Lesson 22 Creating Loans 201

Prerequisite Lesson 1

> Loan Master Loan Servicing Software (www.loansoftware.com)

IRS Installment Sale

Prerequisite Lesson 1 Lesson 21

Related Lesson 27

Lesson 21 covers creating a new loan with ths simplest features and fewest possible options. This lesson will cover a slightly more complex loan situation with more features and data to enter. This is a loan to finance the sale pr a piece of real estate we foreclosed on from a previous borrower and we now own it.

Mr. Branson is purchasing the property by giving us a down payment and a mortgage for the balance of the purchase price.

From the Main Menu, select Loan, New Loan - Installment Sale

This dialog has three tabs. They are similar to the New Loan - Simple dialog but considerably more detailed.

Note that some fields are White and others are yellow. The white fields are required fields. You cannot save a loan with an empt white field. The yellow fields are optional.

🧲 Add New Loan - Installr	nent Sale (NL-004)	<u>- </u>
Loan ID	Amounts	Terms
Portfolio A CustomerNo Loan No Loan Name Comment1 Comment2 Collatera1 Alpha1 Alpha2 Mail Code A Send Form 1098? N		
		Save Cancel

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Begin the new loan setup on the Loan ID tab.

Add New Loan - Inst	allment Sale (NL-004)	
Loan ID		Amounts	Terms
Portfolio CustomerNo Loan No Loan Name Comment1 Comment2 Collateral Alpha1 Alpha2 Mail Code Send Form 1098?	DEFERRED 20680 11493 Vauahter Inve Purchased F	3AIN estments #1 oreclosure	
			Save Cancel

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Enter:

Portfolio	DEFERREDGAIN
Customer No	20680
Loan Name	Vaughter Investments #1
Comment 1	Purchased Foreclosure

Note that the customer, No 20680, is David Branson. His company name is Vaughter Investments

You may if you like experiment by entering other optional comments in the yellow fields.

When finished with the Loan ID tab, click on the Amounts tab. This tab is a new setup experience. Notice that it has three colors. Fields are white, grey, and yellow. You know by now what white and yellow mean. Grey means that the data is calculated by the system and displayed only. You cannot enter it or change it.

<mark>၆</mark> Add New Loan - Installment	CAdd New Loan - Installment Sale (NL-004)										
Loan ID		Amounts	Terms								
Sales Price	200000.00	Int Rate Original	8.5000								
Down Payment	25000.00	Disclosed APR	0.5800								
Original Face Amount	175000.00	Interest Basis	365 💌								
Cost Basis	170000.00	LC Rate	0.0500								
Percent Deferred Gain	15.0000	LC at Day									
Total Gain	30000.00										
Deferred Gain	26250.00										
°											
			Save Cancel								

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Begin by entering the sale price - 200,000.00. Never, by the way enter the "\$" or the "," commas. The system will enter them for you. It is OK to enter the decimal point.

When you press the enter key after entering the sale price, the | (insertion point) moves to the down payment field. Enter the down payment amount - 25,000.00.

When you press the enter key after entering the down payment, the grey field Original Face Amount displays the amount \$175,000.00 and the insertion point jumps over it to the next field - Cost Basis.

After the foreclosure, your basis in this property was 170,000. Enter that in the Cost Basis field and press enter. The remaining fields in the left hand column will display the calculated results:

Percent Total Gain	15%
Total Gain	30,000.00
Deferred Gain	26,250.00

Since this is a tutorial on loan setups and not IRS tax code, we will not detail how the numbers are calculated in this lesson.

In the right hand column, enter the remaining data like the display above.

Click on the Terms tab.

Loan ID Amounts rems Regular Payment Amount 13.460.00 Date Note 09/01/2005 Balloon Payment Amount 13.460.00 First Payment Due 11 Payment Frequency 12 Maturity Date 10/01/2005 Number Payments 360 No Int Before 11 No Payments Int Only Date Ins Expires 11 Maximum Late Charge 0.00 3 3		IE (NE-004)		1	
Regular Payment Amount 13.460.00 Date Note 09/01/2005 Balloon Payment Amount 13.460.00 First Payment Due 11 Payment Frequency 12 Maturity Date 10/01/2005 Payment Type 1 Date Ins Expires 11 Number Payments 360 Date Ins Expires 11 No Payments Int Only 0.00 Date Charge 0.00 Minium Late Charge 5.00 5.00 Save	Loan ID	Ar	nounts		Terms
Regular Payment Amount 13.460.00 Date Note 09/01/2005 Balloon Payment Amount 13.460.00 First Payment Due / / Payment Frequency 12 Maturity Date 10/01/2005 Payment Type 1 No Int Before / / Number Payments 360 Date Ins Expires / / No Payments Int Only Payment Allocation Option 3 Maximum Late Charge 0.00					
Balloon Payment Amount 13.460.00 First Payment Due / / Payment Frequency 12 Maturity Date 10/01/2005 Payment Type 1 No Int Before / / Number Payments 360 Date Ins Expires / / No Payments Int Only Payment Allocation Option 3 3 Maximum Late Charge 5.00 5.00 5	Regular Payment Amount	13.460.00		Date Note	09/01/2005
Payment Frequency 12 Maturity Date 10/01/2005 Payment Type 1 No Int Before 1 // 1 Number Payments 360 Date Ins Expires 1 // 1 No Payments Int Only Payment Allocation Option 3 3 Maximum Late Charge 5.00 5.00 5.00 5.00	Balloon Payment Amount	13.460.00	First Pa	nyment Due	11
Payment Type 1 Image: Constraint of the second sec	Payment Frequency	12 💌	Ma	aturity Date	10/01/2005
Number Payments 360 Date Ins Expires // / No Payments Int Only Payment Allocation Option 3 Maximum Late Charge 0.00 Minium Late Charge 5.00	Payment Type	1 💌	No	o Int Before	11
No Payments Int Only Payment Allocation Option 3 Maximum Late Charge 0.00 Minium Late Charge 5.00	Number Payments	360	Date	Ins Expires	11
Maximum Late Charge 0.00 Minium Late Charge 5.00	No Payments Int Only		Payment Alloca	tion Option	3 💌
Minium Late Charge 5.00	Maximum Late Charge	0.00			
Save Can	Minium Late Charge	5.00			
Save Can					
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Enter the data as per the display above. NOTE that we deliberately left the First Payment Due date blank (part of the lesson)

Click on Save.

