



LaRS Interest Calculation Scenarios

Table Of Contents

1.0	Overview	2
1.1	Introduction.....	2
1.2	Regulatory Authority	2
1.3	Background Information	2
2.0	Scenario 1: Non-Serviced.....	4
2.1	Description.....	4
2.2	Data Flow.....	4
2.3	Roles/Responsibilities	4
2.4	Benefits.....	5
3.0	Scenario 2: Single Servicer for each LID	6
3.1	Description.....	6
3.2	Data Flow	6
3.3	Roles/Responsibilities	6
3.4	Benefits.....	7
4.0	Scenario 3: Different Servicers for same LID.....	8
4.1	Description.....	8
4.2	Data Flow.....	8
4.3	Roles/Responsibilities	8
4.4	Benefits.....	9
4.5	Challenges.....	9



LaRS Interest Calculation Scenarios

1.0 Overview

1.1 Introduction

This document details Interest Calculation Method scenarios that can be used by Lenders and Servicers as part of the LaRS invoice submission process. This document provides a description of roles and responsibilities for each scenario.

Interest Calculation Scenarios are:

1. Non-Serviced
 - a. Lender with One Lender Identification Number (LID)
 - b. Lender with Multiple LIDs
2. Single Servicer for each LID
 - a. Different Servicer for Each LID
 - b. Same Servicer for All LIDs
3. Different Servicers for same LID

1.2 Regulatory Authority

The portions of the Regulation related to interest calculation are included below.

682.304 Methods for computing interest benefits and special allowance

(a) *General.* The secretary pays a Lender interest benefits and special allowance on eligible loans on a quarterly basis. These calendar quarters end on March 31, June 30, September 30, and December 31 of each year. A Lender may use either the average daily balance method or the actual accrual method to determine the amount of interest benefits payable on a Lender's loans.

(c) *Actual accrual method for interest benefits.* (1) Under this method, the Lender computes the total unpaid principal balance outstanding on all qualified loans at each actual interest rate on each day of the quarter, multiplies this result by the actual interest rate, and divides this result by the actual number of days in the year, or, alternatively 365.25 days. A Lender who chooses to divide by 365.25 must do so for four consecutive years.

1.3 Background Information

- Approximately 95% of the LIDs used in the Lender community are serviced.
- The majority of the Lenders are unaware of the interest calculation method used by the Servicers to generate their interest payments.
- Less than 10% of Lenders have multiple Servicers.
- Based on the process that each LID must use only one interest calculation method, the community estimates that 200 to 500 new LIDs may be required.
- The Servicers will send in the average daily balance and the interest rate and the Department will calculate the interest payment based on the interest calculation method associated with the LID.



LaRS Interest Calculation Scenarios

- In order to support the scenarios below, the interest calculation method used by a Servicer must be obtained during the LAP process for the Servicer.
- If the interest calculation is determined at the LID level and not the Lender level, the issue is smaller than originally anticipated.



