Rate or Consumer Price Index), or if the rate is changed manually by simply entering a new rate in the Contract code configuration.

Remember that regardless of how the rate is changed in the variable rate code configuration, the parameters stored with the member’s individual loan account will determine the timing and specifics of the change.

See Page 17 for more details on setting up a Contract variable rate code.

## “MINI-CONTRACT” VARIABLE RATES

As the name implies, this is a new style of loan variable rate for those times when a Group variable rate code isn’t *quite* right, but Contract variable rates are little *too* flexible and complex. You need something in between, sort of the best of both worlds: a “mini-contract” variable rate.

This feature lets you configure a Group variable rate code that for the most part behaves exactly like other Group codes, with some very important differences:

- ◆ **Introductory rates** can be set up to allow the loan to stay at its original rate for a set period of time; changes to the variable rate code won’t take effect for that loan until a defined starting point.

- ◆ **Rate change caps** can be set up to limit the member’s exposure to large rate changes. You can define a per-change cap, an annual change cap, and a lifetime change cap, for each individual loan.

Mini-contracts are accomplished through an “Update by Loan Term” feature on the standard Group Variable Rate Code configuration. This allows you to change rates for a batch of loans at the same time, like other group variable rates, while still maintaining a mixture of member terms and giving maximum flexibility for negotiating the loan with the member (risk-based pricing, special loan terms, etc.).

For example, you might set lower caps on your A-grade paper than on your D-grade paper, or negotiate an original rate with a bigger deviation from the original index, such as Prime+2% for A-grade paper, Prime+6% for D-grade paper, etc.—all without having to manage many different group variable rate codes.

*See Page 10 for more details on setting up this special type of Group variable rate code. See Page 28 for information about creating loans with this type of variable rate code. See Page 50 for information about a report you can print to check the caps on all of the individual loan accounts that use a mini-contract variable rate type.*



## UPDATE TYPE (U)

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### Variable Interest Code Definition

Variable interest code 066

Description INTRODUCTORY RATE

Variable rate type Update

Current interest rate 0.700 %

Effective date Jun 28, 2013 [MMDDYYYY]

Suspend

Skip

Delete

FR (2399) 6/28/13

This screen is used to create or modify an “Update” type variable rate code. As discussed earlier, this type of rate is actually a fixed rate, but for only a limited time. Each loan, as it is created, is assigned an effective date on which the loan switches to another variable rate code (either Group or another Update). (See Page 26 for details on setting the effective date for the update when a loan account is created.)

Enter a description of the code, the current interest rate to be used when new loans are created, and the effective date of the rate. If modifying an existing code, the rate will be used immediately for new loans created from this point on, regardless of the effective date. When done, use Enter to record the change and return to the previous screen (shown on Page 7).

### Rate Adjustments for Existing Loans

For LOC loans, a parameter in loan category configuration controls whether the rate change will affect existing loans. When a member takes out an LOC loan at a certain rate, part of the loan contract typically allows for the rate on that loan to be adjusted by the credit union at its discretion. This is not a variable rate; rather, the rate can be adjusted as needed to fit market conditions. Adjustments are tied to new money being borrowed: if a member does not borrow any more money, he or she can keep paying off the loan at the original rate.

The flag that controls rate adjustments is called *Allow rate adjustments via Update Variable Rate Codes* on the loan category itself. Some rules for this flag:

- ◆ This flag works only on open-end and LOC loans which have been coded with an Update type variable rate code. Loans which are not



using a variable rate code are not affected by the flag, nor are loans with Group or Contract type variable rate codes.

- ◆ In order for this flag to take effect, the *Automated payment changes* flag must also be checked on the loan category configuration, meaning that this loan type automatically changes the loan payment upon certain types of loan activity.
- ◆ Rates on member loans with this flag and an Update type variable rate code will not be changed unless the member takes a disbursement on the loan. The system does not look at the *Effective Date* on the Update variable rate code, and will not make the rate change until a disbursement is taken after that date.

### **Example: LOC Rate Adjustment Strategy**

ABC Credit Union has offered a fixed rate LOC loan at 12% for 3 years, bringing their current portfolio to \$4.5 million dollars in outstanding LOC loans. Due to changes in the current lending marketplace, they wish to change the rate used for new LOCs to 13.5% and also charge 13.5% for any new money disbursed from existing loan accounts.

The credit union's contracts with their members allow for adjustments to their LOC loan rates. CU announces that all new LOC lending will be at 13.5%. Members can continue paying off existing debt at the old rate of 12%, but if any disbursements are taken (new money is borrowed) on the loan, the entire amount will move to the new rate of 13.5%.

If the CU sets these up as two separate loan categories (one at 12% and one at 13.5%), they still would not be able to charge the higher rate for new disbursements from the old loans. Therefore, there is still only one LOC category with the *Allow rate adjustments via Update Variable Rate Codes* box checked. The loans would have to be set up with an Update type variable rate code, originally at 12%. CU would change the rate on the variable rate code to 13.5% with an effective date. New loans would immediately start using the 13.5% rate, and existing loans would use the new rate when disbursements are taken after the effective date.

The CU's entire loan portfolio now contains loans at different rates, depending on when they were opened and whether disbursements have been taken. After one year at 13.5%, the CU's portfolio has grown to \$5.25 million: \$2.5 million of the loans are priced at 12% (no new borrowing activity); \$2.75 million are priced at the 13.5% rate (either new LOC loans or loans with new borrowing activity).

## GROUP TYPE (G)

IMPORTANT: If this code has been tied to an Index, use the Index maintenance screen to schedule a rate change. See Page 20 for details.

These fields are not used by CU\*BASE. They are informational only and are used by the ALM file. They are required fields.

If you enter a pending charge accidentally, select this command key to delete it.

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

File Edit Tools Help

### Variable Interest Code Definition

Variable interest code **007** Description **BUS LOC INT ONLY**

Variable rate type **Group**

Update type  By increm. change  By loan terms  By rate

Index code **002** **PRIME RATE QUARTERLY**

Index formula Code  +  - **0.000**

Tiered rates loan category Floor **0.000** Ceiling **0.000**

Repricing freq for ALM    Last day of month

| Current                                      |                                       | Pending  |  |
|--|---------------------------------------|--|--|
| Current interest rate                        | <b>3.250</b>                          | Pending interest rate  | <b>0.000</b>   |
| Last increm. change                          | <b>1.750 -</b>                        | - Or -   |  |
| Effective date                               | <b>Jan 01, 2009</b>                   | Pending increm. change   | <b>0.000</b> <input type="radio"/> + <input type="radio"/> - |
| Recalculate payment <input type="checkbox"/> | Print notice <input type="checkbox"/> | Change date  | <b>00000000</b> <input type="text"/> [MMDDYYYY]              |
| Last maintained <b>Jan 01, 2009</b> by       |                                       | <input type="checkbox"/> Recalculate payment <input type="checkbox"/> Print notice |  |

Suspend  
Skip  
Delete  
View Index  
Delete Pending

FR (2397) 6/28/13

This screen is used to create or modify a “Group” type variable rate code (including mini-contracts). As discussed earlier, a Group code is used for situations where all loans tied to the group should behave the same. If a change is made to the Group code, that change will also happen to all of the loans with that variable rate code.

To create a new code, complete all fields in the top portion of the screen, then enter a starting rate into the *Pending int rate* field on the right side of the screen, then set an effective date for that rate by entering today’s date (or even a date in the past, if desired) as the *Change date*. When the code is saved that rate will become the “current” interest rate on the code, and then all subsequent changes can be scheduled as usual.

### Scheduling a Rate Change

To schedule a rate change, enter the data using the *Pending* side of the screen, with a *Change date* in the future. Use Enter once to check for errors, and then again to record the change and return to the previous screen.

During beginning-of-day processing on the change date, the system will automatically move the “Pending” figures to the “Current” side, and record the new rate on all loans with this variable rate code.

**NOTE:** New loans will always use the rate as shown on the “Current” side of the screen.

IMPORTANT: If this code has been tied to an Index, use the Index maintenance screen instead (see Page 21) to schedule a rate change.

IMPORTANT NOTE: Suspended group loans are not available for new loans. (To suspend a loan use the *Suspend* button.)

## Understanding Mini-Contract Variable Rate Products

If you want to use this Group code to create a mini-contract type variable rate product, where all loans change at the same time but each individual loan can be subject to its own set of per-change, annual, and lifetime rate change caps, then set the *Update type* field to *Update by loan terms (mini-contract)* (L) and complete all additional fields as described below.

When you press Enter to save the changes, an additional screen (shown on Page 15) will appear to allow you to specify default caps that will be used as a starting point only for all new loans.

When this variable rate code is attached to a loan, a screen will appear upon loan creation that lets you specify the caps for that individual loan. (You will also be able to specify a period for the introductory rate on the loan, if appropriate.) See Page 28 for more details on setting up caps for a particular loan account.

Whenever a rate change is made, the loan will ignore any floor and ceiling change caps on the Group variable rate code and instead will obey the caps on the individual loan account record.

**IMPORTANT: Rate changes on these types of loans must be entered using the Pending increm. chg fields on the right-hand side of the screen.** The only exception is when initially creating the variable rate code - then you must enter a rate into the Pending int rate field to establish a starting rate for the code.

### Field Descriptions

| Field Name         | Description   |
|--------------------|---|
| Description        | Enter a description of the variable rate.   |
| Variable rate type | This field shows the type of variable rate code being created or modified (should read "GROUP" in this case).   |
| Update type        | <p>Enter one of the following to indicate which figure should be used when calculating a new rate:</p> <p><b>Update by Rate (R)</b> - When a rate change takes effect, the system will take the figure from the <i>Pending int rate</i> field and move it to the <i>Current int rate</i> field. Therefore, to change the rate on this type of variable rate code, an entry is required in the <i>Pending int rate</i> field.</p> <p><b>Update by Incremental change (I)</b> - When a rate change takes effect, the system will look at the amount in the <i>Pending increm. chg</i> field, and use this amount when calculating the new rate. For example, if the current rate is 9.500% and the <i>Pending increm. chg</i> field reads .250% +, when the rate change takes effect the new rate will be 9.500 + .250, or 9.750%. Therefore, to change the rate on this type of variable rate code, use the <i>Pending increm. chg</i> field to enter the amount by which the existing rate should be increased (+) or decreased (-).</p> <p>NOTE: If all of the loans with this variable rate code are not currently at the same rate, using a setting of "R" will cause all loans to be "equalized" to the same rate (from the <i>Pending int rate</i> field) when the next rate change occurs. If you wish all loans to simply increment up or down by the same</p> |

