Appendix B

Mortgage Interest Differential Payments (MIDP)

(Exerpted from NHI Relocation Assistance and Payments Course No. 14112)

Information needed for computations:

Balance of existing mortgage	_____	[1]Amount of new mortgage	_____
Interest rate of existing mortgage	_____	Interest rate of new mortgage	_____
[2]Monthly payment of existing mortgage	_____	Points on new mortgage	_____
		[3]Term of new mortgage	_____

The initial computations for a mortgage interest differential payment (MIDP) for comparison purposes will be based on the data from the existing mortgage (s) available at the time. The replacement housing payment is computed using one of the prevailing fixed interest rates (including points) for conventional mortgages in the area. If there is a range of interest rates and points available in an area that could be considered prevailing or typical, the Agency may use a prevailing fixed interest rate that will require the smallest mortgage interest differential payment by the Agency to maintain the same monthly payment for the same term for the new mortgage as existed on the old mortgage for the initial computation and offer. An example follows:

Balance of Old Mortgage	$50,000
Interest rate of Old Mortgage	7%
Monthly Payment of Old Mortgage	458.22
Computed Remaining Term of Old Mortgage	174 months

Specific Instructions for computing mortgage interest payments using the Hewlett Packard (HP 12C) calculator are located at the end of this section.

Available interest rates for fixed mortgages, for 15 years are used. (Use the rates for terms of mortgages that are at least as long as the remaining term of the old mortgage, i.e. the 15 year rates for terms of 15 years or less and the 30 year table for loans with remaining terms exceeding 15 years.)

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[1]The actual amount of the new mortgage is only of concern if it is less than the amount needed to be financed to maintain the old mortgage.

[2]If the term of the new mortgage is the same as or greater than the term of the existing mortgage, use the monthly payment of the existing mortgage (s) to compute the number of months actually necessary to pay off the existing mortgage.

[3]If the term of the new mortgage is less than the term of the existing mortgage(s), use the term of the new mortgage to compute the monthly payment necessary to pay off the existing mortgage using the shorter term.

Example:

Interest rates	9.5% with 3 points
Available for	10% with 2 points
15 year mortgage	10.5% with 1 point
	11% with 0 points

The computed mortgage interest differential payments are as follows (note: the computed values may vary slightly using the HP 12C – these examples are for demonstration only):

<u>Amount to be financed</u>

$43,203.11 @ 9.5% w 3 pts. = $6796.89 (buydown) + 1296.08 (points) = $8092.98

$42,010.18 @ 10.0% w 2 pts. = $7989.82 (buydown) + 840.20 (points) = $8830.02

$40,866.89 @ 10.5% w 1 pts. = $9133.11 (buydown) + 408.67 (points) = $9541.78

$39,770.48 @ 11% w 0 pts. = $10,229.52 = $10229.52

The prevailing interest rate that will provide maintenance of monthly payments of $458.22 at the least cost to the Agency is 9.5% interest with 3 points.

The Agency may advise the displaced person that he/she may receive $8,092.98 for the mortgage interest differential payment, based on the current mortgage rate of 9.5% interest plus 3 points, if a new mortgage is obtained in the calculated replacement mortgage amount of $43,203.11 for at least 174 months.

<u>Alternate Computations for Smaller and/or Shorter Term New Mortgage</u>

A. <u>New mortgage is smaller than calculated replacement mortgage amount</u>.

In the event the displaced person elects to obtain a mortgage smaller than the calculated replacement mortgage, the payment must be prorated. For example:

	Old mortgage	New mortgage
Balance	$50,000	$40,000
Remaining Term	174 months	174 months
Interest rate	7%	9.5%
		points – 3

The previous buydown computation indicated that a calculated replacement mortgage of $43,203.11 was necessary to obtain the estimated MIDP of $8092.98. To determine the MIDP in this example, divide the actual new mortgage amount, $40,000 by the calculated replacement mortgage amount, $43,203.11. The resulting factor, 0.92586, is multiplied by the estimated MIDP, $8,092.98, to give the reduced amount of $7,492.96 as the MIDP on the smaller new mortgage.

