Paragon 5

Financial Calculators User Guide

LPS
REAL ESTATE GROUP
A LENDER PROCESSING SERVICES COMPANY

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Financial Calculators

Paragon 5 introduces a new robust set of financial calculators.

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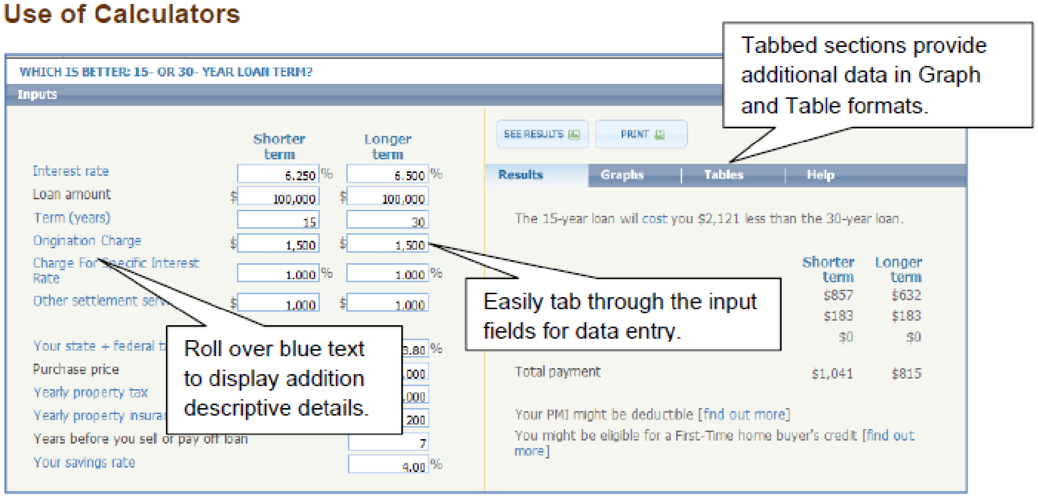
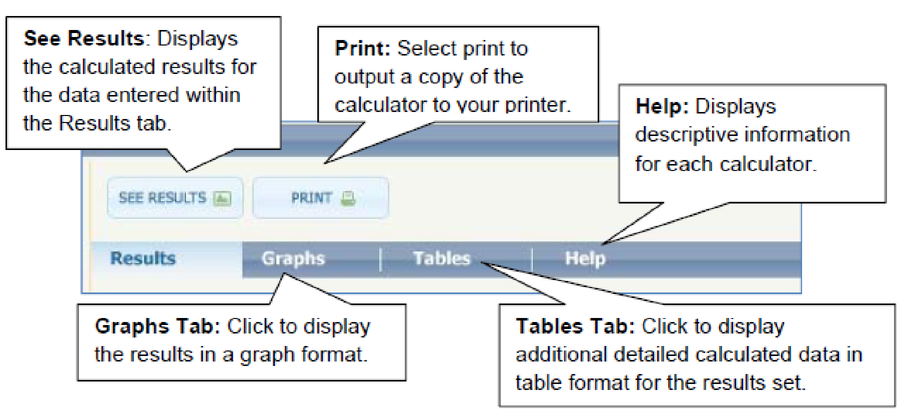
From calculating loan terms to determining refinancing costs, the expanded set of calculators provides the financial resources to assist the user with the tools to effectively advise clients with their personal and/or business finance decisions.

Use of Calculators

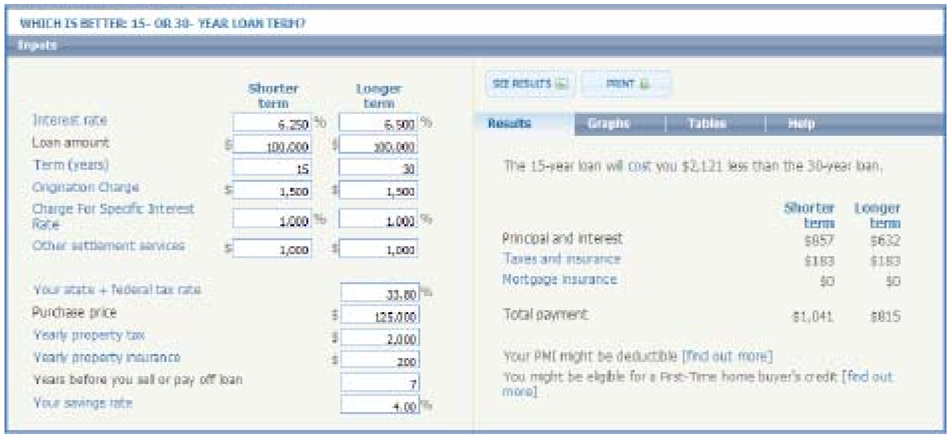


The same set of controls is available for each Financial Calculator as described below.



