

LOAN PAYOFF

includes more than just principal balance

In many closings a seller might say, “The payoff is too high, I owe less than what’s listed.” This is because the seller is confusing the mortgage principal balance with the payoff amount.

The principal balance is the remaining amount of the principal of a loan that a borrower has not repaid. This gets reported in monthly statements from the lender and is available if you call your lender or check online. With a fully amortizing loan, part of your monthly payment is going towards paying down the principal every month.

However, a payoff is the amount owed on the loan to pay it off on a specific day. Note that interest on a conventional mortgage accumulates daily* and it is paid in arrears – the monthly payment is for the prior month’s interest.

Ex.) When you make the April 1st payment, you are paying the interest due on the loan from March 1st through March 31st. Consequently, if you are closing on April 10th and have already made your April 1st payment, you still owe interest from April 1st to the date of payoff.

Typically a cushion is selected so that there are sufficient funds to pay off the loan, so the amount submitted to the lender in the above scenario is likely:

Principal Balance + Per Diem Interest Due From April 1st through April 17th = Mortgage Payoff

The reason for the cushion is not to cheat you out of some money, though I’m sure it feels that way. It is to make sure there is not a shortage when paying off the loan. In our scenario, assuming that everything was completed in a timely manner, you (the seller) will receive a few days of interest back from the payoff lender that was overpaid.

So how do you determine your payoff amount?

The escrow company is going to order a payoff letter from your mortgage lender to find out the precise payoff amount.

What if you're trying to prepare an estimate and would like a figure?

You can always call your lender and obtain a payoff from them over the phone. Some lenders will calculate a payoff amount for you online as well. Just remember to add a few days to the closing date so that you have allowed for a cushion.

* Interest on an FHA mortgage may be calculated differently. Please contact your Guardian Title Agency Representative or Escrow Officer for more information.



GuardianTitleAgency.com