$40,000/$43,203.11 = 0.92586 x 8092.98 = $7492.96 MIDP (including points)

B. Shorter term new mortgage

In the event that the displaced person elects to obtain a mortgage for a shorter term than the remaining term of the old mortgage, it is necessary to compute a hypothetical monthly payment for the old mortgage at the old interest rate but at the shorter term of the new mortgage. This computed hypothetical monthly payment will be larger than the actual payment on the old mortgage. Take the previously used old mortgage example:

	Old mortgage	New mortgage
Balance	$50,000	
Interest rate	7%	9.5%
Monthly payment	$458.22	
Remaining term	174 months	120 months
		Points – 3

Step 1. – Compute a hypothetical monthly payment for old mortgage based on a 120 month payoff ----- $580.54

Step 2. – Compute a calculated replacement mortgage using the hypothetical monthly payment of $580.54 per month, 120 months at 9.5% interest rate. The calculated replacement mortgage amount is $44,864.83. The buy-down amount is the old mortgage balance of $50,000 less the calculated replacement mortgage of $44,864.83, = $5,135.17 + points of $1,345.95. (3% of $44,864.83), for a total of $6,481.11.

The displaced person would need to obtain a mortgage of at least $44,864.83 to receive a payment of $6,481.11.

C. Smaller new mortgage and shorter term.

A different computation is made if the new mortgage is both smaller and for a shorter term. Using the old mortgage figures cited above, with a new mortgage for $40,000, term of 120 months and 9.5% interest rate, the calculated replacement mortgage as computed in example B. ($44,864.83) is divided into the smaller new mortgage ($40,000) giving a factor of 0.89157 x the estimated MIDP of $6,481.11 (from example B) for a MIDP of $5,778.34.

The example computations in no way restrict the displaced person to any combination of mortgage amounts and/or terms for the new mortgage. The agency's sole restriction is that the MIDP payment will be computed on mortgage terms **at the typical rates prevailing in the area**, unless there is reason for a valid exception. The displaced person may obtain a fixed rate mortgage, a variable interest rate mortgage, a mortgage with a balloon payment, or any other legitimate mortgage. For example, the displacee could elect to get a $60,000 mortgage for 15 years at 11% and no points. The individual would be entitled to a mortgage interest differential payment of $10,229.52 (based on a new mortgage of at least the amount of old mortgage minus the calculated replacement mortgage, for a term not less than the remaining term on the old mortgage). Even though the mortgage for 9.5% with 3 points is available, the mortgage for 11% is also a prevailing rate mortgage.

The displaced person should be fully informed of the options for new mortgages as well as being advisied in the rudimentary skills necessary for negotiating for replacement housing. The computations for mortgages of shorter terms and lesser amounts may be provided using Form 734-2302.

The computation for the actual amount of the mortgage interest differential payment should be made using the above examples. The calculated replacement mortgage is deducted from the old mortgage to arrive at a buy-down amount, to which is added the appropriate points. The sum of these figures equals the MIDP, the Mortgage Interest Differential Payment , The agent will present this amount to the displacee as the amount for which the person may be eligible.

Multiple mortgages

If there is more than one mortgage, compute the buydown by completing the computations for each mortgage using the terms of that mortgage. If there is an old second mortgage that has a higher interest rate than any available rate, the buy-down amount will be 0, but points are added to arrive at a MIDP; the points are still eligible even though the new mortgage is at a rate that does not exceed that old mortgage.

Variable rate mortgage

If the mortgage is a variable interest rate mortgage, use the mortgage balance, interest rate, and monthly payment amount that was in effect in the date of acquisition.

Home equity loans

If there is a home equity loan, use the lesser of the mortgage balance on the date of acquisition or 180 days prior to the date of initiation of negotiations. Use the interest rate and monthly payment in effect for the lowest mortgage balance.

Mortgages with balloon payments

If the mortgage has a balloon payment, use the mortgage balance, interest rate and monthly payment amount that was in effect on the date of acquisition. The monthly payment is normally predicated on a term longer than the actual term of the mortgage, so the computed remaining term will be greater than the actual remaining term of the mortgage. Use of the computed remaining term will provide you with the appropriate MIDP.