Mortgage Calculators

15 Yr vs. 30 Year

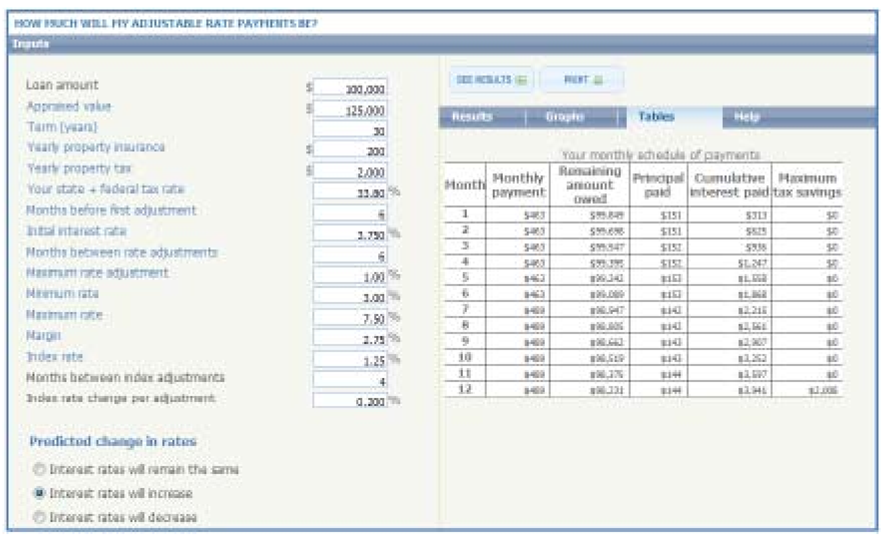


This calculator calculates monthly payments for two fixed-rate mortgage loans and helps you determine which loan is the better deal. Monthly savings that you realize from different payment amounts are invested at a savings interest rate that you designate.

Loan terms do not have to be 15 or 30 years. Since these periods are the two most common periods for mortgage loans, they are used as defaults.

A shorter loan term generates less mortgage interest, reducing your mortgage interest deduction. It also requires you to make larger monthly payments. However, a shorter loan term allows you to pay off the loan sooner and invest elsewhere.

Adjustable Rate Amortizer



This calculator calculates your monthly payment for an adjustable-rate mortgage (ARM) loan, given a loan amount and loan terms. Payments on an adjustable-rate mortgage are fixed for an initial period and are usually adjusted annually after the initial period. For example, a 3/1 ARM loan would have a fixed rate for the first three years and be readjusted once a year thereafter.

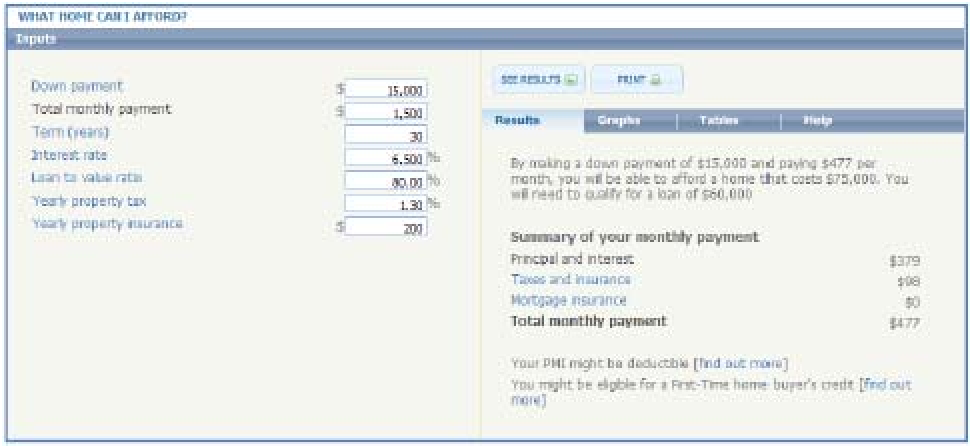
The interest rate on an adjustable-rate mortgage loan is reset on the loan's anniversary date. To calculate the new rate, a spread, or margin, is added to a widely used index rate.

Two widely used index rates are the yield on 1-year U.S. Treasury bills and 11th District Cost of Funds Index (COFI), published by the Federal Home Loan Bank Board.

Your monthly payment increases or decreases with a change in the loan interest rate. Because loan payments change periodically, adjustable-rate mortgages are not for every homeowner.

Adjustable-rate mortgage loans usually have a periodic and lifetime cap that limit how high the interest rate can change in one period and over the lifetime of the loan, respectively.

Affordability



This calculator calculates the size of a mortgage loan you may be able to afford for a given down payment and total monthly loan payment.

