Variable Payments

The Variable Payments selection allows the credit union to profile up to 99 different payment types. This is used by credit unions using the indexed variable payment loan features. It also gives the ability to control whether or not a payment change notice is required.

The Indexed Variable Payment allows the flexibility of payment changes after the last Scheduled Payment Date for each loan. The system calculates the new payment based on the "Method" selection with End of Day processing on the current payment date and if notices are indicated to be printed, they will be created and ready to print the following morning. **The payment amount is changed based on the day portion of the "First Payment Date - Original" field of the loan not at Monthend.**

IMPORTANT:	In order to use the Indexed Variable Payment option, the "Payment Frequency" on the loans must be <u>Monthly</u>. The First Payment Date must be at least **1 Month** beyond the Issue Date of the loan.

**Note: The system will only calculate the new payment amounts and generate the notices to be printed if this screen is setup prior to processing End of Day.

For loans coded with an Indexed Variable Payment and that have a Balloon Date, when the loan reaches the Balloon Date the system will no longer automatically calculate a new payment amount using the Indexed Variable Payment calculation.

System Settings - Variable Payments
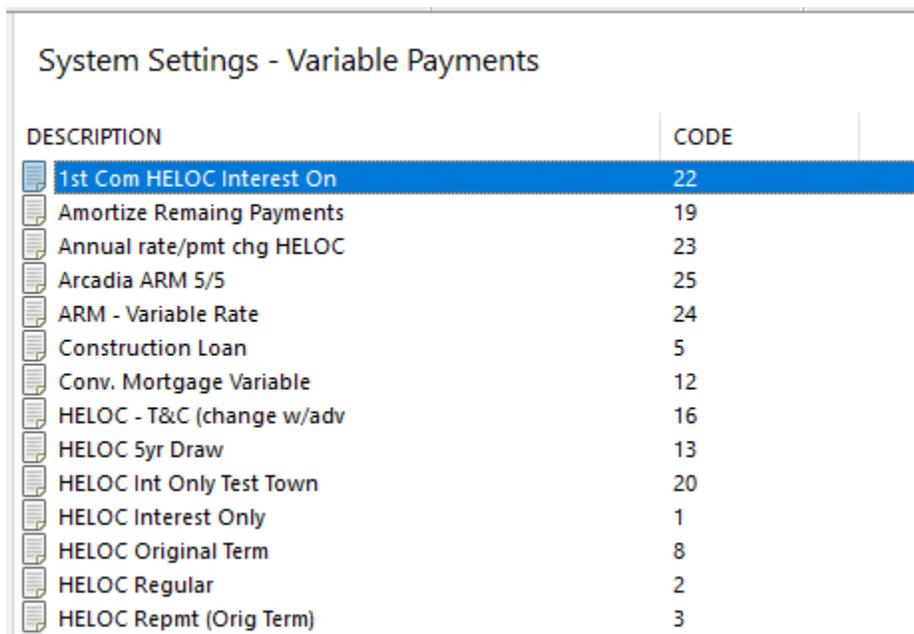
DESCRIPTION	CODE
1st Com HELOC Interest On	22
Amortize Remaing Payments	19
Annual rate/pmt chg HELOC	23
Arcadia ARM 5/5	25
ARM - Variable Rate	24
Construction Loan	5
Conv. Mortgage Variable	12
HELOC - T&C (change w/adv	16
HELOC 5yr Draw	13
HELOC Int Only Test Town	20
HELOC Interest Only	1
HELOC Original Term	8
HELOC Regular	2
HELOC Repmt (Orig Term)	3

Figure 1

This window can be used to edit options on an existing indexed variable payment, to set up a new indexed variable payment or to delete an indexed variable payment from the system.

Add Variable Payment

To add a new variable payment, click on the Add icon on the ribbon.

Figure 2

Description

Definition: Used to identify the Variable Payment type. Maximum spaces allowed are 25.

Value: Credit Union defined.

Method

Definition: Used to select the method to be used when calculating the new payment amount. ****Note:** Payment notices for all of these methods are generated the night of the payment date and can be printed the next business day. (See the "Payment Notice" option on page 5.)

Value: **Percentage of Balance** - The new payment amount is calculated based on the % in the Percentage field and the outstanding balance on the loan.

                 Interest Only - The new payment amount is computed to be one month of interest due based on the outstanding balance and the interest rate on the loan suffix.

                 Example: 7-11-05 to 8-11-05 = 31 days.
                 With End of Day processing on 7-11-05, the system computes the payment amount for 8-11-05 to be the expected interest due for this

period of time. If a payment is made on 8-11-05 for the interest due amount, it would all be applied as interest. If a payment for the interest due amount is made 2 days early, 29 days would be applied as interest and 2 days as principal.