Buy-down Mortgage Interest Differential Terminology

Acquired dwelling -	the dwelling being acquired for a project by the agency.
Buy-down amount -	the difference between the old mortgage and the calculated replacement mortgage.
Calculated replacement amount -	the amount which the agency calculates can be financed at the lesser of the new interest rate or prevailing rate which will maintain either the old monthly payment for the old term or the hypothetical monthly payment at the new term when the new term is shorter than remaining term.
Estimated MIDP -	the amount the MIDP would be if the relocatee secures a new mortgage for at least as much as the calculated replacement mortgage.
Hypothetical monthly payment -	the payment necessary to pay off the old mortgage at the old interest rate for the new term when the new term is shorter than the remaining term.
MIDP -	the buy-down amount plus the points.
New interest rate	the interest rate being charged on the new mortgage at the time of closing on the replacement dwelling.
New mortgage -	the amount of the mortgage entered into on the replacement dwelling.
New term -	the term of the new mortgage.
Old interest rate -	the interest rate in effect on the old mortgage at the time of closing on the acquired dwelling.
Old monthly payment -	the monthly payment, principal and interest, that is actually required by the mortgage agreement on the acquired dwelling.
Old Mortgage -	the remaining principal balance of the existing mortgage on the acquired dwelling. This is not necessarily the 'pay-off' figure since that can include penalties and escrow credits.
Points -	the pre-paid interest or discount points needed to secure the interest rate on the new mortgage.
Prevailing interest rate and points -	an interest rate and point combination commonly available in the area. This may be a range of rates and points. In special circumstances, the prevailing rate may be dictated by what the displaced person is actually able to secure.
Remaining term -	the number of payments necessary to pay off the old mortgage given the old monthly payment and old interest rate. This is to be calculated by the agent computing the mortgage interest differential.

USING THE HP 12C

- Turn calculator on — on
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- Clear financial memory — f — clx

1. COMPUTING THE REMAINING TERM OF THE OLD MORTGAGE

(Make sure your calculator is set for end of period for interest).

Explanation	Key entry	Screen shows
Enter remaining balance	50000 PV	50000
Enter interest rate & convert to monthly	7 g i	0.58
Enter monthly payment	458.22 CHS PMT	22
Computing remaining term	n	174

2. CALCULATING THE MIDP

Enter interest rate (new tgage.) & convert to monthly	9.5 g i	0.79
Enter remaining payments	174 n	174
Enter monthly payment	458.22 CHS PMT	-458.22
Compute replacement mortgage	PV	43203.11
Compute points	.03 x	1296.09

Compute MIDP as follows:

Old mortgage – new mortgage (50,000 – 43,203.11 = 6796.89
Add points 1296.09

MIDP = $8092.98

3. ALTERNATE CALCULATIONS FOR SMALLER AND/OR SHORTER TERM REPLACEMENT MORTGAGE

A. REPLACEMENT MORTGAGE IS SMALLER THAN CALCULATED

REPLACEMENT MORTGAGE AMOUNT

Compute MIDP per 1 & 2 above

	40000	enter	40000
Enter calculated replacement mortgage amount & divide	43203.11	÷	0.92586
Multiply the factor (0.92586) X the calculated MIDP (2-above)	8082.98	X	7492.96

$7492.96 is the MIDP for the smaller replacement mortgage.

B. <u>SHORTER TERM REPLACEMENT MORTGAGE</u>

Enter remaining balance	[50000] [PV]	50000
Enter interest rate for old mortgage & convert to	[7] [g] [i]	0.58monthly
Enter term of new mortgage & convert to months	[10] [g] [n]	120
Compute hypothetical Payment	[PMT]	580.54

Go back to 2 and calculate MIDP using the hypothetical payment, new mortgage term & interest rate. (in our example, $580.54, 120 months and 9.5%, respectively)

Enter new interest rate, convert to monthly	[9.5] [g] [i]	0.79
hypothetical payment	[580.54] [PMT]	580.54
new term	[10] [g] [n]	120
compute buy-down	[PV]	44864.83
compute points	[.03] [X]	1345.95

MIDP computation:

old mortgage – buy down (50000 – 44864.83)	5135.17
	+<u>1345.95</u>
Total MIDP - - - - - -	$6481.11

C. SMALLER REPLACEMENT MORTGAGE & SHORTER TERM

Compute MIDP based on full calculated replacement mortgage for shorter term (example 3 B.)

Divide actual (smaller) replacement mortgage by buy-down computed per 3 B.

smaller mortgage	40000	enter	40000
buy-down mortgage	44865.02	÷	0.89157
multiply factor x MIDP from 3B.	6480.93	X	5778.34

The MIDP based on the shorter term and smaller amount (a combination of examples 3A. & 3B.) is $5778.34, which includes the points.