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# Lease Loan Tools

## Configuring and Working with Lease Loans in CU\*BASE

### INTRODUCTION

This booklet describes various CU\*BASE tools that can be used to set up and monitor a lease loan program for your credit union members.

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## OVERVIEW

When considering a lease program for your credit union, it is important to understand that a lease program is much more than the simple data processing involved in servicing the loan. Make sure that you understand the operational issues and how CU\*BASE can be partnered with your own policies and procedures to making leasing a real winner for your credit union.

In most cases, your credit union will use a lease agency to help you design an process member leases. Review their procedures carefully and compare them to the CU\*BASE features to ensure a good fit. Take the time to review your policy with a CU\*BASE representative before implementing your lease program.

### CALCULATION OF INTEREST INCOME

CU\*Answers recommends you process leases with a vendor that allows you to calculate and accrue interest on the lease through the CU\*BASE system (365-day formulas are preferred). If the system is not calculating the interest income, interest due must be manually calculated as a portion of the payment. This is cumbersome and at best awkward as to timing, non-scheduled payments, and delinquent situations.

### LEASE/BALLOON INDICATOR

Loans can be flagged as a lease or a balloon loan using the *Lease/Balloon Indicator* flag, available on the Loan Information screen used when creating a loan request. (See Page 5 for a sample.)

*HINT: To make these loans easier to identify in teller posting, you may wish to use a specific account suffix for lease loan accounts, and include the word "Lease" in the loan category and corresponding account suffix description.*

### RESIDUAL VALUE

In addition to the *Lease/Balloon Indicator* check box, another field is available on the Loan Information screen to track the *Residual Value* of the leased item outlined in the contract. This could be used several different ways, depending on whether the principal value of the lease includes the Residual Value or if the Residual Value has already been subtracted from the balance when the loan amount is entered.

*This is accomplished by using a special checkbox. Use lease residual in payoff, in the Loan Category configuration ("**Loan Category Configuration**" on the Loan Product Configuration (MNCNFB) menu). Each category can be configured differently depending on the lease program.*

For example: Bill leases a car with a sticker price of \$40,000 for 3 years with a residual value of \$24,000. How should account inquiry display the payoff amount for the lease?

One option would be to display the residual value and subtract it from the full value of the loan (*Use lease residual in payoff* would be checked in the loan category configuration):

Current Balance	40,000.00
+ interest	0.00
+ delq fine	0.00
- residual value	<u>16,000.00</u>
= Loan Payoff	24,000.00

Another option would be to subtract the residual value from the total loan amount and show the *result* as the loan balance (*Use lease residual in payoff* would be *unchecked* in the loan category configuration). For this option, the credit union would subtract residual value amount from the total loan and use the result when it creates the loan:

Current Balance	24,000.00
+ interest	0.00
+ delq fine	0.00
- ins rebate	<u>0.00</u>
= Loan Payoff	24,000.00

Of course, there are other factors such as sales tax and miscellaneous penalties and fees, but these are not displayed since they are calculated based upon the payment and the situation.

## SALES TAX CALCULATION: PAYMENT MATRIX MISC. G/L %

The Payment Matrix tool can be used to calculate sales tax based upon the amount of the payment being credited to the lease. The sales tax is *calculated*, not fixed. Because it is calculated at the time of the payment, the calculation will work even when making payments other than the regularly scheduled amount. (See Page 7 for more details.)

## PAYMENT MATRIX OVERRIDE

Proc Code "X" is available in the Teller Posting system to allow a teller to override the normal payment matrix and post the lease payment according to the situation. The system displays how the payment is going to be credited (principal, interest due, sales tax, fines, etc), and adjustments can be made to all of the bucket totals. Sales tax payment can be waived, Misc. G/L allowances can be adjusted for penalties, and fines can even be waived or modified. (See Page 10 for more details.)

## LEASE DEALER TRACKING

The CU\*BASE Indirect Lending/Dealer Tracking software allows credit unions to track loans as both a dealer contract and a lease contract using either one or two different indirect lending agents. This makes it possible to record the compensation for each according to their relationship with the credit union.

For example: Bill's new car was purchased on a lease through KEMPER FORD (dealer #1001), and the leasing agent is CENTRAL LEASING (dealer

#2000). The loan and dealer reserves can be tracked under each dealer's trial balance. *(For more details, refer to the "Indirect Lending/Dealer Processing" booklet.)*

## LEASE LOAN REPORTS

At this time, no reports have been created specifically to show lease loan data. Statistical analysis can be accomplished via the Query program. However, if you would like to have a report put on the system that displays leased loans, please forward a specification sheet on how the leases should be reported and what information should be included.