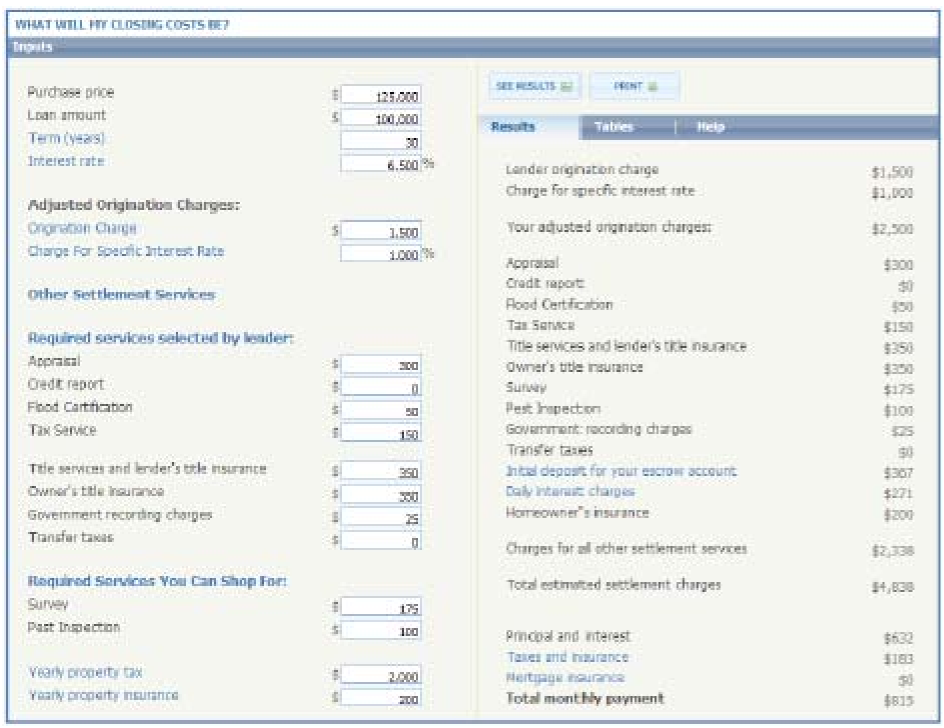
Payments are shown for principal and interest (P+I) and combined payments. Combined payments include insurance and taxes, and mortgage insurance if necessary.

Closing Cost

This calculator calculates your mortgage closing costs for a given set of loan terms. The calculator lumps closing costs into three categories: fees, prepaid interest and impounds. Prepaid interest represents accrued interest up to the first mortgage payment.

Payments are shown for principal and interest (P+I) and combined (P+I+T+I) payments. Combined payments include insurance, taxes, and private mortgage insurance where applicable.

If you enter a loan amount that is more than 80% of the home's appraisal value, the calculator estimates a monthly amount for private mortgage insurance (PMI). Mortgage lenders generally require that you obtain mortgage insurance if your down payment is less than 20% of the home purchase price.

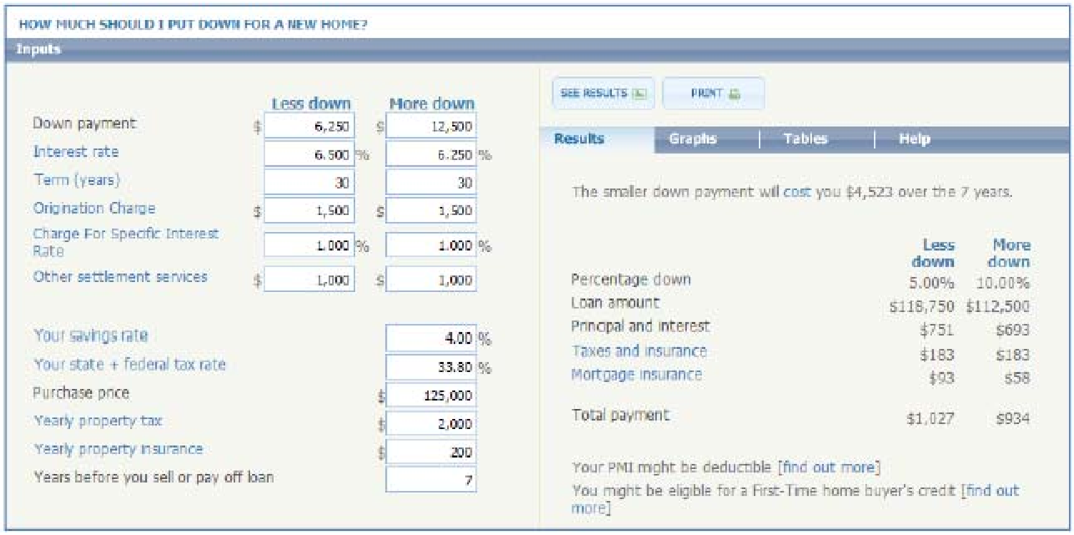


Down Payment

This calculator calculates your monthly mortgage payment for two loans, given a down payment and other loan terms.

Payments are shown for principal and interest (P+I) and combined (P+I+T+I) payments. Combined payments include insurance, taxes, and private mortgage insurance where applicable.