| Field Name                | Description  |
|---------------------------|--|
|                           | <p>amount, use a setting of “I” and enter the incremental change into the <i>Pending increm. chg</i> field.</p> <p><b>Update by Loan terms (mini-contract) (L)-</b> This is used to turn this Group code into a “mini-contract” code that behaves like a Group when rate changes are scheduled (i.e., all loans tied to this code change at the same time), but allows for annual, per-change, and lifetime rate change caps to be entered for each individual loan. <b>Otherwise this will behave exactly like the Update by Incremental change setting described above,</b> meaning that rate changes will be implemented by entering an <b>incremental change</b>, either up or down from the current rate.</p>   |
| Index code                | <p>If this variable rate is to be tied to a configured Index Code, enter the code here. When a change is made to the Index Code, the change will automatically affect this variable rate code as well.</p> <p>See Page 20 for details on configuring Index Codes.</p>  |
| Index formula             | <p>If a code was entered into the <i>Index code</i> field, this field is used to enter a formula that takes the rate from the Index Code and either adds (+) or subtracts (-) points to calculate the rate used by this variable rate code.</p> <p>For example, if setting up a variable rate for Home Equity loans at 2% over Prime, this code would be tied to the Index Code representing Prime (see Page 20 for details on configuring Index Codes), and the following formula would be entered into this field:<br/>Code ( + ) <b>02000</b> %</p>   |
| Tiered rates for category | <p>This field is used to tie this variable rate code to one loan category which has been configured to use tiered loan rates. This will cause the tiered rates of that loan category to be changed at the same time that the variable rate change takes effect. Leave the field blank if you do not wish to tie this code to a loan category.</p> <p><b>IMPORTANT: You must use an Update type of Update by Incremental change so that the change affects the tiered rates incrementally, and does not make all the tiers the same rate.</b></p> <p>Tiered Loan Rates are used to adjust the rate on a loan based on the actual balance of the loan account. Designed as a way to encourage members to use their line-of-credit loans by providing more favorable rates for higher balances, Tiered Rates are set up in loan category configuration.</p> <p>Be careful if you have more than one loan category that uses tiered rates, because rate changes will only affect the tiered rates for the loan category designated here. To avoid problems with rate changes, it is recommended that this variable rate code not be used with other loan categories that also have tiered rates.</p> |
| Floor                     | <p>This optional field lets you specify the absolute lowest rate allowed for all loans that have this variable rate code. If a pending change would bring a specific loan account below this floor, the system would set the account to this rate</p>  |

| <i>Field Name</i>   | <i>Description</i>  |
|---|---|
|   | <p>instead. Leave the field at 0.000 if you do not wish to set a floor rate.</p> <p>This was primarily designed for rates that are adjusted incrementally, to allow you to prevent your loan portfolio from being adjusted lower than a minimum price.</p> <p>NOTE: This field is not used if the <i>Update type</i> is set to "Update by loan terms (mini-contract)." Instead the caps on the individual loan account are used to establish a floor and ceiling.</p>   |
| Ceiling   | <p>This optional field lets you specify the absolute highest rate allowed for all loans that have this variable rate code. If a pending change would bring a specific loan account above this ceiling, the system would set the account to this rate instead. Leave the field at 0.000 if you do not wish to set a ceiling rate.</p> <p>This was primarily designed for rates that are adjusted incrementally, to allow you to prevent your loan portfolio from being adjusted higher than a maximum price.</p> <p>NOTE: This field is not used if the <i>Update type</i> is set to <i>Update by loan terms (mini-contract)</i>. Instead the caps on the individual loan account are used to establish a floor and ceiling.</p> |
| Repricing freq for ALM  | Use the lookup to select a standard loan payment frequency, such as weekly, bi-weekly or monthly to determine the next time the ALM file will report that the rate will be updated. This field is for use with the ALM file only and is not used by CU*BASE in calculations. This is a required field.  |
| Last day of the month   | Defaults to unchecked; when checked re-pricing for the ALM file will be scheduled to occur on the last day of the month, adjusting for months with different numbers of days. This field is not used by CU*BASE. This is informational only for use with the ALM file.  |
| Comments  | Enter any comments here to be included with the configuration of the variable rate code   |
| Last maintained   | This is the last date that maintenance was run on this variable rate.   |
| <b>Current</b>  |   |
| This side of the screen shows the rate and information currently in place for all loans with this variable rate code. |   |
| Current interest rate   | This field shows the interest rate used by all loans with this variable rate code.  |
| Last increm. chg  | <p>This field shows the amount of change that was made when the <i>Current int rate</i> was put into place.</p> <p>For example, if the interest rate was changed on May 1, 2006 from 12.000% to the current rate of 12.500%, this field will show 0.500% +, with an <i>Effective date</i> of May 01, 2006.</p>  |
| Effective date  | This field shows the date on which the <i>Current int rate</i> was put into place.  |
| Recalculate payment   | This field shows whether or not the system recalculated loan payments (for open-end and LOC loans) when the <i>Current int rate</i> was put into place.   |

| <i>Field Name</i>   | <i>Description</i>  |
|---|---|
| Print notice  | This field shows whether or not notices were generated when the <i>Current int rate</i> was put into place.   |
| <p><b>Pending</b></p> <p>This side of the screen shows data for an upcoming rate change, if any.</p> <p><b>IMPORTANT: Remember that if this code has been tied to an Index, rate changes should be scheduled on the Index code</b>, rather than manually entering the change here. See Page 20 for details.</p> |   |
| Pending int rate  | <p>Enter the new interest rate that should be in place for this variable rate code as of the date in the <i>Change date</i> field.</p> <p><b>NOTE:</b> The field <i>Update type</i> must be set to “R” in order for the rate in this field to be moved directly into the <i>Current int rate</i> field when the rate change takes effect.</p>   |
| Pending increm. chg   | <p>Enter the amount of change that should be made to the interest rate as of the date in the <i>Change date</i> field. (This field must be entered manually; the system does not calculate the change amount.)</p> <p><b>NOTE:</b> The field <i>Update type</i> must be set to “I” in order for the amount in this field to be used when calculating the new <i>Current int rate</i> when the rate change takes effect.</p>   |
| Change date   | Enter the date on which the new rate from the “Pending” side of the screen should take effect and move over to the “Current” side of the screen. (If updating an existing code, this must be a date in the future.)   |
| Recalculate payment   | <p>Check this flag if the system should recalculate loan payments for all loan accounts (open-end and LOC loans) when the rate change takes effect. Leave it unchecked to leave all loan payments the same.</p> <p>See below for more details on using this feature.</p> <p><b>NOTE:</b> This flag affects the payment change calculation that results from the variable rate change only, and will apply only to open-end and line-of-credit loans. All other types of payment changes are controlled via the loan category configuration.</p> |
| Print Notice  | Check this flag if the system should print a standard change notice form when the rate change takes effect. Otherwise, leave it unchecked.  |

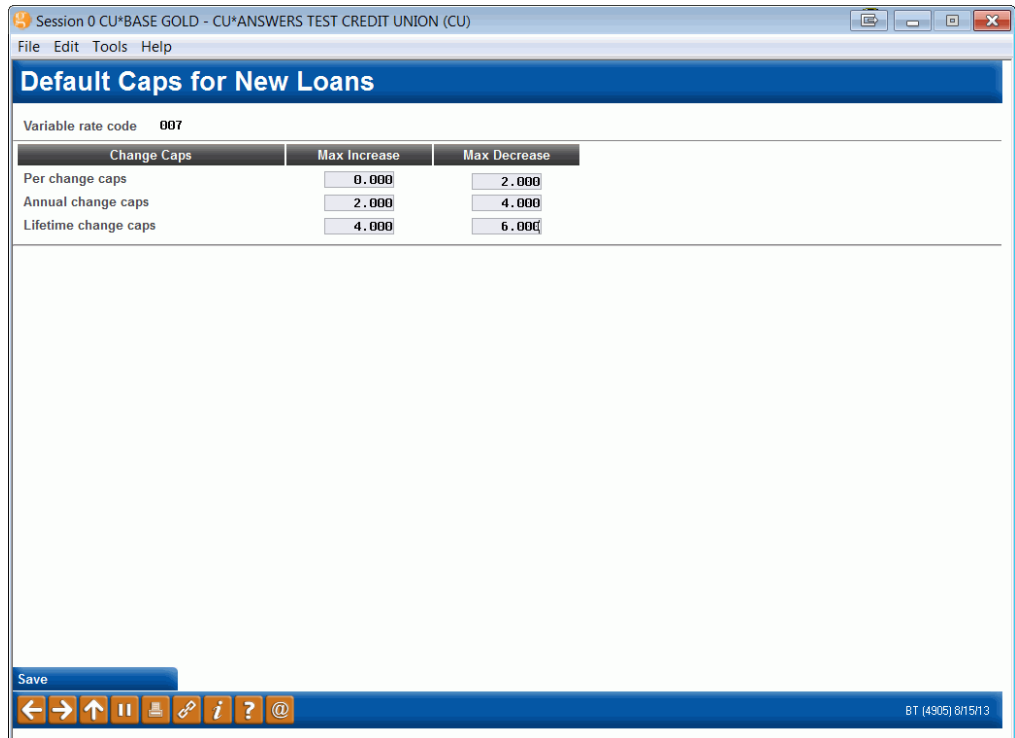
## Recalculate Payment: Yes or No?

When deciding which setting to use in the **Recalc. Payment** field, it is important to consider the payment change settings on any open-end/LOC loan categories which might use this variable rate. Only certain types of payment calculations can make use of the recalculate payment option in this variable rate code, as described below:

| <i>Payment Calculation Type</i> | <i>Calculation Variables Used</i>            | <i>Used With VR Code Recalc. Payment Feature</i> |
|---------------------------------|--|--|
| Range Method                    | Balance<br>Factor<br>Payment per Factor      | NO, non-amortization type                        |
| Percent Method                  | Balance<br>Percentage                        | NO, non-amortization type                        |
| Fixed # of Payments             | Payments<br>Rate<br>Balance                  | YES, amortization type                           |
| Maturity Date Fixed             | Date<br>Payment Frequency<br>Rate<br>Balance | YES , amortization type                          |
| Table (Payment)                 | Balance Range<br>Payment Per Balance Range   | NO, non-amortization type                        |
| Table (Term)                    | Term set by Balance Range<br>Balance<br>Rate | YES, amortization type                           |

## Setting Default Rate Caps for Mini-Contracts

The following screen will appear after setting up a new Group Variable Rate Code, if the Update type has been set to "Update by loan terms (mini-contract)." You can also access this screen by using **Change Caps (F9)** on that screen (shown on Page 10).



This screen lets you set the default change caps that will be used whenever a new loan is created. A cap controls how much a loan rate can fluctuate each time a rate change is implemented. There are separate settings for increases versus decreases.

Remember that these are just starting points; you can adjust these caps for each loan at the time the loan account is created (or at any time after the loan account is in place via Misc. Loan Maintenance). See Page 28 for more information.

**CU\*TIP:** See Page 50 for information about a report you can print to check the caps on all of the individual loan accounts that use a mini-contract variable rate type. This can help you compare the caps to your defaults, as well as to make sure all loans actually have caps entered.

When all fields are complete, use **Save** (F5) to record the settings and return to the initial variable rate code configuration screen.

**Field Descriptions**

| Field Name         | Description   |
|--------------------|---|
| Per change caps    | This cap controls how much a member's loan can change with any one rate change. For example, the contract might specify that the loan rate can't go up more than 1% per change (or down more than 2% per change). |
| Annual change caps | This cap controls how much a member's loan can change during the course of a year. For example, the contract might specify that the loan rate can't go up more than 2% per year (or down more than 4% per year).  |



| Field Name           | Description  |
|----------------------|--|
|                      | A special routine is run at the beginning of each year that stores the rate on the loan account as of January 1. This is used throughout the year to compare against this annual change cap.   |
| Lifetime change caps | This cap controls how much a member's loan can change over the life of the loan, as compared to the original rate on the loan account. <i>For example, the contract might specify that the loan rate can't go up more than 6% over the entire life of the loan (or down more than 4%).</i> |

## CONTRACT TYPE (C)

IMPORTANT: If this code has been tied to an Index, use the Index maintenance screen to schedule a rate change. See Page 20 for details.