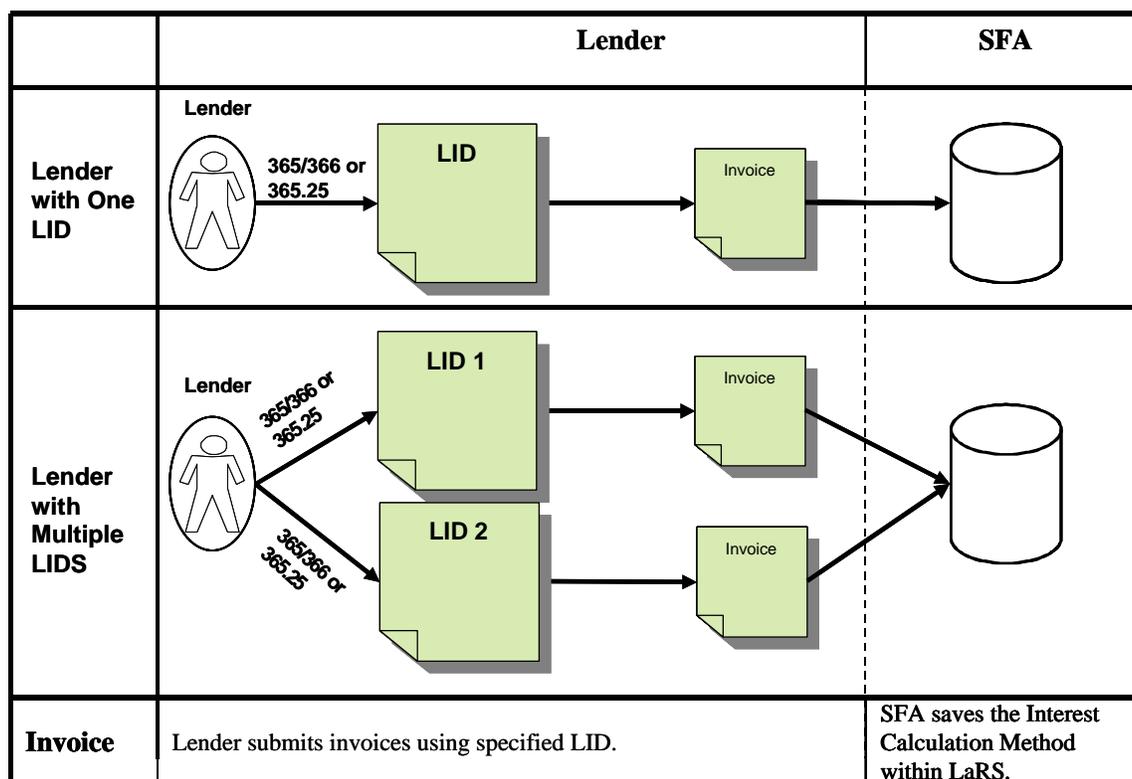
LaRS Interest Calculation Scenarios

2.0 Scenario 1: Non-Serviced

2.1 Description

Non-serviced Lenders submitting invoices for a single LID will assign an interest calculation method to the LID (ie. 365/366 or 365.25). In cases where a Lender has been issued multiple LIDs the Lender will assign an interest calculation method to each LID. SFA will store and use the interest calculation method to calculate interest payment amounts.

2.2 Data Flow



2.3 Roles/Responsibilities

- During the application process the Lender selects an interest calculation method.
- For the current quarter information, the interest rate, average daily balance, and the ending principal balance are submitted, but not the interest calculation. The interest payment will be automatically calculated based upon the previously selected interest calculation method.
- For adjustments to prior quarters the interest calculation is submitted, but not the interest rate, average daily balance, or the ending principal balance. This is consistent with the approach for the current ED Form 799.



LaRS Interest Calculation Scenarios

2.4 Benefits

- The new design is consistent with the current process, since the interest calculation remains at the LID level.
- The Lender selects the interest calculation method for the LID.
- Accessibility, consistent monitoring and portfolio management at the Lender level is available.
- Lenders receive consistent answers and oversight from SFA.
- For security purposes a remittance email will be sent without monetary information. The remittance detail will be accessible via the LaRS application.