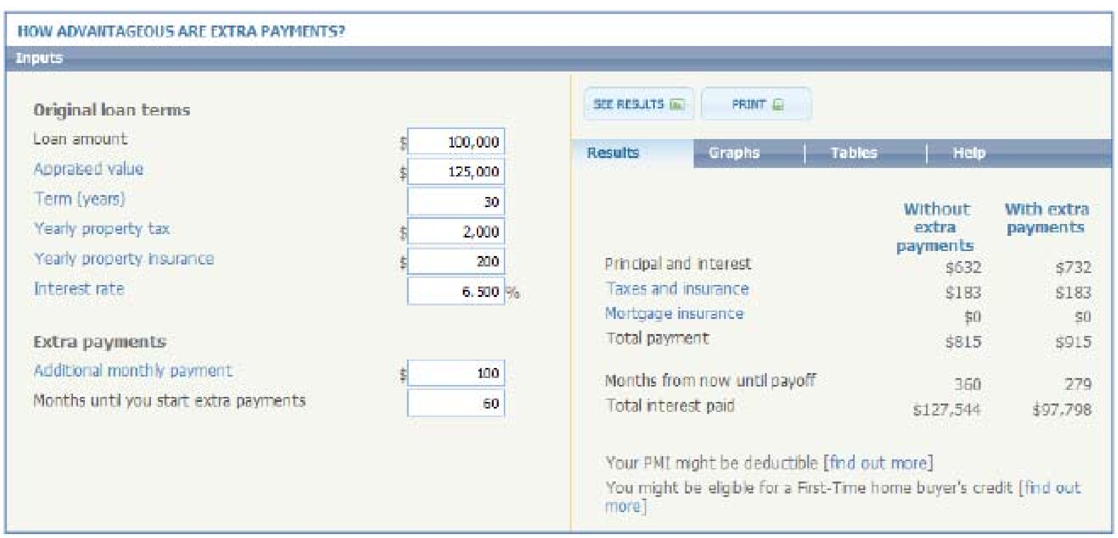
If you enter a down payment that is less than 20% of the home purchase price, the calculator estimates a monthly amount for private mortgage insurance (PMI). Mortgage lenders generally require that you obtain mortgage insurance if your down payment is less than 20% of the home purchase price.



Extra Payments

This calculator calculates the savings in mortgage interest you realize by making prepayments for a given set of loan terms. It also calculates how many months sooner you will pay off the loan. The entire amount of additional payments is applied to amortizing the loan principal.

Some mortgage loans may have a prepayment penalty. Check with your lender to verify whether your loan has such a penalty.



Financial Amortizer

This calculator calculates your monthly mortgage payment for a given loan amount, interest rate and loan term.

Payments are shown for principal and interest (P+I) and combined (P+I+T+I) payments. Combined payments include insurance, taxes, and private mortgage insurance where applicable.

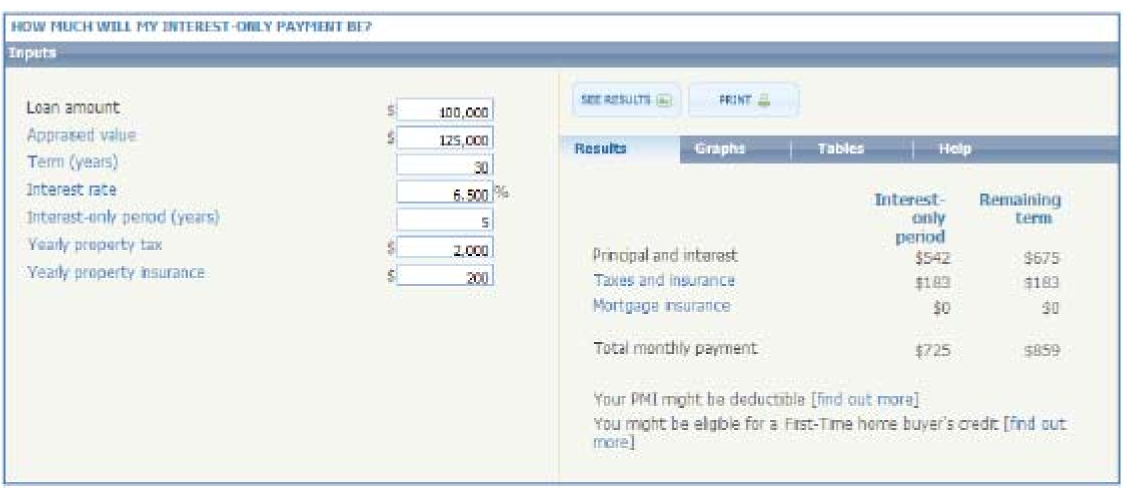
If you enter a loan amount that is more than 80% of the home's appraisal value, the calculator estimates a monthly amount for private mortgage insurance (PMI). Mortgage lenders generally require that you obtain mortgage insurance if your down payment is less than 20% of the home purchase price.

Interest Only Payments

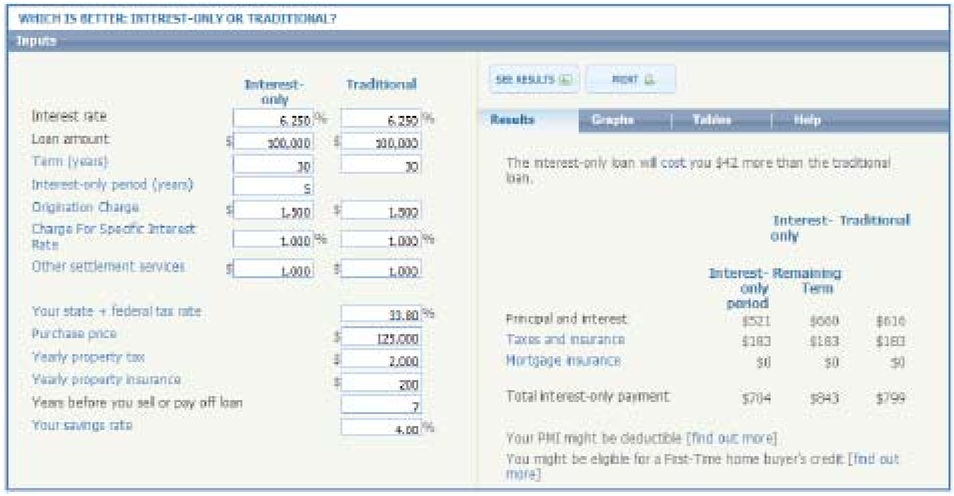
This calculator estimates your monthly mortgage payment for an interest-only loan. An interest-only loan is a loan in which the borrower pays only interest payments and doesn't pay off any of the loan balance at the beginning of the loan. After this interest-only period, payments are increased to repay the principal fully in the remaining time. The longer the interest-only period lasts, the sharper the jump in monthly payment will be once it ends.