Amortize Over Remaining Term ☆ - The new payment amount is calculated based on the outstanding balance and the interest rate on the loan suffix so that the loan will be paid off within the original term of the loan.

When the **"Amortize over Remaining Term"** Variable Payment option is used, the remaining term is computed as follows:

For Loans with a MATURITY DATE:
- Remaining Term = Months between Re-amortization Date and Maturity Date

For loans WITHOUT a MATURITY DATE:
- Completed Term = Months between Original FPD and Re-amortization Date
- Remaining Term = Number of Payments minus Completed Term

At least ONE OF THESE is required in order to compute the Remaining Term:
- Maturity Date
- Number of Payments

Amortize Over Original Term ☆ - The new payment amount is calculated based on the outstanding balance and the interest rate on the loan suffix so that the loan will be paid off based on a time period equal to the term of the loan. This will extend the payback period for the loan.

☆ There must be a term on the loan in order to use these method options. Also, for Variable Payment - Balloon Loans, it is not possible to use the methods of "Amortize Over Original Terms" or "Amortize Over Remaining Payments", since the system needs the original term to calculate an amortized payment type and this is not available. The system uses the balance, interest rate and the number of payments/remaining payments and that is based on the balloon date not the term the payment was calculated on.

Payment Schedule - This allows the credit union to setup specific loans with a payment schedule with payment amounts that vary depending on the time of the year, rather than one fixed monthly payment amount. **IMPORTANT:** Do not file maintain the "Payment Amount" field on loan suffixes with a Payment Schedule setup.

Additional Information: By selecting the **"Payment Schedule"** method, 12 new data fields will be activated on the Loan Suffix Inquiry windows for loans coded with the specific Variable Payment Type. The credit union's staff can file maintain the payment amounts on each loan suffix, as applicable. In the example below, for December thru March the payment amount would be $300.00, for April thru June the payment amount would be $193.54, for July thru August the payment amount would be $205.06 and

September thru November the payment would be $90.00. This schedule would start all over again in December and on to January. This feature does not allow for a zero payment amount to be scheduled for specific month or time period.

Note: Changes can be made to the payment amounts scheduled anytime during the term of the loan, as long as the changes are made <u>before</u> the previous month due date for the next month. This is based on the date portion of the "First Payment Date - Original" field on the Loan Suffix.

Description	Value
⊠ MICHAEL S MURPHY	✕
Participation Lender	(none)
Participation Rate	(none)
Payment Amount	$90.00
Payment Amount Scheduled - January	$300.00
Payment Amount Scheduled - February	$300.00
Payment Amount Scheduled - March	$300.00
Payment Amount Scheduled - April	$193.54
Payment Amount Scheduled - May	$193.54
Payment Amount Scheduled - June	$193.54
Payment Amount Scheduled - July	$205.06
Payment Amount Scheduled - August	$205.06
Payment Amount Scheduled - September	$90.00
Payment Amount Scheduled - October	$90.00
Payment Amount Scheduled - November	$90.00
Payment Amount Scheduled - December	$300.00
Payment Frequency	Monthly
Payment Notice	Do not Send
Payment Type	Principal And Interest

Figure 3

Note: If a loan is setup with a Payment Schedule and any of the twelve "Payment Amount Scheduled" fields on the Loan Suffix Inquiry is left blank, the words "No Change" will be displayed in the field(s). This means that the Payment Amount is the same as the amount in the Payment Amount field (which will be the same as the previous month). See example below.

Description	Value
Participation Lender	(none)
Participation Rate	(none)
Payment Amount	$400.00
Payment Amount Scheduled - January	$253.98
Payment Amount Scheduled - February	No Change
Payment Amount Scheduled - March	No Change
Payment Amount Scheduled - April	No Change
Payment Amount Scheduled - May	$300.00
Payment Amount Scheduled - June	No Change
Payment Amount Scheduled - July	$400.00
Payment Amount Scheduled - August	No Change
Payment Amount Scheduled - September	No Change
Payment Amount Scheduled - October	$78.00
Payment Amount Scheduled - November	No Change
Payment Amount Scheduled - December	No Change
Payment Frequency	Monthly
Payment Notice	Do not Send
Payment Type	Principal And Interest

Figure 4

Percentage

Definition: The percentage to be used to calculate the new payment amount when "Percent of Balance" is selected as the payment calculation "Method".

Value: Credit Union defined.

Payment Minimum

Definition: If applicable, enter the amount of the minimum payment required for the type of loan.