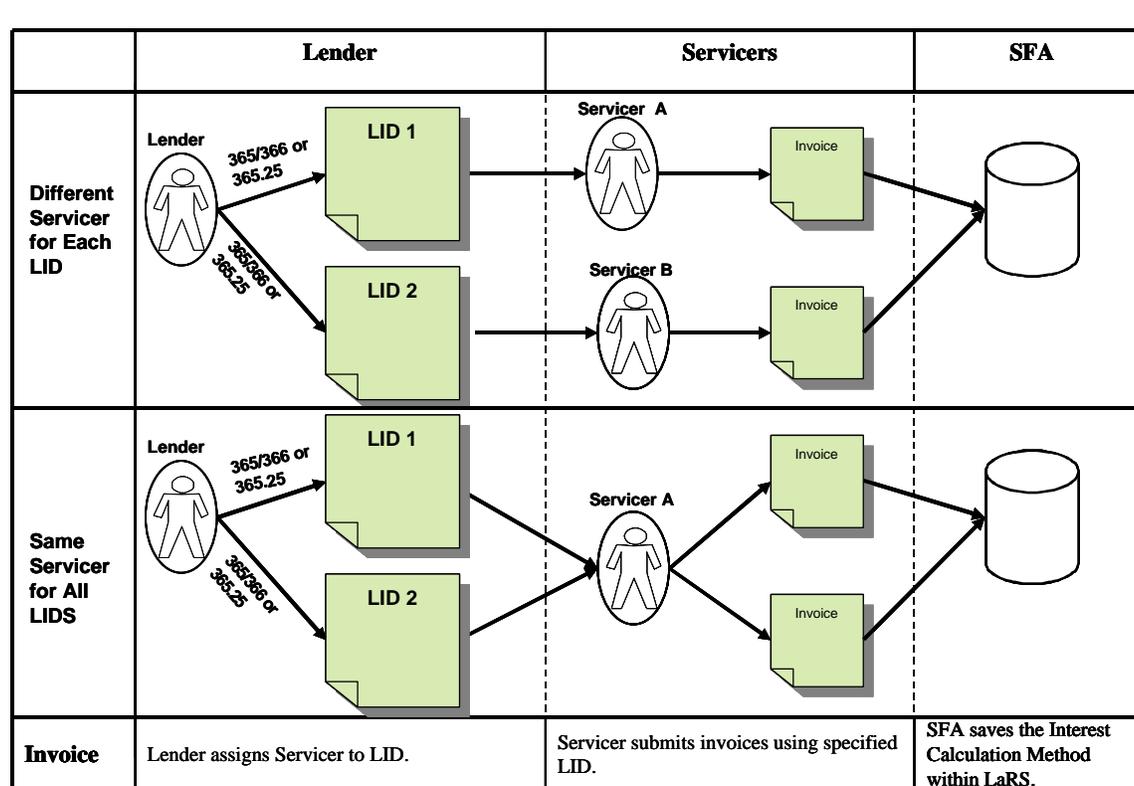
LaRS Interest Calculation Scenarios

3.0 Scenario 2: Single Servicer for each LID

3.1 Description

Lenders with a single Servicer submitting invoices for a single LID may use the Servicer's identified Interest Calculation method. If the Lender so chooses, the Lender may select a different interest calculation method. In cases where a Lender has been issued multiple LIDs, the Lender will use this approach to select an interest calculation method for each of the LIDs. SFA will store and use the interest calculation method to calculate interest payment amounts.

3.2 Data Flow



3.3 Roles/Responsibilities

- During the application process, the Lender identifies the Servicer that services that LID.
- SFA will provide the Lender with the interest calculation method used by the Servicer. The Lender may select that method, or choose to select a different interest calculation method.
- For the current quarter information the interest rate, average daily balance, and the ending principal balance are submitted, but not the interest calculation. The interest payment will be automatically calculated based upon the previously selected interest calculation method.



LaRS Interest Calculation Scenarios

- For adjustments to prior quarters, the interest calculation is submitted, but not the interest rate, average daily balance, or the ending principal balance. This is consistent with the approach for the current ED Form 799.
- The Lender may need to update their records as the interest payment received from SFA may differ from that reported by the Servicer if the Lender chose an interest calculation method different from that used by the Servicer.

3.4 Benefits

- The new design is consistent with the current process since the interest calculation remains at the LID level.
- The Lender may select the interest calculation method used by the Servicer, or select the alternate method.
- Accessibility, consistent monitoring and portfolio management at the Lender and Servicer level is available.
- Lenders and Servicers receive consistent answers and oversight from SFA.
- For security purposes a remittance email will be sent without monetary information. The remittance detail will be accessible via the LaRS application.
- For Servicers who want consolidated information on their LIDs, SFA will collaborate with the Servicers to identify appropriate reports that can be downloaded over a secure line to support the business needs.