Monthly payments are shown both during and after the initial, interest-only period. This calculator also shows the components of the payment: principal and interest, taxes and insurance, and mortgage insurance when your down payment is less than 20% of the value of the home.

The interest-only loan used in this calculator is assumed to have a fixed rate.



Interest Only vs. Traditional



This calculator compares a traditional, fixed rate mortgage loan to an interest-only loan. The difference between the two is shown in terms of overall cost difference for the time you plan to be paying both loans, as well as a comparison of the monthly payments. Monthly payments for the interest-only loan are shown both during and after the initial, interest only period.

An interest-only loan might be advantageous if the borrower has an uneven stream of income (commissions), if the borrower expects to have an increase in income before the payments increase, or if the borrower intends to sell the house in a short time and home values are increasing. Also, an interest-only loan allows someone to qualify for a more expensive home.

On the other hand, the actual amount of interest paid over the term of the loan is higher with an interest-only loan and during a period of stagnant or falling real estate prices, it is easy to get into a position where the value of the property is less than the loan balance. In cases where the interest-only loan is also an adjustable rate mortgage, the payment increase at the end of the interest-only period can be dramatic.

Lender vs. Lender

This calculator calculates which of two mortgage loans is the better deal. Either or both of the loans may be fixed- or adjustable-rate (ARMs) loans.

Amounts are shown for principal and interest (P+I) and combined (P+I+T+I) payments. Combined payments include insurance, taxes, and private mortgage insurance where applicable.

The interest rate on an adjustable-rate mortgage loan is reset on the loan's anniversary date. To calculate the new rate, a spread, or margin, is added to a widely used index rate.

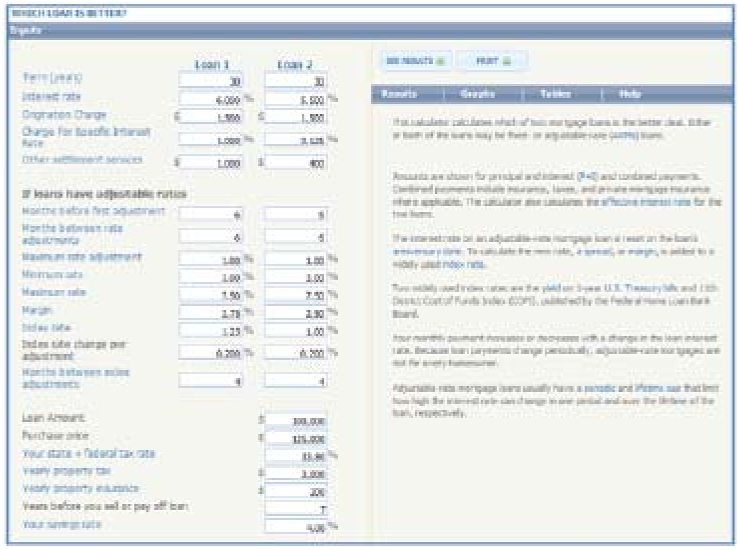
Two widely used index rates are the yield on 1-year U.S. Treasury bills and 11th District Cost of Funds Index (COFI), published by the Federal Home Loan Bank Board.

Your monthly payment increases or decreases with a change in the loan interest rate. Because loan payments change periodically, adjustable-rate mortgages are not for every homeowner.

Adjustable-rate mortgage loans usually have a periodic and lifetime cap that limit how high the interest rate can change in one period and over the lifetime of the loan, respectively.

Loan Compare

This calculator calculates which of two mortgage loans is the better deal. Either or both of the loans may be fixed- or adjustable-rate (ARMs) loans.



Amounts are shown for principal and interest (P+I) and combined payments. Combined payments include insurance, taxes, and private mortgage insurance where applicable. The calculator also calculates the effective interest rate for the two loans.

The interest rate on an adjustable-rate mortgage loan is reset on the loan's anniversary date. To calculate the new rate, a spread, or margin, is added to a widely used index rate.

Two widely used index rates are the yield on 1-year U.S. Treasury bills and 11th District Cost of Funds Index (COFI), published by the Federal Home Loan Bank Board.

Your monthly payment increases or decreases with a change in the loan interest rate. Because loan payments change periodically, adjustable-rate mortgages are not for every homeowner.