Session 0 CU\*BASE GOLD Edition - Variable Interest Code Definition

File Edit Tools Help

### Variable Interest Code Definition

Variable interest code **160**  
Description **CONTRACT VAR PRIME**

Variable rate type **Contract**  
Index code **001** **PRIME(MONTHLY)**  
Index formula code **+ 0.500**

| Current               |              | Pending                |              |
|-----------------------|--------------|------------------------|--------------|
| Current interest rate | 3.260        | Pending interest rate  | 3.500        |
| Last increm. change   | 0.000        | Pending increm. change | -0.010       |
| Effective date        | Feb 22, 2012 | Change date            | Nov 07, 2012 |
| Prior rate            | 0.000        |                        |              |
| Prior increm change   | 0.000        |                        |              |
| Prior effective date  | 00000000     |                        |              |

Suspend  
Skip  
Form Info  
Delete

BT (2395) 8/15/13

This screen is used to create or modify a *Contract* type variable rate code. As discussed earlier, *Contract* variable rates are the most complex, because each loan acts independently of all other loans with this code, depending on how the loan was set up. Each loan account has parameters, such as timing of rate changes, frequency, minimum and maximum rates, etc., and the loan will use information from both the loan account as well as the variable rate code when making rate changes.

*For more information on setting variable rate parameters on the actual loan account, see Page 30.*

New loans will use the rate as shown on the *Current* side of the screen. To schedule a rate change, enter the data using the *Pending* side of the screen, with a *Change Date* in the future. Use Enter once to check for errors, and then again to record the change and return to the previous screen. During beginning-of-day processing on the change date, the system will automatically move the *Pending* figures to the *Current* side, and use the new rate when calculating rate changes for loans with this variable rate code.

**IMPORTANT:** The timing of rate changes to indexes and contract variable rate codes is very important. Remember that pending change records on individual loan accounts only look at this code at the time the pending change record is created, not when the rate actually changes. See Page 38 for details on the creation of pending rate change records for individual loan accounts.

**NOTE: Form Info (F10)** is used to collect information needed for printing variable rate loan disclosure forms. These forms are used as part of a custom loan form for specific credit unions. If your credit union is interested in setting up custom loan forms, contact a CU\*BASE representative for pricing and timeframes.

### Field Descriptions

| Field Name  | Description  |
|---|--|
| Description   | Enter a description of the variable rate (such as “Prime + 2%”).   |
| Variable rate type  | This field shows the type of variable rate code being created or modified (should read “CONTRACT” in this case).   |
| Index code  | If this variable rate is to be tied to a configured Index Code, enter the code here. Click the lookup to see a list of your credit union’s configured codes. When a change is made to the Index Code, the change will automatically affect this variable rate code as well.<br>See Page 20 for details on configuring Index Codes.   |
| Index formula   | If a code was entered into the <i>Index Code</i> field, this field is used to enter a formula that takes the rate from the Index Code and either adds (+) or subtracts (-) points to calculate the rate used by this variable rate code.<br>For example, if setting up a variable rate for Home Equity loans at 2% over Prime, this code would be tied to the Index Code representing Prime (see Page 20 for details on configuring Index Codes), and the following formula would be entered into this field:<br>Code ( + ) <b>02000</b> % |
| <b>Current</b><br>This side of the screen shows the rate and information currently in place for new loans created with this variable rate code. |  |
| Current interest rate   | This field shows the interest rate that will be used by new loans created with this variable rate code. It is also used when rate changes are calculated, if the <i>Change based on</i> setting on the contract is <i>VR Code Rate (V)</i> . (See Page 30 for details.)  |
| Last increm chg   | This field shows the amount of change that was made when the <i>Current Interest Rate</i> was put into place.<br>For example, if the interest rate was changed on May 1, 2006, from 12.000% to the current rate of 12.500%, this field will show 0.500% +, with an <i>Effective Date</i> of May 01, 2006.  |

| <i>Field Name</i>   | <i>Description</i>  |
|---|---|
| Effective date  | This field shows the date on which the <i>Current Interest Rate</i> was put into place.   |
| Prior rate  | This field stores the rate that was in place just prior to the <i>Current Interest Rate</i> .   |
| Prior increm chg  | This field stores the amount of change that was made when the <i>Prior Rate</i> was put into place.   |
| Prior eff. date   | This field stores the date on which the <i>Prior Rate</i> was put into place.   |
| <p><b>Pending</b></p> <p>This side of the screen shows data for an upcoming rate change, if any.</p> <p><b>IMPORTANT: Remember that if this code has been tied to an Index, rate changes should be scheduled on the Index code</b>, rather than manually entering the change here. See Page 20 for details.</p> |   |
| Pending interest rate   | <p>Enter the new interest rate that should be in place for this variable rate code as of the date in the <i>Change Date</i> field.</p> <p>NOTE: Because each loan contract may be set up differently, it will be important to complete both this field and the <i>Pending Increm Change</i> field with the rate change information. This is <u>not</u> calculated automatically.</p>                |
| Pending increm change   | <p>Enter the amount of change that should be made to the interest rate as of the date in the <i>Change Date</i> field. This must be entered manually; the system will not calculate the difference.</p> <p>NOTE: Because each loan contract may be set up differently, it will be important to complete both this field and the <i>Pending Int Rate</i> field with the rate change information.</p> |
| Change date   | Enter the date on which the new rate from the <i>Pending</i> side of the screen should take effect and move over to the <i>Current</i> side of the screen.  |

# CONFIGURING/MAINTAINING INDEX CODES

## Variable Rate Code Configuration (Tool #935), then “Update Index” (F10)

| Code | Description                   |
|------|-------------------------------|
| 001  | PRIME RATE CHANGE IMMEDIATELY |
| 002  | PRIME RATE QUARTERLY          |
| 003  | 1.00% OVER PRIME              |
| 004  | 1.5% OVER PRIME               |
| 005  | 2.00% OVER PRIME              |
| 006  | 2.50% OVER PRIME              |
| 007  | 3.00% OVER PRIME              |
| 008  | 3.50% OVER PRIME              |
| 009  | 4.00% OVER PRIME              |
| 010  | .50% OVER PRIME               |
| 013  | PRIME + 2.25%                 |

The Index Code Definition screens are used to set the value of an Index, such as Prime or the Consumer Price Index, and to schedule changes to the index. If changes are made to the rate on the index code, ALL variable rate codes which are tied to the index will also be changed as of the effective date of the change.

**CAUTION:** CU\*BASE Index Codes were designed to make it quick and easy to schedule rate changes for multiple variable rate codes all at the same time. They were not, however, designed to track and record every time a new Prime Rate is published. When a change is made to a CU\*BASE Index Code, that same change is immediately recorded for all Variable Rate Codes tied to that index code.

**Therefore, you must configure a CU\*BASE Index Code for every variable rate change frequency, regardless of how often the industry index itself changes. See Page 24 for a case study illustrating this concept.**

**Note:** If a rate change causes the variable rate to move outside of the floor/ceiling restrictions, the rate will still be honored.

**NOTE:** If you update the group rate by incremental change and do so incorrectly, first change the rate back to the original rate. Then make the incremental rate change from the original rate to the correct rate. (For example, if the rate was 3.25 and instead of changing it to 3.5 you mistakenly change it to 14.0, first change the rate back to 3.25. Then change it to the correct rate (3.5).

Enter a new or existing three-digit numeric code and use Enter to proceed to the next screen.

## Screen 2

Session 0 CU\*BASE GOLD Edition - Variable Rate Index Code Definition

Variable rate index code 005 CHANGE

Description 2.00% OVER PRIME

| Current                      |                        | Pending                                      |  |
|------------------------------|------------------------|--|--|
| Last rate change             | 5.250                  | New rate                                     | 0.000                                  |
| Last index change            | 1.750 -                | Index change                                 | 0.000 + -                              |
| Last effective date          | Jan 01, 2009           | Effective date                               | 00000000 [MMDDYYYY]                    |
| Recalculate payment $\nabla$ | Print notices $\nabla$ | <input type="checkbox"/> Recalculate payment | <input type="checkbox"/> Print notices |

Calc/Schedule Change  
Skip  
Delete

Last maintained Dec 16, 2008 By

FR (2390)

The second screen records the rate associated with this index. Remember that an index is simply an easy way to make the same change to multiple variable rate codes, without having to manually edit each individual code. Therefore, when the index code is changed, all that will happen is that the new rate and effective date will be “flooded” into the “Pending” fields on all of the variable rate codes that are tied to this index. On the effective date, the actual rate changes will happen to each individual variable rate code.

Using the fields on the “Pending” side of the screen, enter the rate and the effective date for this index. For example, if this index is used to represent Prime, enter the Prime Rate and the date on which the rate takes effect. When all fields have been filled in, use Enter to calculate the *Index Change* and check for any errors.

Once the new rate and date have been entered, use **Calc/Schedule Change** (F5). This will accomplish two things:

- ◆ Data entered on the “Pending” side will be moved to the “Current” side on this screen, showing the new rate for this Index.
- ◆ Data entered on the “Pending” side will also be moved to the “Pending” side of all Variable Rate Codes that use this index (as shown on Pages 10 and 17). The rate change itself will happen automatically as of the *Effective Date*.

**NOTE:** If a Variable Rate Code has been configured with a Floor and/or Ceiling rate (see Page 10), and the change in the index causes this particular variable rate code to exceeds these restrictions, an error message will be presented. If you want to retain a record of what how the rate was actually calculated, Select *Bypass* (F8) to avoid changing the rate shown on this screen. When new rates are actually applied to member accounts, the system will honor the floor/ceiling restrictions at that time. The LSYSLN report (see page 49) will flag any variable rate codes that were calculated outside of the floor/ceiling restrictions, so that you can decide whether it might be time to modify those floor/ceiling rates or possibly even suspend that variable rate code so it is no longer used for new loan accounts

## Verifying Scheduled Changes

To ensure that changes to the Index code will be implemented correctly on the associated variable rate codes, after using **Calc/Schedule Change** (F5) to schedule the change, be sure to run the **Loan Variable Rate Config Report** (available via **Tool #660 Print Loan Variable Rate Config Report**) to see which VR Codes are now scheduled to update existing loans. Rate changes are implemented during beginning-of-day processing on the effective date, just before loan interest is accrued. Therefore, if a rate change is scheduled incorrectly and not verified before the next time BOD processing is run, loans may accrue interest at the wrong rate starting on that day. See Page 49 for a sample of this report.

## Getting Started with a New Index Code

If you are creating a new Index code to work with existing variable rate codes, make sure to edit each individual variable rate code to “link” it to this index code. Also, because the first rate change you schedule for this index will not be able to calculate an incremental change, it may be necessary to manually adjust each variable rate code after using **Calculate/Schedule Change** (F5) here. After that point, the system will calculate the incremental change and manual adjustments will not be needed from that point on. Contact a Client Service Representative if you need assistance.

