



# MC Training Fax

**Fax: 801-627-2537**

**E-mail: [mc@mcoffice.com](mailto:mc@mcoffice.com)**

**Website: [mcoffice.com](http://mcoffice.com)**

To: Training User

Company: Mortgage Computer

Fax #: 627-2537

Date: 6/6/2007

## Why the message when posting extra principal?

This is a good question. Real estate payment is interest for the past 30 days plus principal. Conforming loan payments are due on the **first** day of the month (exception is a biweekly loan).

When a real estate payment is received, the interest for the previous month (30 days) is computed on the "end-of-month" balance up **TO** the first day of the month. The loan balance is the same for every day of the month. Interest is computed using the "end-of-month" balance by multiplying the UPB (Unpaid Principal Balance) by the interest rate and dividing by 12 for one month (30 days) interest. (It is not computing a daily interest rate times the number days between payments, as consumer loans are computed.)

Regardless of the day of the month the payment is received the interest due is always computed for 30 days on the "end-of-month" balance. This is why you are permitted to charge a late charge after so many days, usually 15 days.

If you accept an extra principal payment (T/C 5) during the month the UPB is lower at the time interest due is computed. You lose interest on the amount of extra principal that was accepted.

Fannie Mae will accept extra principal reductions. However, most secondary market lenders do not. Portfolio lenders should be aware there will be a loss of interest due on extra principal payments and set limits on what extra principal can be accepted.

Example: A borrower makes an extra principal payment of \$5,000 on the 25th day of the month. The loan rate is 6%. The end-of-month balance would be \$5,000 lower and the loss of interest would be \$25.00. Every extra principal payment you accept, if interest is not paid to that date, will result in a loss of interest income.

MC's program is a gentle warning you will lose money next time interest is computed if you accept the extra principal payment.

**!!Never!! accept extra principal payment on a delinquent loan!**