You will see the following error message. Note that the missing field background has turned red to help you find it.

1	😉 Add New Loan - Installment Sal	e (NL-004)		<u>_0 ×</u>	1
	Loan ID	Amounts		Terms	
	Regular Payment Amount Balloon Payment Amount Payment Frequency Payment Type Number Payments No Payments Int Only Maximum Late Charge Minium Late Charge	13.460.00 13.460.00 12 ▼ 1 ▼ 380 0.00 5.00 Payme	Date Note First Payment Due Maturity Date No int Before Date ins Expires ant Allocation Option	09/01/2005 1 / 10/01/2005 1 / 3 ×	crosoft Visual FostPro X Visual fostPro X Visual for a more required fields blank. Check all the table for blank india wath red backgrounds: ALL these fields must contain valid data. Click the Cancel button to abort this loan setup. CK
				Save Cancel	

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Close the error message, enter the first payment date 10/01/YY. The example is 2005, you may be using a later year.

Click on save again.

Return to the Find tab and find the loan 11493

Customer Name	Loan No	Cust No	Port 🔺
Vaughter Investments #1	11493	20680	DEFERREDGAIN
Show Zero Balance Loans I Items Selected.		Filter the lis 11493 • Begins	t by: C includes

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Click on the Customer tab and review the data.

Loan S	iession (LS∹	309)						
an No	: 11493	Cust No: 20	680 <u>I</u>	.oan Name	e: Vau	ghter Im	vestments	; #1
ind C	ust Loan	Dates Terms	Status Misc	Misc 2	Hist	Trans	Commen	t Print
Cus	tomer No	20680		Taxnav	er ID	977-96	-2755	
13	ast Name	Branson		Customer	Type			
Fi	rst Name	David		Credit R:	ating	B		
Mid	dle Initial			Cr Lim	Sec	-		
Compa	any Name	Vaughter Investm	ent Property	onerty Cr Limit Unsec				
	Address	1813 Balboa Plac	e. Suite 204	Home Phone 605-973-819			3-8190	
	Address			Work Phone 827-248-525			8-5254	
	City	Dallas		Cell P	hone	510-80	5-0482	
	State	TX Zip 7522	24	FAX P	hone	594-51	2-7880	
Custor	mer Commer	nt						
	1							
	Print Stml	Enable Edits	Post Payment	Post Tra	ins	Loan Se	arch Pay	/off Screen
			-				Contraction and Annual	

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Click on the Misc2 tab and check the date here. This is where the system displays data about deferred gains on installment sales.

oan I	No: 11	493	Cu	ist No: 20	680	Lo	an Nam	e: Vau	ghter In	vestment	s #1
ind	Cust	Loan	Dates	Terms	Status	Misc 1	Misc 2	Hist	Trans	Comme	nt Print
		Purchas	e Discou	unt				S	ale Price	20	000.00
Un	Unearned Purchase Discount							Down I	Payment	2	5000.00
Discount Net Remaining Value							Origina	al Face	Amount	179	5000.00
Discount Yield to Maturity							Co	st Basis	170	0000.00	
Discount YTD							Deferred Gain 20				.250.00
Discount Book Value				ue		Percent Gain			-	15.0000	
		Pri	ce Paid (%)		Totalgain 30			00.00		
		Send F	orm 109	8? N			Partial F	Pmt Ca	Iculation		
								Use	r Field 1		
								Use	r Field 2		
<u>1944-00</u>		rint Strat		able Edits	Post P	avment	PostTr	ans	L nan Se	arch Pa	voff Screen
		init othic		abic Eults	1 0311	ayment	i ost in	ans	Loan de		yon ocreen
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What does this mean?

You sold the house for 200,000.00. You received a down payment of 25,000 and took a mortgage for the remaining balance of 175,000.00. Your cost basis was 170,000.00 so you had a gain of 30,000.00. Since you are selling this on installments, you realize the loan over the life of the loan. Your gain of 30,000 is 15% of the total sale price.

15% of every principal payment received is gain on the sale of the property. 15% of the down payment is gained at closing 15% times 25,000.00 is 3,750.00. That amount is already realized gain. The total gain was 30,000.00 and 3,750.00 is already realized so the unrealized - deferred - gain is 26,250.

Select the Trans Tab

TranDate	TCode	Tran Amt	Comment	PostDate	•
09/01/2005	11	175,000.00	Initial setup balance.	09/23/2005 02:20:49 PM	
09/01/2005	1131	3,750.00	Initial gain realized	09/23/2005 02:20:49 PM	
			1		•
•					

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The system has created two entries for this loan. The first is the tran code 11 entry for the original setup balance. The second is the deferred gain realized on the down payment.

Since this is a real estate loan you need a collateral record. Click on the Collateral tab. You are informed that no collateral record exists for this loan and asked if you want to create one. Normally you would answer Yes but that would make the lesson too long. If you want to continue with the collateral recore, see lesson 27. It is not for this loan but it will teach you how to do it.



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