### Field Descriptions

| <i>Field Name</i>   | <i>Description</i>  |
|---|---|
| Description   | Enter a description of the index (such as “Prime Rate” or “Consumer Price Index”).  |
| (Comments)  | Enter any comments in the space provided  |
| <b>Current</b>  |   |
| This side of the screen shows the rate and information currently in place for this index. |   |
| Last Rate Change  | This field shows the rate that was entered the last time a change was made to this index.<br><br>If the <i>Last Effective Date</i> is in the future, this rate has been flooded into the “Pending” side on all of the variable rate codes that are tied to this index, but the actual rate change will not take effect until that date. |
| Last Index Change   | This field shows the amount of change that was made when the <i>Last Rate Change</i> was entered.   |
| Last Effective Date   | This field shows the date on which the <i>Last Rate Change</i> took effect.<br><br>If the <i>Last Effective Date</i> is in the future, this rate has been flooded into the “Pending” side on all of the variable rate codes that are tied to this index, but the actual rate change will not take effect until that date.               |
| Recalculate Payment   | This field shows whether or not the system recalculated loan payments when the <i>Last Rate Change</i> took effect.   |
| Print Notices   | This field shows whether or not notices were generated when the <i>Last Rate Change</i> took effect.  |

| <i>Field Name</i>  | <i>Description</i>  |
|--|---|
| <p><b>Pending</b></p> <p>This side of the screen is used to enter a new rate for this index.</p> |   |
| New Rate   | Use this field to enter the new rate for this index code. When <i>Calculate/Schedule Change</i> (F5) is used, this rate will be transferred to all variable rate codes that have been tied to this index.   |
| Index Change   | After a <i>New Rate</i> has been entered, use Enter and the system will calculate the difference between the <i>Last Rate Change</i> and the <i>New Rate</i> , and show the amount in this field. This is calculated automatically; you cannot enter data into this field.  |
| Effective Date   | This field shows the date on which the rate change will take place. This date will be flooded into the <i>Change Date</i> field on all variable rate codes that have been tied to this index.   |
| Recalculate Payment  | <p>Check this box if the system should recalculate loan payments for all loan accounts when the rate change takes effect. Leave the flag unchecked to leave all loan payments the same.</p> <p>This setting will be flooded into the “Pending” side of all <b>Group</b> type variable rate codes that have been tied to this index. See Page 15 for more details on using this feature.</p> |
| Print Notices  | <p>Check this box if the system should print a standard change notice form when the rate change takes effect.</p> <p>This setting will be flooded into the “Pending” side of all <b>Group</b> type variable rate codes that have been tied to this index.</p>   |

## INDEX CODE CASE STUDY

*“How many Index Codes do we need?”*

ABC Credit Union has many different loan products that use variable rates, all of which are tied to the current Prime Rate. They offer one Adjustable Rate Mortgage where each loan adjusts according to the specific terms of the loan contract. They also offer a variety of group variable rate loans: a few that update once each quarter, another couple that update semi-annually, and one that updates on an annual basis. All are at varying percentage points above the Prime Rate as published each week.

Because there are so many loan products that update at the same interval (such as their three different variable rate products that update once a quarter) ABC would like to use the CU\*BASE Index Code feature to avoid having to manually schedule the rate changes for each product one at a time. Although all of the loans are tied to the same *industry* index—Prime Rate—the difference in the update frequency requires more than one Index Code to be configured in CU\*BASE.

The following chart illustrates the four different CU\*BASE Index Codes that ABC would need to configure and maintain for their ongoing loan portfolio:

| INDUSTRY INDEX                     |                       | CU*BASE INDEX                              |  | CU*BASE Loan Products             |  |
|------------------------------------|-----------------------|--|--|-----------------------------------|--|
| Index                              | Change Frequency      | Index Code                                 | Code Change Frequency  | Variable Rate Code                | Change Frequency for Loans Linked to the VR Code   |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>001</b><br>“Prime/Weekly”    | Updated every Tuesday  | Contract ARM 101<br>Prime + 2.75% | Based on independent loan; system reads loans every day and changes according to contract. |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>002</b><br>“Prime/Quarterly” | Updated once per quarter - scheduled the Tuesday prior to the 1st day of quarter | Group 201<br>Prime + 1%           | Loans change on the 1st day of the quarter, once each quarter<br>Next change: 7/1/xx       |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>002</b><br>“Prime/Quarterly” | Updated once per quarter - scheduled the Tuesday prior to the 1st day of quarter | Group 202<br>Prime + 2%           | Loans change on the 1st day of the quarter, once each quarter<br>Next change: 7/1/xx       |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>002</b><br>“Prime/Quarterly” | Updated once per quarter - scheduled the Tuesday prior to the 1st day of quarter | Group 203<br>Prime + 3%           | Loans change on the 1st day of the quarter, once each quarter<br>Next change: 7/1/xx       |



| INDUSTRY INDEX                     |                       | CU*BASE INDEX                                  |  | CU*BASE Loan Products   |   |
|------------------------------------|-----------------------|--|--|-------------------------|---|
| Index                              | Change Frequency      | Index Code                                     | Code Change Frequency  | Variable Rate Code      | Change Frequency for Loans Linked to the VR Code  |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>003</b><br>"Prime/Semi-Annually" | Updated twice a year - scheduled the Tuesday prior to the 1st day of the appropriate quarter | Group 301<br>Prime + 1% | Loans change on the 1st day of the quarter, twice each year (mos. 4 & 10)<br>Next change: 10/1/xx |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>003</b><br>"Prime/Semi-Annually" | Updated twice a year - scheduled the Tuesday prior to the 1st day of the appropriate quarter | Group 302<br>Prime + 2% | Loans change on the 1st day of the quarter, twice each year (mos. 4 & 10)<br>Next change: 10/1/xx |
| Prime Rate as published in the WSJ | Updated every Tuesday | Index Code <b>004</b><br>"Prime/Annually"      | Updated once each year - scheduled the Tuesday prior to the 1st day of year                  | Group 401<br>Prime + 2% | Loans change on the first day of the year, once each year<br>Next change: 1/1/xx                  |

If ABC Credit Union had created only one index code to represent Prime Rate and updated it every Tuesday, all loans would be scheduled to change every week!

# SETTING UP LOANS WITH “UPDATE” TYPE VARIABLE RATES

## SETTING THE INITIAL RATE

When new loan requests are created, if a Variable Rate Code is entered on the loan information screen, CU\*BASE will automatically pull in the *current* rate from that variable rate code. This represents the rate as of the last time that code was updated.

If the new loan should use a different rate, use **Override** (F13) from the **Loan Recap screen** to enter the correct rate before the loan account is created.

*This is helpful for loan products tied to the Prime Rate or other industry parameter that changes more frequently than the Index Codes configured in CU\*BASE. Remember that CU\*BASE Index Codes should only be updated when the rates for the variable rate codes should actually change; however, the actual Prime Rate may fluctuate much more frequently. New loans can be set to the rate as of the last time Prime was published, even though the CU\*BASE Index Codes have not yet been changed.*

## SPECIFYING THE END OF THE INTRODUCTORY PERIOD

After the loan account is created, the final step is to record the new variable rate code and effective date of the rollover. This can be done at the time the loan is created by checking the *Variable rate loan* box on the Loan Creation screen, or later using *Miscellaneous Loan Maintenance*.

**Loan Creation - “Variable Rate Loan” check box, OR  
Miscellaneous Loan Maintenance (Tool #51), then “Variable Rate Loan”**

The screenshot shows a window titled "Session 0 CU\*BASE GOLD" with a menu bar (File, Edit, Tools, Help). The main title is "Update Introductory Loan Rates". Below the title, there are several fields: "Loan account" with value "705 JOHN G MEMBER", "Loan category" with value "46 FIX MORT 5 - 30", and "Variable rate code" with value "003". There is a "Change to rate code" checkbox and a magnifying glass icon. The "Effective date" field has a calendar icon and the format "[MMDDYYYY]".

This screen is used to specify the date on which this loan should switch from this Update code to a Group (or another Update) rate. Enter a variable rate code, and the date on which the change should take effect. On that date, this loan account will take on the then-current rate from the new variable rate code. *Entry on this screen is required to exit the screen. The backup key is disabled. If you access this screen in error, enter a variable rate code and effective date and use Enter. Then edit the loan in Loan Update and remove the variable rate code (and press Enter to save the changes).*

---

# SETTING UP LOANS WITH GROUP VARIABLE RATES

## SETTING THE INITIAL RATE

When new loan requests are created, if a Variable Rate Code is entered on the loan information screen, CU\*BASE will automatically pull in the *current* rate from that variable rate code. This represents the rate as of the last time that code was updated.

If the new loan should use a different rate, use **Override** (F13) from the **Loan Recap screen** to enter the correct rate before the loan account is created.

*This is helpful for loan products tied to the Prime Rate or other industry parameter that changes more frequently than the Index Codes configured in CU\*BASE. Remember that CU\*BASE Index Codes should only be updated when the rates for the variable rate codes should actually change; however, the actual Prime Rate may fluctuate much more frequently. New loans can be set to the rate as of the last time Prime was published, even though the CU\*BASE Index Codes have not yet been changed.*

## SETTING UP THE LOAN

Unlike the other types of variable rate products, are no additional steps required when setting up a loan with a regular Group variable rate code. Simply create the loan account and disburse the funds as usual.

---

# SETTING UP LOANS WITH “MINI- CONTRACT” GROUP VARIABLE RATES

## SETTING THE INITIAL RATE

When new loan requests are created, if a Variable Rate Code is entered on the loan information screen, CU\*BASE will automatically pull in the *current* rate from that variable rate code. This represents the rate as of the last time that code was updated.

If the new loan should use a different rate, use **Override** (F13) from the **Loan Recap screen** to enter the correct rate before the loan account is created.

*This is helpful for loan products tied to the Prime Rate or other industry parameter that changes more frequently than the Index Codes configured in CU\*BASE. Remember that CU\*BASE Index Codes should only be updated when the rates for the variable rate codes should actually change; however, the actual Prime Rate may fluctuate much more frequently. New loans can be set to the rate as of the last time Prime was published, even though the CU\*BASE Index Codes have not yet been changed.*

## SETTING THE RATE CHANGE CAPS

After the loan account is actually created and coded with the initial Group variable rate code, the final step is to record the individual rate change caps for that loan account, as well as to set the introductory period for the original rate, if applicable.

This can be done at the time the loan is created by checking the “Variable rate loan” flag on the Loan Creation screen, or later using Miscellaneous Loan Maintenance, as shown below.

**CU\*TIP:** *You can also view these settings at any time from the Account Inquiry screen for an individual loan. Click the Mini-Contract pushbutton located near the top of the Loan Account Inquiry screen. (This button only appears on loans that have one of these types of variable rate codes attached.)*

**Loan Creation - “Variable Rate Loan” check box, OR  
Miscellaneous Loan Maintenance (Tool #51), then “Variable Rate Loan”**

Session 0 CU\*BASE GOLD -

File Edit Tools Help

**Update Mini-Contract/Group Var Rate Loan Terms** UPDATE

Loan account # 771 MICHAEL

Loan category 06 PERSONAL

Variable rate code 051 MINI CONTRACT

Original loan rate 0.000 Rate as of January of current year 0.000

First change effective date Aug 21, 2013 [MMDDYYYY]

| Change Caps                   | Max Increase | Max Decrease |
|-------------------------------|--------------|--------------|
| Per change caps               | 0.000        | 0.000        |
| Annual change caps            | 0.000        | 0.000        |
| Lifetime change caps          | 0.000        | 0.000        |
| Calculated ceiling/floor caps | 0.000        | 0.000        |

Continue

Calculate Floor Ceiling

BT (4940) 8/21/13

**CU\*TIP:** Use *Calculate Floor/Ceiling (F10)* to recalculate the ceiling and floor rates shown at the bottom of the screen, to make sure your change caps have been entered properly.

This screen is used to set up the rate change caps for this specific loan account. The default caps from the variable rate code will be pulled in automatically, but you can change them as needed for this individual loan.

**Use *Calculate Floor/Ceiling (F10)*** to recalculate the ceiling and floor rates shown at the bottom of the screen, to make sure the caps you enter will behave as expected. (These are the highest and lowest rate that could ever be used for this loan account.)

**CU\*TIP:** *The separate increase and decrease caps will allow you to set caps that fit what the original loan rate actually is. For example, if the original rate on the loan is 4.390%, the caps might be much tighter on the decrease side than on the increase side to prevent a rate of 0%!*

The *First change effective date* lets you set the first date on which a rate change could take place on this account. The *Original loan rate* will remain in place until that date, even if other changes are made to the variable rate code in the meantime. In effect, this lets you set an introductory period for the initial loan rate. After this date is past, the next change that is scheduled for the variable rate code will take effect for this loan.

When done, use Enter to save and exit the screen.