# SETTING THE LEASE INDICATOR AND RESIDUAL VALUE ON A LOAN

## WHEN CREATING A LOAN REQUEST

Loan Information Screen - ("Work/View Application Status" on the Lending Functions (MNLOAN) menu, then Action Code "Loan Request")

The screenshot displays the 'Loan Request' application window for Application # 143189. The account base is 'MARY H MEMBER' with a credit score of 764 and paper grade X. The loan category is '33 NEW AUTO LEASE' and the loan product is '016 NEW AUTO LEASE - DRIVING SENSE'. Under 'Loan type', the 'Lease' radio button is selected and circled. The 'Residual value' field under the 'Leases Only' section is also circled. Other fields include 'Amount requested' (0.00), '# of payments' (063), 'Interest rate' (2.450), 'Application date' (Nov 19, 2013), 'Disbursement date' (Nov 19, 2013), and 'First payment date' (Dec 19, 2013). The 'Additional Details' section includes 'Refinanced amt.' (0.00), 'Variable int. code', 'Maturity date', 'Co-borr. birth date', 'Loan fees to include in modified APR' (0.00), 'Purpose' (01 Security), 'Delq fine' (02), 'Review date', 'ECOA' (1), and 'Dealer/Indirect ID'. The 'Leases Only' section has a 'Residual value' field set to 0.00. The bottom of the screen shows navigation buttons and the version number FR (4184) 11/19/13.

For a lease loan, choose *Lease* from the *Loan type* selections. This will display the *Residual value* field, which you can use to record the residual value for this lease, as applicable (see Page 2 for a discussion of how to use this field).

# ON AN EXISTING LOAN ACCOUNT

“Update Account Information” on the Update Functions 1 (MNUPDT) menu

Use *Lease/Bal/RVal* (F5) to modify the lease and residual setting on an existing loan account.

“Lease/Bal/RVal” (F5)

# CALCULATING SALES TAX: PAYMENT MATRIX MISC. G/L PERCENTAGE

This feature was designed so that each time a payment is made on a loan, the system will automatically take a certain percentage of the payment made and designate it for a specific G/L account. The most common use will be for sales tax on lease payments, although the system can be used for other situations as needed.

*IMPORTANT: The percentage calculation is done at the time the payment is made, using the actual amount of the payment transaction. This ensures that the defined percentage is taken out of the paid amount, regardless of whether a normal, full payment is made or not.*

Payment Matrix Priorities			
Fine amount	2	Interest Due	3
Principal	4	Escrow	0
Misc. G/L	1		
Over payment indicator	PRN		
Miscellaneous G/L account	803.50		
Miscellaneous G/L transaction description	SALES TAX		
Miscellaneous G/L amount	0.00	or	6.000 %

In order for this feature to work properly, the Payment Matrix for the loan account should be configured as follows (remember that Payment Matrix setup can be done either at the loan category configuration level, or on individual loan accounts as needed):

- Miscellaneous G/L processing should be assigned priority **1** in the payment matrix sequence.
- Use the **Misc G/L percent** field to enter the percentage amount (use 3 digits past the decimal place).

Following is a diagram showing the calculation that will be done when a payment is made:

$$\begin{aligned}
 \text{Regular Payment Amount} &= \$120.00 \\
 \$120.00 \div 1.06 &= \$113.21 \text{ (rounded)} \\
 \$120.00 - \$113.21 &= \$6.79 \text{ (this amount is designated for the G/L account)}
 \end{aligned}$$

Assuming the loan was delinquent, transaction history would show the following transactions:

Tran Date	Amount	Interest	Current Balance	Transaction Description	Transfer Account
7/08/06	4950.29	.00	5000.00	LOAN DISB, TRANSFER	173-000
7/08/06	120.00-	17.50	4897.50	LOAN PAYMENT	
7/08/06	10.00	.00	4907.50	DELQ. FINE PAYMENT	
7/08/06	6.79	.00	4914.29	MISC FUNDS XFER	

## Sample Scenario

Fred Q. Member has a automobile lease account with a regular monthly payment of \$100.00, including a 6% sales tax to be credited to the sales tax G/L account. Fred's payment matrix would be set up as follows. Notice that Miscellaneous G/L processing is set up as the first item in the sequence.

