

LOAN SERVICING SOFT Earned and Unearned Principal:

This document will guide you through the process of setting up, managing, and reporting on Earned and Unearned Principal.

First off though, what is Earned and Unearned Principal? Here is an example to help you understand. Let's say you buy an interest only loan with a principal balance of 100K but you only pay 50K for this loan. That means whenever you receive a dollar of principal 50% of this money or fifty cents is earned principal and you most likely need to pay taxes on this income. Perhaps you want these earnings to be included on your investors 1099's.. Earned Principal is the amount of money that has come in and Unearned Principal is the remaining money that is going to come in, in the future.

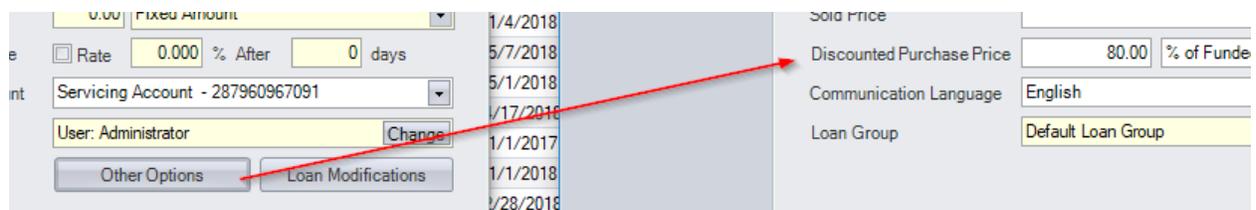
For additional information and/or questions please feel free to contact our support group at support@loanservicingsoft.com or 1-800-993-1839 x2.

Set Up / Conditions For This Reporting To Work Correctly

It must be understood that this feature will only work for regular term loans. It will not work for 'Line of Credit' loans.

For a loan to calculate the figures properly on Earned and/or Unearned Principal the system operator must enter in the "Discounted Purchase Price" in the appropriate field on the Other Options screen. To do this, click on the appropriate loan, then click on the "Other Options" button. Next, click on the "Other Settings" tab.

Next, enter the 'Discounted Purchase Price' percentage (image below), and choose the "% of Funded Amount" drop down to the right.



The screenshot shows the 'Other Options' screen in the Loan Servicing Software. The 'Discounted Purchase Price' field is set to 80.00 % of Funded Amount. A red arrow points from the 'Other Options' button to this field. Other visible fields include 'Rate' (0.000 % After 0 days), 'Servicing Account' (287960967091), 'User' (Administrator), 'Communication Language' (English), and 'Loan Group' (Default Loan Group).

Initial Unearned Principal is the difference between the Loan Funding Amount and the amount paid to the third-party the loan was purchased from.

It is calculated as $[\text{Loan Funding Amount}] \times (100 - [\text{Discounted Purchase Price}] / 100$. The calculation assumes that the principal balance is equal to the loan funding amount.

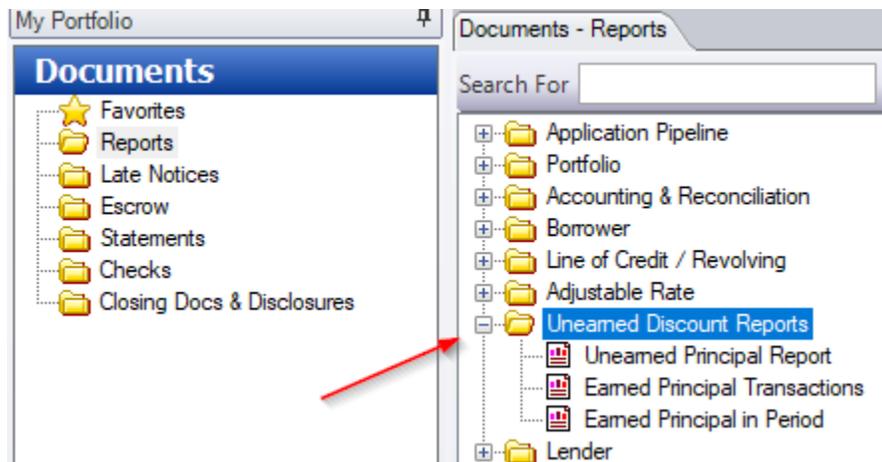
The difference between the Loan Funding amount and the **Initial Unearned Principal** is the amount paid for the discounted load. Once the principal payments are received from the borrower, an **Earned Principal** amount is calculated on every payment based on this formula: $[\text{Principal Received}] \times (100 - [\text{Discounted Purchase Price}] / 100$.

Reports

There are three reports to help manage the earned and unearned principal amounts:

- Unearned Principal Report
- Earned Principal Transactions
- Earned Principal in Period

These reports can be found by going to: Documents -> 'Reports' Folder -> 'Unearned Discount Reports' folder.



Unearned Principal Report:

Unearned Principal Report from 7/26/2016 to 8/26/2018

24 Month						
Loan Number	Borrower	Origination Date	Funded Amount	Vendor Payable	Unearned Principal	Adjustment Discount
L10000013	Tom Walters	1/4/2018	4,395.00	3,735.75	659.25	27.47
L10000028	Allen Discount	6/1/2018	100,000.00	80,000.00	20,000.00	833.33
Subtotal for 24 Month			104,395.00	83,735.75	20,659.25	860.80
Total			104,395.00	83,735.75	20,659.25	860.80

The report is a list of all loans originated in a selected period, which will have the Discounted Purchase Price percent greater than zero. Records are grouped by loan terms (12 months term, 24 months term etc.).

Earned Principal Transactions Report:

Earned Principal Transactions						From 8/26/2017 to 8/26/2018
Loan #	Borrower	Ref. #	Trs. Date	Principal Received	Discount %	Earned Principal
L10000013	Tom Walters		2/4/2018	153.49	85.00	23.02
L10000013	Tom Walters		3/4/2018	155.80	85.00	23.37
L10000013	Tom Walters	ef42f	4/4/2018	158.13	85.00	23.72
L10000013	Tom Walters	34523	5/4/2018	160.51	85.00	24.08
L10000028	Allen Discount		7/1/2018	3,781.16	80.00	756.23
L10000028	Allen Discount	4564	8/1/2018	3,812.67	80.00	762.53
Report Total				8,221.76		1,612.95

This report provides is a list of all received payments in a selected period, which will calculate earned principal.

Earned Principal in Period Report:

Earned Principal in Period								From 8/27/2017 to 8/27/2018
Loan #	Borrower	Funded Amount	Disc. %	Initial Balance	Start Balance	Earned In Period	Ending Balance	
L10000013	Tom Walters	4,395.00	85.00	659.25	659.25	627.93	31.32	
L10000028	Allen Discount	100,000.00	80.00	20,000.00	20,000.00	7,593.83	12,406.17	
Report Total				20,659.25	20,659.25	8,221.76	12,437.49	

This report will provide a summary of all unearned principal enabled loans, what was the initial balance of the unearned principal, what is the unearned principal balance at a

selected start period, how much was received in a period, and what the ending balance is. The ending balance is the actual unearned principal balance at the end of the selected period.

Other things to keep in mind regarding these reports:

1. The initial discounted principal balance cannot be adjusted. This amount is calculated based on the discounted purchase price and the loan funded amount. If the loan funded amount is changed during the life of the loan, the expected unearned amount will be recalculated using the new funding amount.
2. The earned principal cannot be adjusted. It is calculated based on the discounted purchase price and the received principal from borrower payment.