---

# SETTING UP LOANS WITH “CONTRACT” TYPE VARIABLE RATES

## SETTING THE INITIAL RATE

When new loan requests are created, if a Variable Rate Code is entered on the loan information screen, CU\*BASE will automatically pull in the *current* rate from that variable rate code. This represents the rate as of the last time that code was updated.

If the new loan should use a different rate, use **Override** (F13) from the **Loan Recap screen** to enter the correct rate before the loan account is created.

*This is helpful for loan products tied to the Prime Rate or other industry parameter that changes more frequently than the Index Codes configured in CU\*BASE. Remember that CU\*BASE Index Codes should only be updated when the rates for the variable rate codes should actually change; however, the actual Prime Rate may fluctuate much more frequently. New loans can be set to the rate as of the last time Prime was published, even though the CU\*BASE Index Codes have not yet been changed.*

## SETTING UP/MAINTAINING THE LOAN CONTRACT

After the loan account is created and coded with the contract variable rate code, the final step is to record the individual contract parameters on the loan account record.

This can be done at the time the loan is created by checking the “*Variable rate loan*” on the Loan Creation screen, or later using Miscellaneous Loan Maintenance, as shown on the next page.

**Loan Creation - “Variable Rate Loan” check box, OR  
Miscellaneous Loan Maintenance (Tool #51), then “Variable Rate Loan”**

The screenshot shows a software window titled "Session 0 CU\*BASE GOLD - ABC CREDIT UNION" with a menu bar (File, Edit, Tools, Help). The main title is "Variable Rate Loan Contract Info" with an "UPDATE" button. The data is organized as follows:

- Loan account #:** 30 SCOTT
- Loan category:** 20 SECOND MTG
- Original variable rate code rate:** 4.750
- Variable rate code:** 169
- Loan date:** (blank)
- Original loan rate:** 4.750
- Original payment:** 343.40

**Current Calculated Terms:**

- Current rate:** 4.750
- Current payment:** 163.31
- Variable rate code rate:** 4.750
- Current index rate:** 3.250
- Total rate adjustments:** 999
- Next adjustment:** Sep 30, 2009
- Remaining adjustments:** 998
- Last adjustment:** Jun 30, 2009

**Adjustment Controls:**

- Change based on:** UR code rate
- Life max rate:** 18.000
- Life minimum rate:** 0.000
- Per change maximum:** 2.000
- Per change minimum:** 0.000
- Recalculate payment
- Recalculate payment only if rate change
- Adjustment frequency:** 3 Months
- Payment change delay:** (blank) Days
- Rate change notice:** 30 Days
- Interest rate rounding factor:** .125
- Notice index description:** 2ND MORTGAGE VARIABLE PRIME

Buttons at the bottom left: Suspend, Pending Changes, Delete, History. A navigation bar at the bottom right contains icons for back, forward, up, down, search, and help, along with the text "FR (4938) 11/23/14".

Use this screen to enter all of the parameters that will control rate changes throughout the life of this loan. These parameters should match the terms and conditions specified in the loan disclosure documents given to the member.

When all the appropriate settings are entered (all fields are described below), use Enter to save the changes.

**Field Descriptions**

| Field Name              | Description  |
|-------------------------|--|
|                         | The fields in the top section of the screen show the original terms and parameters of the loan account, including the original rates that were in place when the loan was created.   |
|                         | <p><b>Current Calculated Terms</b></p> <p>This section of the screen shows the settings used by the loan <b>as of the last time a rate change was calculated for this loan account</b>.</p> <p><b>IMPORTANT:</b> This means that if a rate change is made to the variable rate code or the index used by this loan, those changes will not appear here until the next time this loan is updated.</p> |
| Current rate            | This is the rate currently used by the loan account when accruing daily interest.  |
| Current payment         | This field shows the scheduled payment as it currently is recorded on the loan account.  |
| Variable rate code rate | This is the rate from the variable rate code attached to this loan account. This rate was used when calculating this loan’s <i>Current rate</i> . In other words, this rate was on the code at the time the last change to this loan was made.   |

| <i>Field Name</i>  | <i>Description</i>  |
|--|---|
| Current index rate   | This is the rate from the index code (if any) tied to the variable rate code for this loan account. This rate was used when calculating this loan's <i>Current rate</i> . In other words, this rate was on the code at the time the last change to this loan was made.  |
| Total rate adjustments   | Enter the total number of times the rate on this loan is allowed to change over the life of the loan. If the field is blank, no rate changes will occur.<br><br>For example, say this loan is a 30-year Adjustable Rate Mortgage. If the contract states that the rate will change annually, enter 30 here. If the rate will change bi-annually, enter 15; semi-annually, 60, etc.  |
| Next adjustment  | This field displays the date when the next interest rate adjustment is scheduled to take place. The system automatically updates this field every time a rate adjustment takes place. If necessary, this field can be maintained to specify when the next adjustment should happen. For a new loan, enter the date when the first adjustment should be made.  |
| Remaining adjustments  | This field controls the number of rate changes that have yet to be made on the loan. Each time a rate change is put into place, the system automatically subtracts one from this number.<br><br>If this is a new loan that has never been affected by a rate adjustment, enter the same number as in the <i>Total rate adjustments</i> field. If the field is left blank on a <u>new</u> loan contract, the system will fill in the same figure from the <i>Total rate adjustments</i> field.<br><br>For example, if "5" was originally entered into the <i>Total rate adjustments</i> field, and two rate adjustments have been implemented, this field will display "3."  |
| Last adjustment  | This field displays the last date a rate adjustment affected this loan account. The system automatically updates this field each time a rate adjustment takes place, although the field can be maintained manually if needed. If this is a new loan, leave the field blank or enter the loan creation date.   |
| <b>Adjustment Controls</b>   |   |
| This section of the screen shows parameters that control exactly how each rate change will be allowed to happen for this loan account. |   |
| Change based on  | This setting controls the mathematical basis for calculating the amount of the rate change. Choose one of the following (see the illustration on Page 37 for additional information):<br><br><b>VR Code Rate (V)</b> - Use the <i>Current interest rate</i> from the variable rate code (see Page 17) when determining the new rate for this loan. This has the effect of attempting to bring all loans toward the same rate.<br><br><b>VR Code Incremental Change (I)</b> - Use the incremental change between the new variable rate and the variable rate that was in place the last time this loan was updated, when determining the new rate for this loan. The system calculates the difference between the current <i>Variable Rate Code Rate</i> on the individual loan contract |



| Field Name         | Description   |
|--------------------|---|
|                    | <p>(shown on Page 30) and the <i>Current interest rate</i> on the variable rate code (shown on Page 17) to determine the increment, then adds (or subtracts) the increment to the loan's current rate.</p> <p>This has the effect of moving the rate up and down in synch with changes to the variable rate code, regardless of the original rate for this loan. It also allows you to change the variable rate code more often than the loan contracts themselves are changed, and the loans will change incrementally based on the difference from one actual change date to the next (such as when the code is updated each month, but the loans themselves only change once per year—the loans would compare the incremental change over the full year's time.)</p> <p>The impact of this setting is more obvious when looking at an entire loan portfolio than any individual loan account. If all of the loans with this variable rate code are not currently at the same rate, using a setting of "V" will attempt to "equalize" all loans to the same rate when the next rate change occurs (while still adhering to the minimum/maximum settings for this loan, of course). If you wish all loans to simply increment up or down by the same amount, use a setting of "I" instead.</p> |
| Life max rate      | <p>Enter the absolute highest rate this variable rate loan account could reach, according to the terms of this loan contract. If this field is left blank, the system will ignore this setting and the loan can be increased an unlimited amount.</p> <p>For example, if this is a "2/6" ARM, and the starting loan rate was 8.000%, this setting would be set to 14.000% (6% maximum increase).</p> <p>If a scheduled rate change would bring this loan higher than this maximum rate, the system will use this rate instead.</p>  |
| Life min rate      | <p>Enter the absolute lowest rate this variable rate loan account could reach, according to the terms of this loan contract. If this field is left blank, the system will ignore this setting and the loan can be decreased all the way to 0.00%.</p> <p>For example, if this is a "2/6" ARM, and the starting loan rate was 8.000%, this setting would be set to 2.000% (6% maximum decrease).</p> <p>If a scheduled rate change would bring this loan lower than this maximum rate, the system will use this rate instead.</p>  |
| Per change maximum | <p>Enter the absolute highest percentage that the rate for this loan can change (up or down) within one adjustment. If the net change is more than this amount, the system <b>will use this amount</b> when calculating the new rate.</p> <p>For example, to keep the rate from changing more than 2% during an adjustment, enter "2000" here (the system will insert the decimal when Enter is used).</p> <p><b>IMPORTANT: This represents the maximum change per rate change.</b> CU*BASE does <i>not</i> support variable rate loans that update quarterly but have an annual maximum change, except via the "mini-contract" feature available with group variable rate code.</p> <p><b>CAUTION:</b> If you also are using the <i>Int rate rounding factor</i> feature (also on this screen, described below), the rounding</p>  |

| <i>Field Name</i>                       | <i>Description</i>   |
|---|--|
|   | may cause the rate to change <u>more</u> than this maximum. In general, if you want to control the maximum amount per change, you should not be using the rounding feature.  |
| Per change minimum                      | <p>Enter the minimum percentage that the rate for this loan must change (up or down) within one adjustment. If the net change is less than this amount, the system <u>will use this amount</u> when calculating the new rate.</p> <p>For example, to make sure the rate changes at least 0.125% during each adjustment, enter “0125” here (the system will insert the decimal).</p>  |
| Recalculate payment                     | <p>Check this if the loan payment should be recalculated each time a pending change is processed, <b>even if the rate on the loan is not actually changed</b>. For example, if your loans are tied to the U.S. Treasury rate, you might process updates every month, but there might be occasions when the rate does not change for a particular month. With this setting, the payment is recalculated anyway.</p> <p>If changes should have no effect on the loan’s payment amount (or if using the other <i>Recalculate payment...</i> flag instead), leave the flag unchecked.</p> <p>Be sure to use the <i>Pmt change delay</i> field to specify how soon the payment should be changed after the rate change has occurred. See below for details.</p>   |
| Recalculate payment ONLY IF rate change | <p>Check this flag if the payment should be recalculated, but <b>only if the rate actually changed on the loan account</b>. For example, if your loans are tied to the U.S. Treasury rate, you might process updates every month, but there might be occasions when the rate does not change for a particular month. With this setting, the payment would only be recalculated when a rate change was also put into effect.</p> <p>If changes should have no effect on the loan’s payment amount (or if using the other <i>Recalculate payment...</i> flag instead), leave the flag unchecked.</p> <p>This method prevents the payment from changing on the adjustment date if there wasn’t any change on the loan rate at the same time. The system will still advance to the next change date as usual.</p> <p>Be sure to use the <i>Payment change delay</i> field to specify how soon the payment should be changed after the rate change has occurred. See below for details.</p> |
| Adjustment frequency                    | <p>Enter the number of months between each rate adjustment. Valid entries for this field are 1-12. For example, if this loan’s rate should be adjusted once each quarter, enter “3” here; for annual changes, enter “12.”</p> <p>Remember that in order for notices to be generated prior to the rate change taking effect, this frequency must not be less than the time specified in the <i>Notice</i> field. For example, if you require 45 days notice for a rate change, you can’t change the rate every 30 days!</p>   |
| Payment change delay                    | <p>Enter the number of days the system should wait between the rate change and the actual payment change. If either of the <i>Recalculate payment...</i> boxes are checked, after this delay, the payment change will be calculated and a notice</p>   |