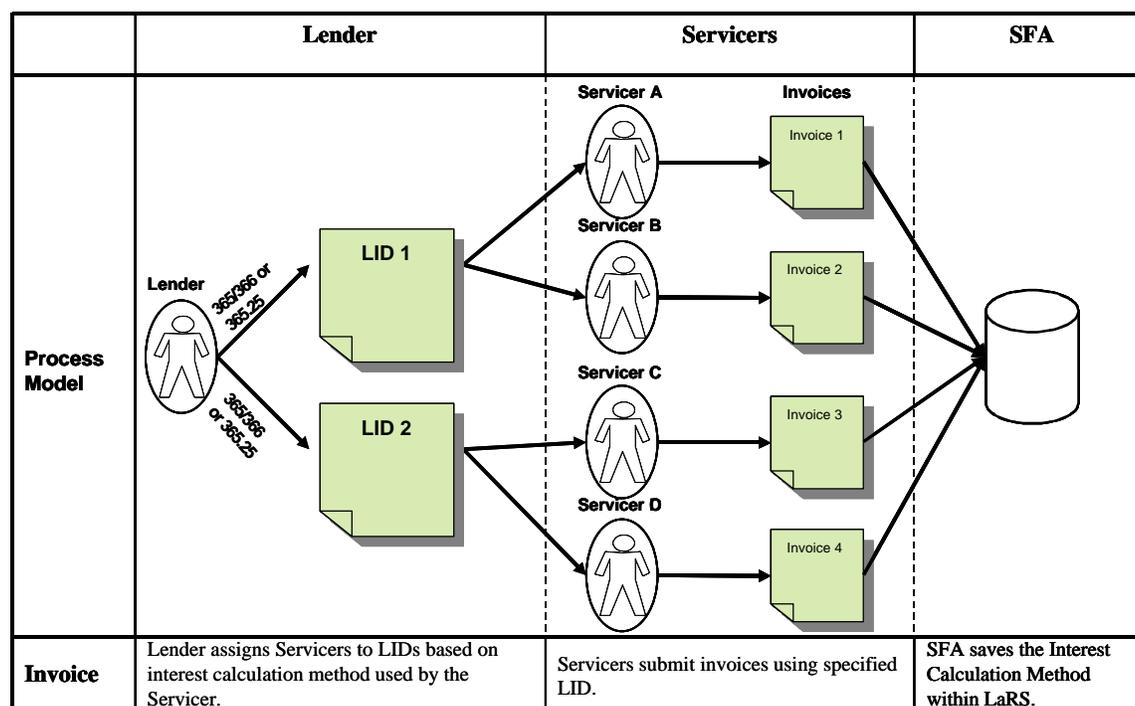
LaRS Interest Calculation Scenarios

4.0 Scenario 3: Different Servicers for same LID

4.1 Description

For each LID, the Lender will need to identify one interest calculation method. Once selected, the interest amount on invoices from all Servicers for that LID will be calculated by SFA using the same interest calculation method. SFA will provide the Lender with the interest calculation method used by the Servicers. The Lender may have a different interest calculation method for any additional LIDs.

4.2 Data Flow



4.3 Roles/Responsibilities

- During the application process, the Lender identifies the Servicers that service that LID.
- SFA will provide the Lender with the interest calculation methods used by the Servicers. The Lender must select a single interest calculation method per LID, regardless of the calculation method used by any associated Servicers.
- The application process allows the Lender to associate additional Servicers to the LID regardless of the calculation method used by the additional Servicers. The calculation method selected by the Lender will be applied to all calculations for that LID. If the Lender discovers that a Servicer is not using the same interest calculation method as the Lender selected, the Lender has several options:
 - Lender may continue to have this Servicer associated with this LID recognizing that the Lender may need to update their records, as the interest payment received from the Department may



LaRS Interest Calculation Scenarios

differ from that reported by the Servicer. This approach will result in the least impact to all organizations.

- Lender may request a new LID and associate the loans serviced by this Servicer to the new LID. Information on the Servicer's system will need to be updated to reflect the new LID. This updated information will then need to be sent to the Guaranty Agency and on to SFA's systems.
- If the Lender already has other LIDs, the Lender may associate the loans serviced by this Servicer to one of the other LIDs. Information on the Servicer's system will need to be updated to reflect the different LID. This updated information will then need to be sent to the Guaranty Agency and on to SFA's systems.
- Lender may move the loans serviced by this Servicer to another Servicer that uses the same interest calculation method as the other Servicers for this LID. Moving loans will cause a change to two Servicers' systems, and the updated information will then need to be sent to the Guaranty Agency and on to SFA's systems.
- For the current quarter information the interest rate, average daily balance, and the ending principal balance is submitted, but not the interest calculation. The interest payment will be automatically calculated based upon the previously selected interest calculation method.
- For adjustments to prior quarters the interest calculation is submitted, but not the interest rate, average daily balance or the ending principal balance. This is consistent with the approach for the current ED Form 799.

4.4 Benefits

- The new design is consistent with the current process, since the interest calculation stays at the LID level.
- The Lender may select one interest calculation method per LID; SFA will provide the Lender with the method used by each Servicer to aid in that selection.
- Accessibility, consistent monitoring and portfolio management at the Lender level is available.
- Lenders and Servicers receive consistent answers and oversight from SFA.
- For security purposes, a remittance email will be sent without monetary information. The remittance detail will be accessible via the LaRS application.
- For Servicers who want consolidated information on their LIDs, SFA will collaborate with the Servicers to identify appropriate reports that can be downloaded over a secure line to support the business needs.

4.5 Challenges

- Additional LIDs may be required.
- Loans may need to be transferred to another Servicer or LID. This would occur on the Servicers' systems and need to be reported to the Guarantor and then to SFA.