Adjustable-rate mortgage loans usually have a periodic and lifetime cap that limit how high the interest rate can change in one period and over the lifetime of the loan, respectively.

Points Amortizer

This calculator calculates the monthly mortgage payment for two mortgage loans, given their respective interest rates and other loan terms, and helps you determine whether paying additional mortgage points in exchange for a lower interest rate is a good deal.

Either or both of the loans may be fixed- or adjustable-rate mortgages (ARMs).

Payments on an adjustable-rate mortgage are fixed for an initial period and are usually adjusted annually after the initial period. For example, a 3/1 ARM loan would have a fixed rate for the first three years and be readjusted once a year thereafter.

The interest rate on an adjustable-rate mortgage loan is reset on the loan's anniversary date. To calculate the new rate, a spread, or margin, is added to a widely used index rate.

Two widely used index rates are the yield on 1-year U.S. Treasury bills and 11th District Cost of Funds Index (COFI), published by the Federal Home Loan Bank Board.

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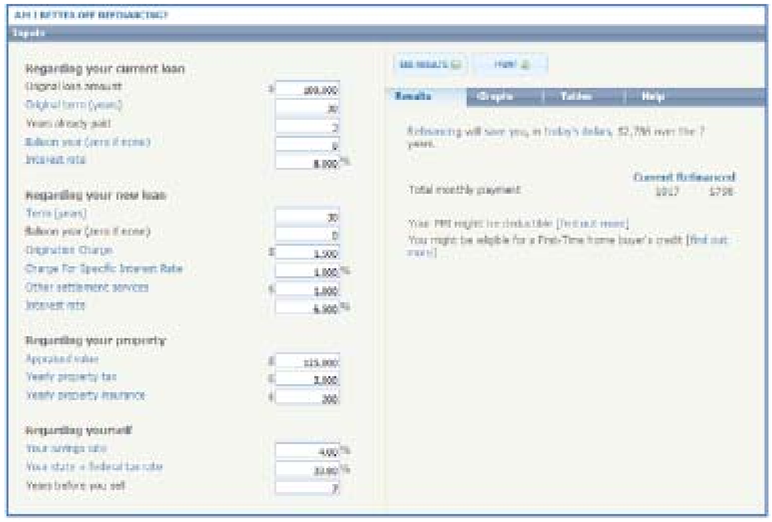
Refinancing



This calculator calculates whether the decision to refinance your mortgage loan is a good one based on the terms you enter for your current loan and the refinance loan that you are considering. Since it compares costs for the same loan amount, the calculator is not used to evaluate a cash-out refinancing.

The calculator calculates your current monthly payment and the payment you would make if you refinance using the loan terms you designate.

Refinancing generally makes sense if you can lower your monthly payment by enough to cover the associated closing costs. Often, the break-even point for a refinance is two to three years. If you plan on selling your home within a year or so, refinancing may not make sense.

Tax Savings

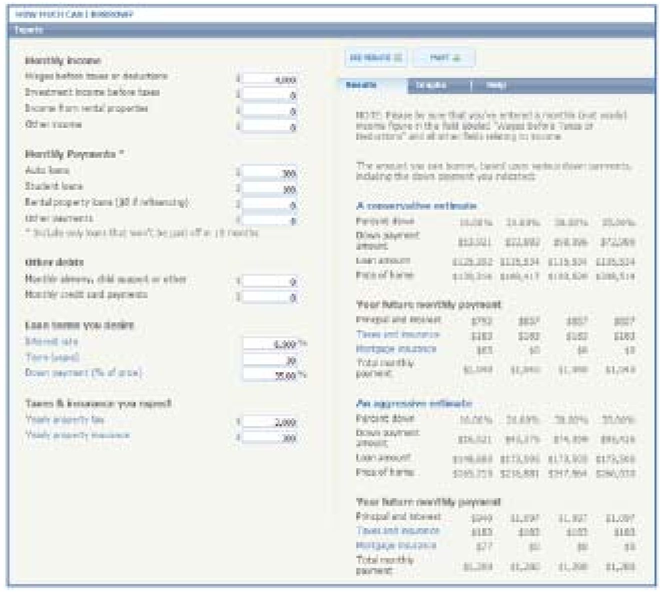
This calculator shows your average yearly tax savings on a mortgage loan and calculates your after-tax interest rate on the loan.

Loan closing costs, including mortgage points, are amortized over the term of the loan.

Tax savings on a mortgage loan increase at higher income tax rates, all else remaining the same. This is because mortgage interest is generally tax-deductible, reducing the after-tax interest rate.

Misc. Calculators

Buyer Qualify



This calculator calculates a range of monthly mortgage payments for two underwriting scenarios: one that uses aggressive underwriting guidelines and one that uses conservative guidelines.

The calculator uses the lower of two ratios for each set of results: payment-to-income ratio (also called housing ratio) and debt-income ratio (also called debt ratio).

When the economy is strong, lenders are more aggressive and raise these ratios to compete for business. When the economy is weak, lenders are more conservative and lower their ratios.

Mortgage payments are shown for a range of down payments that are in the range of your estimated down payment. Amounts are shown for principal and interest (P+I) and combined (P+I+T+I) payments. Combined payments include insurance, taxes, and private mortgage insurance where applicable.