| Field Name               | Description   |
|--------------------------|---|
|                          | <p>generated during beginning-of-day processing. (See Page 38 for the sequence of events surrounding pending changes and notices.)</p> <p>It is typical in the industry to set due dates for mortgage payments during the first week of a month. Rates changes are often scheduled for that same time period. Because these two factors could conflict and cause problems with delinquency monitoring, this delay allows the member time to make that month's payment (at the old amount) or to clear up any delinquency issues before the new payment amount is calculated. By using the payment change delay, you can make sure that all inquiries and communication about the new loan rate are done in a timely manner, while still allowing members a "grace period" to make their payments using the previous month's set payment amount.</p> <p>As a rule, most members make their mortgage payment within five days of its due date to avoid fines or other problems. Therefore, we recommend that this delay be set to between 6 and 10 days.</p> <p>NOTE: Check your governing regulations for the timeframes required for payment change notification. In some cases, the payment change notice must be sent out with at least 25 days notice before the new payment amount is due. See Page 46 for additional details about payment change notices.</p> |
| Rate change notice       | <p>This setting controls when the pending rate change is created and the rate change notices can be printed.</p> <p>For example, if you want to warn members of rate adjustments a month in advance, enter "30" in this field.</p> <p>The system checks the <i>Next Adjustment Date</i> and subtracts the number of days in this field to calculate a notice date. During end-of-day processing on that date, the pending change record is created. Rate change notices explaining the new loan terms in advance of the change are printed the next day.</p> <p>See Page 46 for information on printing pending rate change notices.</p>  |
| Int rate rounding factor | <p>This option is used to require rate changes to be made only in even increments. Choose one of the following (blank is the same as 0).</p> <ul style="list-style-type: none"> <li>0 Do not round</li> <li>2 Round rate up or down 1/2 % (0.5%)</li> <li>4 Round rate up or down 1/4% (0.25%)</li> <li>8 Round rate up or down 1/8% (0.125%)</li> <li>16 Round rate up or down 1/16% (0.0625%)</li> </ul> <p>If the index rate is 6.752%, using a "4" in this field would round the rate down to 6.750%. If the index rate is 7.456%, using "16" in this field would round the rate up to 7.460%.</p> <p><b>BE CAREFUL:</b> If you also are using the <i>Per change maximum</i> feature (also on this screen, described above), this rounding may cause the rate to change <u>more</u> you're your</p>   |

| <i>Field Name</i>        | <i>Description</i>   |
|--------------------------|--|
|                          | maximum. In general, if you want to use rounding, you should not be using the per-change max feature.  |
| Notice index description | <p>Enter the description that should appear after the statement “<i>The Index Values shown above are based on</i>” on the rate change notice. Because this notice will be sent to members, be as descriptive as possible.</p> <p>For example, if this loan’s rate is controlled by adding a premium to the value of Prime, a description such as “PRIME AS PUBLISHED IN WALL STREET JOURNAL + 2%” would be appropriate.</p> <p>HINT: After the pending change record is created, but <u>before</u> rate change notices are printed, you may adjust this description on the pending change record itself. See Page 38 for details.</p> <p>See Page 46 for details about printing rate change notices.</p> |

### **Buttons**

| <i>Button</i>         | <i>Description</i>   |
|-----------------------|--|
| Suspend (F4)          | Use this to suspend the contract data for this variable rate loan account, including pending changes. No changes will take effect on this account until you return to this screen and use Enter to reactivate. |
| Pending Changes (F13) | Use this to display a screen showing loan rate adjustments which are pending for this account. The screen shown on Page 38 will appear.  |
| Delete (F16)          | Use this to delete the contract data for this variable rate loan account, including pending changes. A confirmation window will appear.  |
| History (F17)         | Use this to display a screen showing a history of changes made to the rate on this loan account. The screen shown on Page 43 will appear.  |

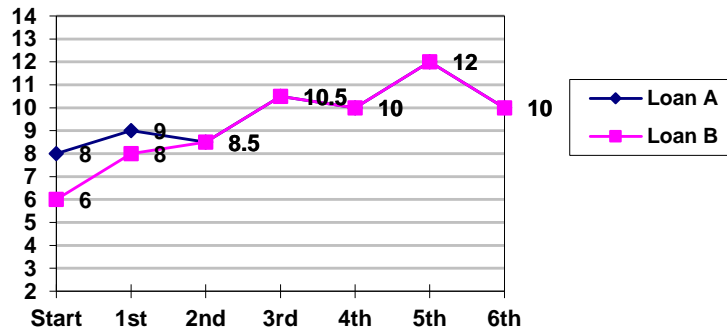
## CHOOSING A RATE CHANGE BASIS: RATE OR INCREMENT

As described above, the rate changes on each loan contract can be calculated using either the rate that is on the variable code, or the incremental change from the previous rate. The impact of this setting is seen more easily in the performance of the loan portfolio as a whole, rather than one loan at a time.

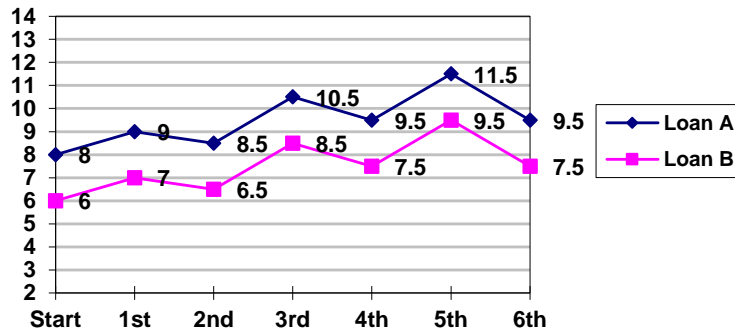
The following diagrams illustrate the difference over time to two contract loans. Loan A was created with a rate of 8.00%. Loan B was created with a starting rate of 6.00%. Both have a 2% per change maximum and 6% life maximum change. Following are six changes that are made to the variable rate code over its life:

|                          | <i>Incremental Change</i> | <i>New Rate</i> |
|--------------------------|---------------------------|-----------------|
| Starting Rate on VR Code |                           | 8.00%           |
| 1st Change               | + 1.00%                   | 9.00%           |
| 2nd Change               | - 0.50%                   | 8.50%           |
| 3rd Change               | + 2.50%                   | 11.00%          |
| 4th Change               | - 1.00%                   | 10.00%          |
| 5th Change               | + 3.00%                   | 13.00%          |
| 6th Change               | - 2.50%                   | 10.50%          |

### Change Based On "V" VR Code Rate



### Change Based On "I" VR Code Incremental Change



## MANAGING PENDING RATE CHANGES

Session 2 CU\*BASE GOLD - HEARTLAND CREDIT UNION  
File Edit Tools Help

### Variable Rate Loan Contract - Pending Changes UPDATE

Loan account # 730 LLOYD

Loan category 20 SECOND MTG  
Variable rate code 067  
Status of this change  Active  Suspended

#### Scheduled Change Information

Date change was scheduled Nov 27, 2012  
Rate as of scheduled date 2.250 Based on VR code rate of 2.250  
Based on index rate of 3.250  Recalculate payment based on any change  
Balance as of scheduled date 9,991.79  Recalculate payment based on rate change  
Index description 2ND MORTGAGE VARIABLE PRIME

#### Updated Information

Effective interest rate date Sep 30, 2009 [MMDDYYYY]  
Effective payment change date Oct 01, 2009 [MMDDYYYY]  
New interest rate will be 2.250  
Based on index rate of 3.250 Based on VR code rate of 2.250  
Estimated new payment 214.32 Due on Sep 30, 2009 [MMDDYYYY]  
Next adjustment date Dec 30, 2009 [MMDDYYYY]  
Remaining rate adjustment 997

Delete  
History  
Update

HT (4939) 10/10/13

This screen appears when you use “Pending Changes” (F13) on the Variable Rate Loan Contract Info screen (shown on Page 30).

This screen displays the details for a rate change that is pending for this loan account. This screen will be available only if a pending change has been generated, based on the *Next Adjustment* date and *Rate Change Notice* days on the original loan record (see Page 30).

### How Pending Changes are Processed

- ◆ In the morning during beginning-of-day processing, the system processes any rate changes that have been scheduled for all your variable rate codes. Therefore, if you had scheduled a change to happen on the 15th, during BOD on the 15th the rate change would take effect for the variable rate code. For Contract variable rates, at this point the change would affect only new loans that are created during that day.
- ◆ At night during end-of-day processing, the system creates any pending change records that are due as of that date. Therefore, if a loan had a next adjustment date of May 1 and a 30-day rate change notice, the pending change record would be created during EOD on April 1. **These records are static—they will not change even if the rate on the variable rate code is changed.**
- ◆ The next morning, the credit union would review the “Pending Rate Change Register” report (PPENDC) to see all of the pending change records that were created the previous night. If necessary, manual changes could be made to the pending change record. Note that an asterisk will appear to the right of all rate changes that are either below the floor or above the ceiling.

If pending change records have already been created, but the rate on the variable rate code itself hasn't changed yet (such as if the rate change was not scheduled ahead of time), delete the pending change records, then change the rate on the VR Code with an effective date of today (using Enter so that the change happens immediately). That evening, during EOD processing, the system would regenerate all pending change records using the correct rate.

- ◆ After all needed changes are made to the pending change records, the rate change notices should be laser-printed (notices will incorporate any changes made). See Page 46 for details on printing the actual notices. **NOTE: This is not an automated process; you must use the tool to prompt the notices to print when ready.**
- ◆ Later, during end-of-day processing on the *Effective Interest Rate Date*, the system would implement the change on the loan record.
- ◆ After the number of days specified as the *Payment Change Delay*, during beginning-of-day the system would recalculate the loan payment and print a notice of the new payment amount.

**IMPORTANT:** Remember that after pending change records have been created, changing the variable rate code will not affect the rate used for the change. Either delete the pending change record so it will be recreated with the correct rate, or modify the pending record manually to record the rate that should be used. (Be very careful in your computations—an incorrect change will be difficult to explain later!)

**NOTE:** CU\*BASE does record any changes made to this screen (as well as the screen shown on Page **Error! Reference source not found.****Error! Bookmark not defined.**) to the file maintenance log (CUFMNT) for future reference if needed.