Value: Credit Union defined.

Payment Notice

Definition: Indicates if monthly notices will be created for printing. If monthly payment notices are desired, this option must be set to "Print Notice" or "Payment Change Only".

Value: **Print Notice -** Prints notices every month, even if the payment does not change.

Payment Change Only - Prints notices only when the payment changes.

Do Not Print Notice - Never prints a payment notice.

Payment Change

Definition: Indicates if payment changes will occur each month or only when specific conditions occur on the loan.

Value: Always Change ********
                 Change on Advance Only
                 Change on Rate Changes Only
                 Change on Advances or Rate Changes

****TIP: If neither the balance nor rate changed on a loan, the payment amount will <u>not</u> be changed on a variable payment loan.

For loans that are variable rate and the **"Change on Rate Changes Only"** option is selected, the payment amount will be recalculated based on the date portion of the "First Payment Date - Original" field according to the "Method" chosen. The system looks at the **"Variable Rate Index Change Date"** field on the Loan Suffix Inquiry to see if the interest rate was changed.

When either **"Change on Advance Only"** <u>or</u> **"Change on Advances or Rate Changes"** is selected and an advance is made, the payment will be recalculated based on the date portion of the "First Payment Date - Original", indicating the new payment amount on the notice. Instead of changing with the balance on the loan, this option keeps the payment the same until a new advance is made on the loan. The new payment amount is calculated on the balance on the Next Payment Date not on the balance at the time of the advance.

The system looks at the **"Date of Last Issue"** field on the loan suffix to determine that an advance was done on the loan and that the Payment Amount needs to be changed, if the payment amount is to change based on an advance. Insurance Add-ons do not affect the "Date of Last Issue" field.

Note: In most cases, the date portion of the **"First Payment Date - Original" will be the same as the date portion of the First Payment Date and the Next Payment Due Date. If not the same, this will affect when the payment amount will be changed.

Index for Repayment

Definition: Indicates if different payment parameters will apply after the Line of Credit expires. If filled in, this prompts the system to look at a different Indexed Variable Payment Setup screen for the payment parameters after the line of credit expiration date. This may be used for loans with a **Line of Credit Expiration Date** entered on the loan suffix inquiry window. This field takes affect after the Line of Credit Expiration Date for loans coded with the assigned Variable Payment Index code.

Examples:	LOC Expiration Date =	7-15-09
	First Payment Date - Original =	8-<u>15</u>-08
	Variable Payment Index changed night of:	8-<u>15</u>-09
	LOC Expiration Date =	7-15-09
	First Payment Date - Original =	8-<u>20</u>-08
	Variable Payment Index changed night of:	7-<u>20</u>-09

Value: 1-99

When finished, select Save to save the information and close the window.

The new variable payment option is now displayed on the Variable Payments window as the next available code number.

(See examples on the next couple pages.)

Example 1:   15 year loan with a 5 year draw period.

- Open date =   4-11-2006
- Line of Credit expiration date =   4-11-2011 (end of draw period)
- First Payment Date - Original =   5-11-2006

In this example, code #4 is setup as follows:
- Method =   Percentage of Balance
- Percentage =   4.00%
- Payment Minimum =   50.00
- Payment Change =   Change on Advances Only
- Index for Repayment =   blank

On 5-11-2011, since there is no **Index for Repayment** code entered on the Variable Payment window, the loans will continue to recalculate the payment amount based on the original parameters.

Example 2:   15 year loan with a 5 year draw period.
- Open date =   4-11-2006
- Line of Credit expiration date =   4-11-2011 (end of draw period)
- First Payment Date - Original =   5-15-2006

In this example, code #4 is setup as follows:
- Method =   Percentage of Balance
- Percentage =   5.00%
- Payment Minimum =   50.00
- Payment Change =   Change on Advances Only
- Index for Repayment =   10

On 4-15-2011, since the **Index for Repayment** code entered is pointing to Indexed Variable Payment code #10, the following will occur:

In this example, code #10 is setup as follows:
- Method =   Amortize Over Remaining Term
- Percentage =   blank
- Payment Minimum =   blank
- Payment Change =   Always Change
- Index for Repayment =   blank

Since the **Index for Repayment** code is blank, the payment amount will be recalculated (based on the parameters on the window for code #10) and **fixed** for the remainder of the loan.

**Note: The Variable Payment Index code on the loan suffix inquiry will be changed by the system to blank. This is done because the loan is not a variable payment loan anymore.