"Miscellaneous Loan Maintenance" on the Lending Functions (MNLOAN) menu, then "Payment Matrix"

Session 0 CU\*BASE GOLD Edition - Payment Matrix Update

Loan account 720 MARY M MEMBER  
Loan category 33 NEW AUTO LEASE

**Payment Matrix Priorities**

Fine amount 4  
Interest due 2  
Principal 3 If fixed, enter principal amount 0.00  
Escrow 5  
Misc G/L processing 1

G/L account 135.00  
G/L amount 0.00 Or - 6.000%

Over payment indicator PRN

Skip

FR (2372)

If you are using the GL % feature, it is necessary for this item to be first priority in your payment matrix.

In March, Fred makes a payment of \$100.00 on his account. The system automatically takes \$5.66 [ $\$100 - (100 \div 1.06)$ ] and credits it to G/L account 849-12. Assuming Fred is not delinquent, the remaining \$94.34 is credited toward principal and interest.

## HANDLING PAYOFF

Paying off a lease is very different from paying off a car loan. The credit union must develop a clear policy on all of the steps required for payoff. This policy is beyond the scope of data processing features, and should include credit union operational factors such as notification to the loan department, disposition of final sales tax amount, miscellaneous payoff penalties or other fees, completion of lease paperwork and disposition of the property.

Therefore, it is not fair to expect every teller on the teller line to understand the processes necessary to handle lease payoffs correctly.

In addition, if using the Misc. G/L % feature to calculate sales tax on a lease, special steps are required when the final payment is made on this loan, so that the % calculation does not prevent the loan from being paid down to zero.



For example: If a loan has a payoff of \$25.60 split between \$19.00 principal and \$6.60 interest due, and you try to post \$25.60, the system will calculate a tax and short the payoff by \$1.45. However, if you try to post \$25.60 plus \$1.45 to the loan, the system will indicate that you are overpaying the loan.

There are several for handling payoff, depending on whether or not sales tax is to be taken for the last payment:

1. If sales tax is NOT to be paid on the final payment, the teller would enter the exact payoff amount as a deposit on the loan and enter Proc Code "X" (Override Payment Matrix, described on Page 10). When the Override window appeared, the amount for the Misc. G/L would be cleared and added to the Principal amount. When posted, no sales tax would be designated for the G/L account (sales tax) and all funds would go toward paying off the loan.
2. If sales tax SHOULD be paid on the final payment, payoff should be handled as in Step 1. Then, sales tax will need to be calculated manually and posted as a Miscellaneous Receipt.

**IMPORTANT:** Miscellaneous fees or other fines to be charged when paying off the loan (or at any time during the life of the loan) should be handled by using the "R" Proc Code for Miscellaneous Receipts.

*HINT: Configure a Misc. Receipt code (Use "Misc. Posting Code Config" on the General Configuration 1(MNCNFC) menu) to be used to designate the funds to the proper G/L account.*

# PAYMENT MATRIX OVERRIDE

Teller Posting Proc Code "X"

	Priority	Amount
Principal	4	262.20
Interest	3	10.53
Fine	2	0.00
Misc G/L	1	27.27
Total		300.00

**i** Making adjustments to these amounts will alter the way the loan payment is applied. Make sure the amounts add up to the total payment being made.

The Override Payment Matrix feature lets a teller override the normal payment matrix on a loan account and post the payment according to the situation. This is often used when handling payments on lease loans, but can apply in other situations as well.

The system displays how the payment is going to be credited (principal, interest due, sales tax, fines, etc.), and adjustments can be made to all of the "bucket" totals. Sales tax payment can be waived, Misc. G/L allowances can be adjusted for penalties, and fines can even be waived or modified according to credit union policy.

Use the *Amount* fields to enter the appropriate amounts to be distributed (the items listed will vary depending on the loan category). The total funds distributed must equal the amount of the payment being made. Use Enter to record the payment matrix and exit the window.

*For example, if a final lease payment is being made and sales tax is NOT to be paid on the final payment, the amount shown for the Misc. G/L (sales tax) would be cleared and added to the Principal amount. When posted, no sales tax would be designated for the G/L account and all funds would go toward paying off the loan.*

**NOTE:** Proc Code "X" can only be used when making a direct deposit into a loan account; it cannot be combined with a transfer (Proc Code "T"). Therefore, if a member wants to transfer funds from another account to make a loan payment, first withdraw the funds and use *Bal Fwd/This Mbr* (F11). This will allow you to move to a new window where you can then deposit the loan funds into the loan account, using the X Proc Code if needed to determine the payment breakdown.