The following housing ratios are used for conservative results: 29% for down payments of less than 20% and 30% for down payments of 20% or more. A debt ratio of 36% is used for all down payments.

The following ratios are used for aggressive results: housing and debt ratios of 31% and 38%, respectively, for down payments of less than 10%; housing and debt ratios of 32% and 40%, respectively, for down payments of 10% or more but less than 20%; and housing and debt ratios of 33% and 41%, respectively, for down payments of 20% or more.

Buyer's Cost

This calculator calculates the initial and ongoing cost of buying a home under four different prospective buying scenarios: an all cash purchase, use of a conventional mortgage, FHA mortgage financing and VA mortgage financing. It allows you to select the purchase option you wish to consider and determine the costs associated with that option.

The all cash purchase scenario assumes that the house is paid for in cash and that the only costs associated with the purchase would be the costs associated with executing the transaction. These costs include attorney, title, government recording and transfer fees and additional fees associated with evaluating the home purchase.

Mortgage financing purchase options consider conventional mortgage purchases, FHA or VA financing. As a result, monthly payment information is evaluated, including escrow of property tax and insurance payment requirements. Additionally, settlement charges associated with the mortgage selected are provided as are any fees associated with the obtainment of the loan.

Buying vs. Renting

This calculator calculates whether buying a home is a better deal than renting. In some cases, renting may be cheaper than buying. For example, renting often requires a smaller monthly cash outflow than a combined mortgage payment that includes principal and interest, insurance, taxes, (P+I+T+I) and possibly mortgage insurance.

As a result, renting may free up your cash flow and allow you to contribute or save. The calculator allows you to designate a savings interest rate to include these savings in the analysis.

The calculator calculates the tax savings you realize from deducting mortgage interest and mortgage points.

It also estimates the equity that you earn in your home over the time you own it, which boosts your personal net worth. Renting does not create net worth.

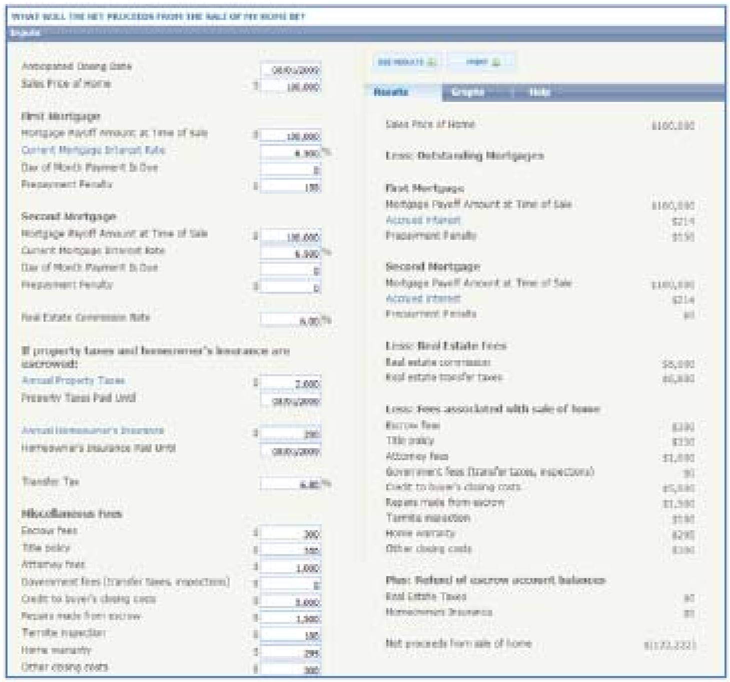
First Time Buyer Eligibility

The first-time homebuyer credit is a refundable tax credit available to first-time homebuyers who close on a home between April 9, 2008 and June 30, 2010. The credit is also available to long-term residents who close on a home between November 7, 2009 and June 30, 2010. If the buyer is in the U.S. Armed Forces, the U.S. Foreign Service, or an employee of the intelligence community, the closing deadline may be June 30, 2011. Please check with your tax advisor for details.

The credit may be taken on a 2008 tax return even if the home is purchased in 2009. For those who purchase the home in 2008, beginning with the second year after the year in which the credit is claimed, one-fifteenth of the credit must be paid back each year. The repayment is done through an addition to the tax of the homebuyer each year for fifteen years. This credit may be thought of as a fifteen year interest-free loan.

For those who purchase the home in 2009 or after, there is no repayment requirement as long as the new owner holds the new home as a principal residence for at least 3 years. To qualify as a first-time homebuyer, the buyer must not have owned a principal residence during the previous three years. To qualify as a long-term resident, the buyer must have had a principal residence for five consecutive years out of the prior eight years.

Net Proceeds



This calculator helps a homeowner determine the net proceeds that will result from the sale of their home given outstanding mortgage balances and fees associated with the sale of the home, including realtor fees, and a refund of any existing escrow account balances.

The calculator takes the sale price of the home and uses the funds received from the sale to pay off any existing mortgage balances, including accrued interest and any prepayment penalties that may be part of the loan agreement. Second mortgages (or home equity loans) are paid in a similar fashion.

