## Interest Only Loans

We often receive questions regarding how to handle interest only loans. These loans aren't much different from a loan that is going to start making full payments right away. The only difference is the amount of payment they are going to make in the first months of the loan. Of course, there are some ramifications to activity associated with these loans, so it really isn't quite that simple.

When dealing with the issue of loans that don't start out with regular payments of principal and interest, it is important to remember that the Loan Master file is intended to be a document that changes as the circumstances of the loan change. The regular payment amount, the method of interest calculation, the percentage of interest calculation and the frequency of payment should all reflect the situation as it exists at this point in time. When circumstances change, the Loan Master file should be edited to reflect those changes. For a complete audit trail, GMS recommends that whenever the loan data is changed, the Loan Master should be printed prior to editing, then again following editing. These can then be filed with the documentation that required the change. As a paperless alternative to printing and filing, why not export the document and save it to a location on your file server? You can then go to the Loan Master file, click on the Attach/Retrieve Files icon and save the location for quick and easy retrieval at a later time.

When entering the Loan Master file for a loan that will be making interest only payments for a period of time, override the computer generated regular payment amount and enter the amount the borrower will actually be paying. This amount will usually be one payment cycle's interest. If you would like to have GMS calculate this amount for you, before you enter the Loan Master, select Amortizations. Enter the loan amount, the interest rate, the number of payments per year, and the term of the loan. When the amortization schedule is reviewed, the interest for the first payment will be the payment amount while the loan is paying interest only. This is the amount entered as the regular payment. When the borrower begins making full payments, the regular payment amount should be edited to the full payment.

The internal management policies of your agency will dictate which method of interest calculation you will use.

- If using Amortization, each payment will be applied 100% to interest.
- If using Daily interest, there may be some differences in the amount of interest collected from each payment. This is due to timing differences. If the payment is received a few days early, there may be a small amount applied to principal. If the payment is late, there may not be enough to pay all the interest, thus accrued interest will be calculated and carried forward. In either case, GMSRLSS software will apply the correct amount of interest.

If it will be several months before the first payment is to be made, the First Payment Due date in the Loan Master file should reflect that interval. If this is done, the delinquency and aging reports will not reflect past due payments when the client is abiding by the terms agreed upon. Also, as disbursements are posted, review the Next Payment Due Date carefully prior to saving the activity. If the loan appears inappropriately on a delinquency report, review the history for Paidthru Dates and Next Payment Due dates. Either of these may be edited through Tools, Build History.