Example 3:   15 year loan with a 5 year draw period.
- Open date =   4-11-2006
- Line of Credit expiration date =   4-11-2011 (end of draw period)
- First Payment Date - Original =   5-20-2006

In this example, code #4 is setup as follows:
- Method =   Percentage of Balance
- Percentage =   4.00%
- Payment Minimum =   50.00
- Payment Change =   Change on Advances Only
- Index for Repayment =   10

On 4-20-2011, since the **Index for Repayment** code entered is pointing to Indexed Variable Payment code #10, the following will occur:

In this example, code #10 is setup as follows:
- Method =   Percentage of Balance
- Percentage =   6.00%
- Payment Minimum =   100.00
- Payment Change =   Change on Rate Change Only ****
- Index for Repayment =   10

Since the **Index for Repayment** code is set to 10, the payment amount will be recalculated (based on the parameters on the window for code #10) and **variable** for the remainder of the loan.

**Note: The Variable Payment Index code on the loan suffix inquiry will be changed by the system from 4 to 10. This is done because the variable payments are now based on the options on the window for Indexed Variable Payment code #10.

****Even though the **"Payment Change"** option is Change on Rate Changes Only, the system will change the Variable Payment Index code on the loan suffix and change the payment amount after the Line of Credit Expiration Date is reached. (See Index for Repayment examples on the previous page.) Future payment changes will be based on a Rate Change Only. The same thing is true when the **"Payment Change"** is based on Advances Only or Advances or Rate Changes.

Additional Information: It may even be necessary to enter the same Index Variable Payment code in the "Index for Repayment" field, depending on what the credit union wants to happen.

The **"Index for Repayment"** option may also be useful for credit unions offering "interest only" construction loans. The payment parameters after the draw period for the construction loans can be automatically changed by the system to a different payment "Method", etc. which can be a fixed or variable payment amount for the remainder of the loan.

Each of the options on the Indexed Variable Payment window(s) will have an effect on when and how the payment amount on the loans is calculated. The **"Index for Repayment"** option offers many other possibilities for the system to automatically recalculate the payment amount for loans.

The notices are printed by selecting - [Main Ribbon > Operations > Notices > Print Variable Rate/Payment Index].

The system will display a list of notices to be printed. This selection is used to print both variable rate and variable payment notices.

Additional information

- No payment change will happen for loans with a zero balance.
- The **"Transfer Amount"** on the loan suffix inquiry will be changed, if it **matches** the Payment Amount.
- No Payment change until one month before both the **First Payment Date** and **First Payment Date - Original** are reached. This makes the first payment change due on the **First Payment Date**. ****Note:** If the member makes a payment(s) prior to one month before the First Payment Date and First Payment Date Original (which will advance the First Payment Date and Next Payment Due Date), the Variable Payment Change will be delayed for one month.
- The **"Index for Repayment"** becomes effective after the Line of Credit Expiration Date. This triggers the new payment parameters (possibly with a new payment method) at Repayment time.
- All calculations in repayment are based on the repayment index, if it is filled in. (See examples on previous pages.)
- Payment Notices are generated (to be printed) every month, if selected to print on the Indexed Variable Payment window.

Indexed Variable Report

With End of Day processing, the system generates a report called **"Indexed Variable Report" (CR282-01)**. The report will be located under [Main Ribbon > Reports > Archive]. There is a folder for each business date. This shows all loan suffixes with an Indexed Variable Rate code, regardless of whether or not there was a rate change. For rate changes, both the old and new rates are displayed. A brief status is displayed next to each of the Indexed Variable Rate loans. A list of the statuses is as follows:

> Can't Change Pmt (PTD)   (Paid to Date) ******see note below**
> Compute New Rate   (for notice)
> End of Intro Rate
> Grace Period
> Intro Period
> Invalid Remaining Payments
> No Pmt Chg: Balloon
> No Pmt Chg: FPD   (First Payment Date)
> No Pmt Chg: Org FPD   (Original First Payment Date)
> Rate Already Changed
> Rate Change
> Rate Change Not Due
> Rate Chg (Std Rate)   (Standard Rate)
> Zero Balance/LOC

****Note: If the payment change requires a negative Paid to Date figure in order to maintain delinquency, this status is displayed on the report.

The report also shows loan suffixes with an Indexed Variable Payment code that had a change in the payment amount. For payment changes, both the old and new payment amounts are displayed.

Example of Indexed Variable Report.

An **"A"** on the report indicates that the system thinks that the loan is an ARM.

Figure 5

Edit Variable Payment

To edit a variable payment, double click on the variable payment.

Figure 6

After making any necessary changes, select Save.

Delete Variable Payment

To delete a variable payment, click on the delete icon on the ribbon.

To proceed with deleting the variable payment, select yes. Otherwise, select no.