

Actual Actual Scheduled Scheduled

What's the difference difference?

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In response to members' requests and suggestions, the FHLBI has been working on enhancing the Mortgage Purchase Program by adding an actual/actual remittance option. In preparing for this option, we became aware that some members may want more detail on the difference between scheduled/scheduled and actual/actual.

REMITTANCE TYPES

When mortgage servicing folks start talking shop, it is not unusual to hear them use terms like scheduled/scheduled and actual/actual. When you first hear these terms you may have a sense that you are part of an old Twilight Zone episode or people are talking like a record album (for those of us old enough to remember what that was) or CD with dirt in the groove.

Mortgage servicers use these terms in relation to how they handle the borrower's monthly payments for principal and interest. The terms—known as remittance types—describe how mortgage loan servicers remit interest and principal to the investor, such as the FHLBI, Fannie Mae, and Freddie Mac. The first word in the phrase refers to the remittance of interest; the second word refers to the remittance of principal.

So, actual/actual means that a servicer would remit actual interest and actual principal collected on the investors loans. Scheduled/scheduled refers to the remittance of scheduled interest and scheduled principal. Another common remittance type is scheduled/actual, which refers to the remittance of scheduled interest and actual principal. In each case, the servicer retains a servicing fee before remitting funds to the investor.

DIFFERENCES BETWEEN THE TWO REMITTANCE TYPES

There are two key components to address in covering the differences in actual/actual and scheduled/scheduled: what is remitted and when it is remitted. Under actual/actual, the servicer remits what is actually collected from the borrower, that is, the actual interest and actual principal. If a borrower prepays, the servicer immediately forwards the prepayment to the investor. Remitting under actual/actual generally requires the servicer to remit funds collected to the investor on a daily basis. Even though the funds are remitted daily, the servicer would provide the investor with monthly activity reports.

Under scheduled/scheduled, the servicer remits the scheduled interest and scheduled principal. As the name implies, these amounts are the amounts that are scheduled to be paid. This is important because under scheduled/scheduled remittance, the servicer must remit the scheduled payments, even if the borrower did not make the payment to the servicer (delinquent loans). Scheduled interest is calculated as one month's interest on the prior month's ending scheduled balance. Scheduled principal is the difference between the borrower's stated principal and interest payment or 'P&I' as defined on the note, and the scheduled interest calculated above. Scheduled/scheduled payments are remitted to the investor in the month they are due, generally the 18th of the month.

Unscheduled payments (principal curtailments and payoffs) are held by the servicer and will be reported and remitted the month following receipt. Regular payment prepayments are held by the servicer and remitted in the month they are due.

As you think about the remittance process for actual/actual and scheduled/scheduled, you can see some distinct differences in the servicer's responsibilities and the potential advantages or disadvantages of each.

IN SUMMARY

Scheduled/scheduled provides for the maximum amount of deposit float on the P&I funds, but requires tracking of a scheduled balance on the loan, advancing delinquent payments, and potential for interest loss on curtailments and payoffs.

Actual/actual provides for simple reporting, requires remitting only what is received, but requires daily remittance and no float opportunity.

ADVANTAGES & DISADVANTAGES

	Scheduled/ Scheduled	Actual/ Actual
Are daily reports of remittances required?	NO	NO
Require tracking of scheduled balance?	YES	NO
When is the borrower's P&I remitted to the investor? <i>* whether collected or not from the borrower</i>	18th of month payment is due*	as received by servicer
When are principal curtailments and paid in full proceeds remitted to the investor?	18th of month following month received by servicer	as received by servicer
Potential for interest loss on curtailments and paid in full loans?	YES	NO
Deposit float opportunity on P&I funds?	YES	NO

If you would like to have more information about the remittance types available for MPP, please call FHLBI's MPP Division at 800.274.4636 and ask for an acquisitions representative.