### Field Descriptions

| Field Name   | Description  |
|--|--|
| Status of this change  | This flag is used to mark whether or not a pending change should actually be put into effect on the loan account. Use <i>Active</i> (A) for a change that should take place as planned. If you use <i>Suspended</i> (S), the pending change record will remain outstanding until this flag is returned to <i>Active</i> , then during EOD the change would be implemented. |
| <b>Info As of Scheduled Change</b>   |  |
| This section shows a “snapshot” of what the loan account looked like when the pending change record was created. |  |
| Date change was scheduled  | This is the date on which this pending change record was created.  |
| Rate as of scheduled date  | This shows the rate that was in place on the loan account on the date the pending change record was created.   |
| Based on Index Rate of   | This shows the <i>Current Index Rate</i> from the main contract information screen (see Page 30) for this loan account, as of  |

| <i>Field Name</i>                        | <i>Description</i>   |
|--|--|
|  | <p>the date the pending change record was created. In essence, the current rate on this loan was based on this index rate.</p> <p>The rate shown here will usually be the same as in the bottom section of the screen; however, the bottom section can be changed if necessary. See below for details.</p>   |
| Based on VR code rate of                 | <p>This shows the <i>Variable Rate Code Rate</i> from the main contract information screen (see Page 30) for this loan account, as of the date the pending change record was created. In essence, the current rate on this loan was based on this variable rate code rate.</p> <p>The rate shown here will usually be the same as in the bottom section of the screen; however, the bottom section can be changed if necessary. See below for details.</p>   |
| Balance as of scheduled date             | <p>This shows the loan account balance as of the date when the pending change record was created.</p>  |
| Recalculate payment based on any change  | <p>This shows the setting from the main contract information screen (see Page 30) as to whether or not a new payment will be calculated when this change is implemented. This setting can be adjusted for this rate change cycle.</p> <p>Check this if the loan payment should be recalculated each time a pending change is processed, <b>even if the rate on the loan is not actually changed</b>. For example, if your loans are tied to the U.S. Treasury rate, you might process updates every month, but there might be occasions when the rate does not change for a particular month. With this setting, the payment is recalculated anyway.</p> <p>If changes should have no effect on the loan's payment amount (or if using the other <i>Recalculate payment...</i> flag instead), leave the flag unchecked.</p> <p>Be sure to use the <i>Payment change delay</i> field to specify how soon the payment should be changed after the rate change has occurred. See below for details.</p>   |
| Recalculate payment based on rate change | <p>This shows the setting from the main contract information screen (see Page 30) as to whether or not a new payment will be calculated when this change is implemented. This setting can be adjusted for this rate change cycle.</p> <p>Check this flag if the payment should be recalculated, but <b>only if the rate actually changed on the loan account</b>. For example, if your loans are tied to the U.S. Treasury rate, you might process updates every month, but there might be occasions when the rate does not change for a particular month. With this setting, the payment would only be recalculated when a rate change was also put into effect.</p> <p>If changes should have no effect on the loan's payment amount (or if using the other <i>Recalculate payment...</i> flag instead), leave the flag unchecked.</p> <p>This method prevents the payment from changing on the adjustment date if there wasn't any change on the loan rate at the same time. The system will still advance to the next change date as usual.</p> <p>Be sure to use the <i>Payment change delay</i> field to specify how soon the payment should be changed after the rate change has occurred. See below for details.</p> |



| <i>Field Name</i>  | <i>Description</i>  |
|--|---|
| Index description  | <p>This shows the description that will be printed on the rate change notices to explain how the new rate was calculated. This was taken from the main contract information screen (see Page 30) and can be changed here before printing rate change notices. (To avoid confusion, it is recommended that you not change this after notices have been printed.)</p> <p>HINT: If you wish to make this description relate more specifically to this rate change, you could edit the description to add a reference date, such as “PRIME PUBLISHED IN WALL STREET JOURNAL 5/1/xx” but remember to do the edit <u>before</u> printing notices. See Page 46 for details about printing rate change notices.</p> |
| <p><b>Information to be Updated</b></p> <p>This section shows what will happen to the loan account when the rate change is actually put into effect. This information is also used when printing the rate change notice (see Page 46).</p> |   |
| Effective interest rate date   | <p>This is the date on which the interest rate change will actually take place on the loan account. This should be the same as the <i>Next Adjustment Date</i> from the main contract information screen (see Page 30), but can be modified if needed.</p>  |
| Effective payment change date  | <p>This is the date on which the payment change will be recalculated and a payment change notice mailed to the member, if <i>Recalculate Payment</i> is checked on this pending change record.</p> <p>This date is determined by taking the <i>Effective Int Rate Date</i> and adding the number of days in the <i>Pmt Change Delay</i> field.</p>  |
| New interest rate will be  | <p>This shows the new rate that will be applied to the loan as of the <i>Effective interest rate date</i>. This is calculated using the parameters set up on the main contract information screen, using the variable rate code as a basis.</p>   |
| Based on Index Rate of   | <p>This shows the rate on the index code attached to this loan’s variable rate code (if any). This is taken from the index code at the time the pending change record was created.</p> <p>Remember that any rate changes applied to the index code <u>after</u> this pending change record was created would not appear here. If a rate change is made after this pending change record has been created, you may enter the new amount into this field manually (don’t forget to change the <i>New interest rate will be</i> and <i>Based on VR Code rate of</i> fields too), or the change record can be deleted and it will be recreated with the correct rate during EOD.</p>                            |
| Based on VR code rate of   | <p>This shows the rate on the variable rate code attached to this loan. This is taken from the variable rate code at the time the pending change record was created.</p>  |

| <i>Field Name</i>         | <i>Description</i>   |
|---------------------------|--|
|                           | Remember that any rate changes applied to the variable rate code <u>after</u> this pending change record was created would not appear here. If a rate change is made after this pending change record has been created, you may enter the new amount into this field manually (don't forget to change the <i>New interest rate will be</i> and <i>Based on VR Code rate of</i> fields too), or the change record can be deleted and it will be recreated with the correct rate during EOD. |
| Estimated new payment     | This shows an estimated calculation of what the new payment will be as of the <i>Effective Payment Change Date</i> . Because the member may make additional payments before that date, the <u>actual</u> new payment will be recalculated at that time and a notice generated for the member. This estimated payment amount will appear on the rate change notice, described on Page 46.   |
| Due on                    | This shows the first date that the new payment amount will be due (after the payment change is implemented).   |
| Next adjustment date      | This shows the date when the next payment change will occur. This date will be placed on the main contract information screen once this change is implemented.   |
| Remaining rate adjustment | This shows the number of rate adjustments that will be left after this change. This will be moved to the main contract information screen once this change has been implemented.   |

### **Buttons**

| <i>Buttons</i> | <i>Description</i>  |
|----------------|---|
| Delete (F16)   | Use this to delete the entire pending change record for this loan. During EOD processing that night, the system will generate a new pending change record (assuming one is still needed based on the settings on the main contract information screen).<br><br>HINT: This is a good way to regenerate a pending change ( <u>before</u> rate change notices are mailed, of course), if the rate on the index and/or variable rate code was changed and you wish this pending change to reflect that new rate in its calculation. |
| History (F17)  | Use this to display a screen showing the history of all changes made to this variable rate loan. See the screen on Page 43.   |

## VIEWING RATE CHANGE HISTORY

| Rate History   |              |                       |         |       |         |
|----------------|--------------|-----------------------|---------|-------|---------|
| Rate change    | Jun 30, 2009 | Remaining adjustments | 998     | Index | 3.250 % |
| Payment change | Jul 01, 2009 | VR code rate          | 4.750 % | Rate  | 4.750 % |
| Balance        | 39,996.95    | Payment               | 591.63  |       |         |

*This screen appears when you use “History” (F17) on either the Variable Rate Loan Contract Info screen (shown on Page 30) or the Pending Change screen (shown on Page 38).*

This screen displays a history of changes made to this variable rate loan. Notice how the number of remaining adjustments increments down at each change.

When done viewing history, use the backup arrow (F3) to return to the previous screen, or the up arrow (F7) to exit.

## RATE CHANGE REPORTS

There are three daily system reports that are related to contract variable rate loans. The first is produced when the rate change records are created, to show the changes coming up. **This report should be reviewed each day, before rate change notices are printed.** The second report is produced when rate changes are actually put in place on the member loans, to show the new rates in place and *estimated* new payments. In addition, if the rate change results in the calculation of a new payment, the third report will show the *actual* new payment amounts and due date after the payment changes are calculated.

### Pending Rate Change Register (PPENDC)

This report shows pending change records that were just created, showing changes that will be made in the future. Rate Change notices are printed from these records, so be sure to review this report and make any needed corrections to the pending change records before printing rate change notices.

| 4/12/99 14:09:59 |                  | DEMONSTRATION CREDIT UNION<br>VARIABLE CONTRACT RATE LOANS - PENDING RATE CHANGE REGISTER |                       |            |          |            | PPENDC        | PAGE 1 |
|------------------|------------------|---|-----------------------|------------|----------|------------|---------------|--------|
| ACCOUNT NO       | CHANGE SCHEDULED | OLD RATE  | -- EFFECTIVE DATES -- |            | NEW RATE | NEXT ADJ   | REMAINING ADJ |        |
|                  |                  |   | INT RATE              | PMT CHNG   |          |            |               |        |
| 1377-510         | 4/12/1999        | 10.500  | 05/07/1999            | 05/12/1999 | 10.750   | 11/07/1999 | 39            |        |
| 4223-570         | 4/12/1999        | 6.750   | 05/07/1999            | 05/12/1999 | 8.750    | 05/07/2000 | 10            |        |
| 5922-510         | 4/12/1999        | 10.000  | 05/07/1999            | 05/12/1999 | 10.025   | 11/07/1999 | 39            |        |
| 7438-510         | 4/12/1999        | 10.000  | 05/27/1999            | 06/01/1999 | 10.000   | 05/27/2000 | 8             |        |

### Applied Pending Rate Change Register (PPENDU)

This report shows rate changes that have been put into effect on member accounts.

| 5/07/99 16:08:21 |             | DEMONSTRATION CREDIT UNION<br>VARIABLE CONTRACT RATE LOANS - APPLIED PENDING RATE CHANGE REGISTER |                   |         |            |                   | PPENDU    | PAGE 1              |
|------------------|-------------|---|-------------------|---------|------------|-------------------|-----------|---------------------|
| ACCOUNT NO       | -- RATES -- |   | -- NEW PAYMENT -- |         |            | -- ADJUSTMENTS -- |           | RECALC PAYMENT = NO |
|                  | OLD         | NEW   | EFF CHNG          | EST AMT | DUE        | NEXT              | REMAINING |                     |
| 1377-510         | 10.500      | 10.750  | 05/12/1999        | 302.28  | 06/06/1999 | 11/07/1999        | 39        |                     |
| 4223-570         | 6.750       | 8.750   | 05/12/1999        | 245.98  | 06/06/1999 | 05/07/2000        | 10        |                     |
| 4572-570         | 8.125       | 7.250   | 05/25/1999        | 700.04  | 06/30/1999 | 05/01/2000        | 21        |                     |
| 5512-570         | 8.125       | 7.250   | 05/15/1999        | 553.64  | 05/31/1999 | 05/01/2000        | 11        |                     |
| 5572-510         | 10.000      | 10.000  | 05/12/1999        | 668.78  | 06/25/1999 | 04/20/2000        | 8         | RECALC PAYMENT = NO |
| 5922-510         | 10.000      | 10.025  | 05/12/1999        | 250.01  | 06/06/1999 | 11/07/1999        | 39        |                     |
| 9974-510         | 10.000      | 10.000  | 05/11/1999        | 95.61   | 06/11/1999 | 00/00/0000        |           | RECALC PAYMENT = NO |

This indicates that the scheduled payment will not be recalculated for this loan. The payment for all others will be recalculated.

## Applied Payment Change Report (PPENDU1)

This report shows the payment changes that were put into effect on member loans. The report corresponds to the payment change notices that are generated after the payment change delay period specified on the rate change record has passed.

|  |                |                            |                           |                         |         |        |
|--|----------------|----------------------------|---------------------------|-------------------------|---------|--------|
| 5/12/99  | 16:08:21       | DEMONSTRATION CREDIT UNION |                           |                         | PPENDU1 | PAGE 1 |
| VARIABLE CONTRACT RATE LOANS - APPLIED PAYMENT CHANGE REGISTER |                |                            |                           |                         |         |        |
| <u>ACCOUNT NO</u>  | <u>BALANCE</u> | - - - - -<br><u>OLD</u>    | NEW PAYMENT<br><u>NEW</u> | - - - - -<br><u>DUE</u> |         |        |
| 1377-510   | 148,394.78     | 299.70                     | 301.38                    | 6/06/1999               |         |        |
| 4223-570   | 133,378.08     | 230.28                     | 203.44                    | 6/06/1999               |         |        |
| 5922-510   | 139,972.65     | 249.34                     | 250.00                    | 6/06/1999               |         |        |

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# PRINTING NOTICES FOR CONTRACT VARIABLE RATE CHANGES

## RATE CHANGE NOTICES

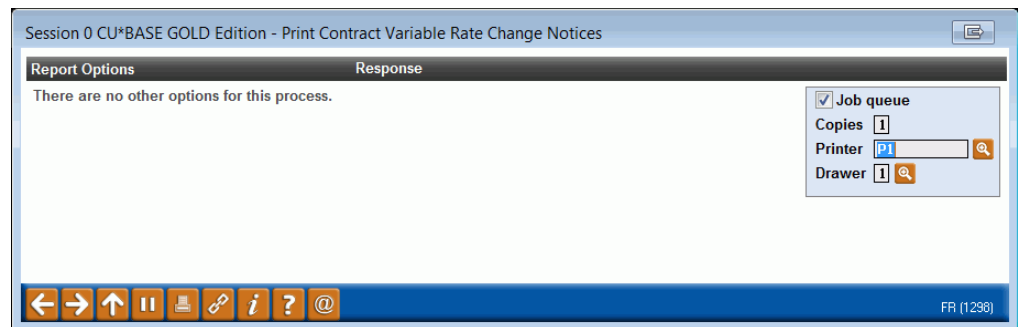
The contract variable rate change notice is a laser-only form which is printed using a different system than the normal CU\*BASE notices. Each day when you print these notices, the system simply looks at any new pending change records that were generated the night before, and creates a notice using the data from the pending change record (described in detail starting on Page 38). There is no actual “notice file” waiting to be printed as with other CU\*BASE notices.