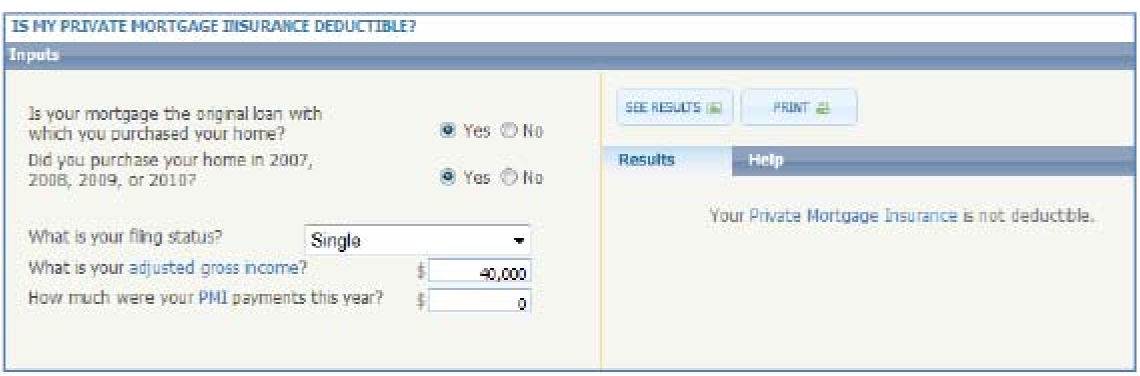
Once mortgage loans are satisfied, remaining proceeds are used to pay real estate commissions, real estate transfer taxes and any other fees associated with the sale of the home.

Homeowners that make escrow payments as part of their monthly mortgage payment may also have an escrow account balance that will be refunded to them following the sales of their home, provided all payment obligations for property taxes and homeowner's insurance are made up until the sale date.

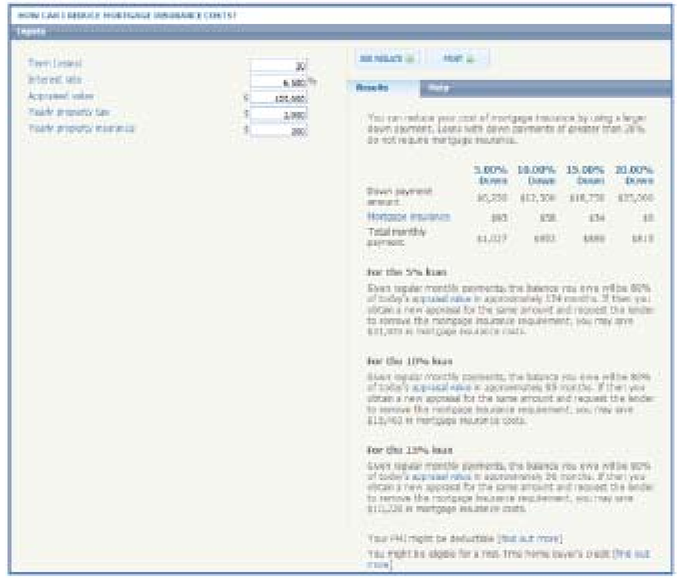
PMI Deductable

Mortgage insurance premiums paid on acquisition indebtedness (original loan) for a property acquired between 2007 and 2010 may be deducted as mortgage interest. Any prepaid mortgage insurance premiums must be deducted evenly over 84 months and, therefore, can't all be deducted in the year of payment.

The deduction is phased out for taxpayers with adjusted gross income of over $100,000 ($50,000 for married filing separate taxpayers) and is completely phased out at $109,000 ($54,500). The deduction was originally available only for 2007, but was extended through 2010.



Reduce Mortgage Insurance Costs



This calculator estimates your monthly payment for private mortgage insurance (PMI) over a range of down payments. If your down payment is at least 20% of the appraisal value of your home, your lender does not require you to obtain mortgage insurance.

Mortgage lenders require mortgage insurance if the loan-to-value (LTV) ratio is greater than 80%. When you close a mortgage loan, the ratio may be greater than 80% but it may be reduced in a few years as you pay off your loan principal and the value of your home appreciates.

You may have to pay for an appraisal to substantiate that your home's loan-to-value ratio is 80% or less. The Homeowner's Protection Act (HPA), passed in 1998, mandates that lenders cancel mortgage insurance when the loan-to-value ratio reaches 22%.

Refinancing Costs

This calculator calculates your closing costs if you decide to refinance your mortgage for a given set of loan terms. The calculator lumps closing costs into three categories: fees, prepaid interest and impounds. Prepaid interest represents accrued interest up to the first mortgage payment.

Refinancing generally makes sense if you can lower your monthly payment by enough to cover the associated closing costs. Often, the break-even point for a refinance is two to three years. If you plan on selling your home within a year or so, refinancing may not make sense.

Payments are shown for principal and interest (P+I) and combined (P+I+T+I) payments.
Combined payments include insurance, taxes and private mortgage insurance where applicable.

If you enter a loan amount that is more than 80% of the home's appraisal value, the calculator estimates a monthly amount for private mortgage insurance (PMI). Mortgage lenders generally require that you obtain mortgage insurance if your down payment is less than 20% of the home purchase price.