What this means is that before these notices are printed, you may make adjustments to the settings on the pending change record, and the notices will incorporate those changes when they are printed.

**It is important that this process is done once each day, after the “Pending Rate Change Register” report is reviewed and any needed changes are made to the new pending change records.**

- **IMPORTANT NOTE:** If the notice is not printed, then the pending rate change will remain in the ARLPEN table (file) and the rate will not be moved from this pending file to be applied to the member loan.

### **Print Contract Variable Rate Notices (Tool #638)**



This screen lets you select a laser printer and paper tray. See Page 47 for a sample of the laser-printed notice.

*NOTE: Notices cannot be reprinted once they have been printed for the day. If necessary, you could delete the pending change record itself (see Page 38) so that the record will be recreated overnight and the notice can be printed again tomorrow.*

# SAMPLE CONTRACT VARIABLE RATE CHANGE NOTICE

CREDIT UNION  
UTH STREET  
MI 49201  
90

Notice Date: 3/22/14

## Changes to Your Mortgage Interest Rate and Payments on 6/05/14

### Member Name and Address

JOHN A MEMBER  
1300 ANY STREET  
GRAND RAPIDS, MI 49546

### Account Information

Account Number: -730

The interest rate on your adjustable rate mortgage will be changing as indicated below. This rate may change annually for the remaining term of your loan. Please take a moment to review and if you have any questions, contact your credit union's mortgage loan department.

|                       | Current Rate and Monthly Payment | New Rate and Monthly Payment |
|-----------------------|----------------------------------|------------------------------|
| Interest Rate         | 5.000%                           | 5.000%                       |
| Total Monthly Payment | 534.62                           | 528.88<br>(Due July 5, 2014) |

This is taken from the *Index Description* field on the pending change record (see Page 38).

**Interest Rate:** We calculated your interest rate by taking a published "index rate" and adding a certain number of percentage points, called the "margin." Under your loan agreement, your index rate is the 1 YEAR T BILL, and your margin is 3.250%.

The current index rate can be found in the publication listed on the original mortgage note and disclosure.

**Rate Limits:** Your rate cannot go higher than 12.000% over the life of your loan. Your rate can change each year by no more than 2.000%.

**New Interest Rate and Monthly Payment:** The table above shows your new interest rate and new monthly payment. Your new payment is based on the 1 YEAR T BILL, the margin, your loan balance of \$41,333.55, and your remaining term of 95 months.

This section will be replaced with the following statement when *Recalculate Payment* is set to "N" on the pending change record (see Page 38):

**Prepayment Penalty:** None.

The adjustment to your interest rate WILL result in a corresponding adjustment to your payment.

"The adjustment to your interest rate WILL NOT result in a corresponding adjustment to your payment."

Refer to next page for how balance at time of adjustment, payment amount and remaining term are calculated. This is all in the New Interest Rate and Monthly Payment section. This impacts how the new monthly payment is

calculated. CU\*BASE re-amortizes the loan using the remaining term, payment amount, and interest rate, then display the balance from the amortization table, showing what the principal balance would be if the member made all the scheduled payments up until the interest rate change date. (Even if the member is actually past due or paid ahead.) This new balance will also be used to recalculate the payment for the “New payment amount” field on the notice. A change notice will still be generated at the time the rate changes.

- NOTE: The payment predicted on the notice may be different than the payment on the notice shown on the previous page. This may be due to the fact that the member paid ahead or is delinquent during the time between when the notice is sent and the payment is recalculated.

## PAYMENT CHANGE NOTICES

If a loan contract is set up to recalculate the loan payment after a rate change is put into place, the system will automatically calculate the new loan payment on the specified date and generate a payment change notice.

This notice, unlike the rate change notice described above, is processed through the normal CU\*BASE Member Notices system and can be printed along with other payment change notices for your line of credit loans. **It does, however, use a separate notice event: CVRPMT.** This is so you can use special verbiage that can be more descriptive than the generic text used on payment changes for other types of loans.

*See the “Member Notices: Configuring and Printing CU-Defined Laser Notices” booklet for more information about adjusting the text on the CVRPMT notice event and tying that event to one of your notice forms.*



# REPORTS

## LOAN VARIABLE RATE CONFIGURATION REPORT

This report is used to view the configuration of all of your variable rate codes, as well as to verify that upcoming rate changes have been scheduled according to your wishes. This report should be run every time a rate change is scheduled, whether through a change to an Index Code or a manual change to an individual Variable Rate Code.

### Print Loan Variable Rate Config Report (Tool #660)

Enter the month and year for which the configuration settings should be shown, and use Enter to generate the report.

### Report Sample

| 1/07/09 16:01:10                 |          | AFFINITY GROUP CREDIT UNION |         |           |           |            |          |           |           |            |          | LSYSLN                  | PAGE   |       |         |
|----------------------------------|----------|-----------------------------|---------|-----------|-----------|------------|----------|-----------|-----------|------------|----------|-------------------------|--------|-------|---------|
| LOAN VARIABLE RATE CONFIGURATION |          |                             |         |           |           |            |          |           |           |            |          | USER                    | ALYCIA |       |         |
| -----C U R R E N T-----          |          |                             |         |           |           |            |          |           |           |            |          | -----P E N D I N G----- |        |       |         |
| VARIABLE RATE CODE               | VAR RATE | INDEX                       | UPDATE  | CURR RATE | LAST INCR | EFF CHANGE | EFF DATE | PEND RATE | PEND INCR | EFF CHANGE | EFF DATE | RECALC                  | PRINT  | FLOOR | CEILING |
| 016 HE 90% TEST EDIT             | GROUP    | 100                         | BY LOAN | 6.000     | 1.750     | -          | 4/14/08  | 6.001     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 017 TEST EDIT                    | GROUP    | 100                         | BY LOAN | 3.000     | 0.000     |            | 1/05/09  |           |           |            |          |                         |        |       |         |
| 018 HE 90% NO AFT +3.25          | GROUP    | 100                         | BY LOAN | 6.250     | 1.750     | -          | 4/14/08  | 6.251     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 019 HE90-100% NOAFT+3.75         | GROUP    | 100                         | BY LOAN | 6.750     | 1.750     | -          | 4/14/08  | 6.751     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 021 HE 90% +2.50                 | GROUP    | 100                         | BY LOAN | 5.500     | 1.750     | -          | 4/14/08  | 5.501     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 022 HE 90% +2.75                 | GROUP    | 100                         | BY LOAN | 5.750     | 1.750     | -          | 4/14/08  | 5.751     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 023 HE 90 +4.25                  | GROUP    | 100                         | BY LOAN | 7.250     | 1.750     | -          | 4/14/08  | 7.251     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 024 HE 90% +6.25                 | GROUP    | 100                         | BY LOAN | 9.250     | 1.750     | -          | 4/14/08  | 9.251     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 025 HE 90% +8.25                 | GROUP    | 100                         | BY LOAN | 11.250    | 1.750     | -          | 4/14/08  | 11.251    | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 026 HE 90-100% +3.00             | GROUP    | 100                         | BY LOAN | 6.000     | 1.750     | -          | 4/14/08  | 6.001     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 027 HE 90-100% +3.25             | GROUP    | 100                         | BY LOAN | 6.250     | 1.750     | -          | 4/14/08  | 6.251     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 028 HE 90-100% +4.75             | GROUP    | 100                         | BY LOAN | 7.750     | 1.750     | -          | 4/14/08  | 7.751     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |
| 029 HE 90-100% +6.75             | GROUP    | 100                         | BY LOAN | 9.750     | 1.750     | -          | 4/14/08  | 9.751     | 0.001     | +          | 1/05/09  | N                       | N      |       |         |

- An asterisk will appear to the right of any pending rate change that is lower than the floor or higher than the ceiling set for that variable rate.

# MINI-CONTRACT VARIABLE RATE LOAN REPORT

## Mini-Contract Variable Rate Loans Report (Tool #531)

This screen lets you print a listing of the loan accounts that have been coded with a Group variable rate code that has the “Update by Loan Terms (Mini-Contract)” setting. This report is helpful for keeping track of the rate changes occurring with your mini-contract variable rate loans.

### Field Descriptions

| <i>Field Name</i>                         | <i>Description</i>  |
|---|---|
| Month/year to process                     | Enter the month and year for which data should be shown. This can be the current month or the previous month. (If it is past the 15 <sup>th</sup> of the month, it may be necessary to contact a CU*BASE representative to load a tape so that you can print data as of a previous month-end. There is a nominal charge if this service is required.) |
| Print all member accounts sorted by       | Choose a sort order for the accounts listed on the report, either by Account number, Loan category, Rate, or the Date the first rate change will be allowed on the account (the end of its introductory period, if any).  |
| Include only loans with first change date | Use these fields if you wish to include only loans that will have their first rate change within a certain period of time. This might be helpful if you had a special promotion and want to see a list of loans that will be reaching the end of that promotional period.   |
| Include only loans with 0.00% rate caps   | Check this box to get a list of loans that were not set up properly with rate change caps. Since caps are critical for managing the rate changes, make sure to update any loans that appear this way on the report using Misc. Loan Maintenance (see Page 28).  |

## Report Sample

| 11/07/06 13:44:59 |                  | CU*ANSWERS TEST CREDIT UNION<br>MINI-CONTRACT VARIABLE RATE LOAN SETTINGS<br>BY MEMBER |                |                |              |               |              |                  | LMEMLNMCT        | PAGE 1<br>USER DAWNM |  |
|-------------------|------------------|--|----------------|----------------|--------------|---------------|--------------|------------------|------------------|----------------------|--|
| ACCOUNT NUMBER    | MEMBER NAME      | LOAN VAR CATG CODE   | EFFECTIVE DATE | FIRST CHG DATE | CURRENT RATE | ORIGINAL RATE | JANUARY RATE | PER MAX/MIN      | ANNUAL MAX/MIN   | LIFETIME MAX/MIN     |  |
| 29479-770         | DAWN A NEWMEMBER | 23 005   | 11/06/2006     | 1/01/2007      | 5.950%       | 5.950%        | 5.950%       | 1.000%<br>2.000% | 2.000%<br>2.000% | 6.000%<br>2.000%     |  |
| 99837-770         | TEST A PERSON    | 23 005   | 10/15/2006     | 1/01/2007      | 5.850%       | 5.850%        | 5.850%       | 1.000%<br>2.000% | 2.000%<br>2.000% | 4.000%<br>2.000%     |  |