

Student Loan Yield (SLOID) FAQ

1. **What's going on? Why do I need SLOID?**
2. **What's the difference between yield and OID, and why does it matter?**
3. **How is the yield calculated?**
4. **What's this option to have SLOID calculate the payments? I'm the lender, don't I know the payments?**
5. **So when, exactly, should I have SLOID calculate the payments?**
6. **What about capped (capitalized) interest? Isn't that deductible, too?**
7. **When do I tell SLOID about capped interest?**
8. **What if the rate changes?**
9. **What about subsidized loans?**
10. **How do I take borrower benefits into account?**
11. **How do I handle consolidation?**
12. **Why am I getting a negative yield?**
13. **Why is AIP left after the loan is paid off?**
14. **What if I don't find the answer to my question here?**

1. **What's going on? Why do I need SLOID?**

The IRS recently required that, along with actual interest, the OID (Original Issue Discount) be disclosed by amortization, not simply pro-rated over the term of the loan. The Form 1098-E requires that the total yield (based on the amount the borrower actually receives, the Issue Price) be reported as it is earned and then paid by the borrower.

2. **What's the difference between total yield and OID, and why does it matter?**

Original Issue Discount is the portion of the yield that represents (generally) the origination fee, which is the "discount" from the opening loan balance and the amount the borrower actually receives. If you input the QSI (Qualified Stated Interest), SLOID will return OID (plus any yield that represents capitalized interest; more on that later). However, Carleton recommends you leave the QSI input zero and let SLOID return the total yield, which is, after all, the amount the IRS wants to see.

3. **How is the yield calculated?**

Given the input AIP (Adjusted Issue Price) as of the Last Date and the scheduled payments as of the Next Date, a yield rate (similar to an APR) is calculated. Note that this yield rate is always forward-looking; the Next Date *must* be strictly after the Last Date.

Then that rate is applied to the AIP from the Last Date to This Date to calculate the earned yield. If QSI was input, it is then subtracted from the yield to find the earned OID; but we recommend just leaving the QSI zero so you get the total yield. At this point, any earned but unpaid yield from the last call is added. Finally, This Pay is applied to that earned yield to determine the Paid Yield (and if This Pay is insufficient, the balance is output as Unpaid Yield and added to the output AIP), and any remaining portion of This Pay is used to reduce the AIP. The output Paid Yield is only for this payment, and must be accumulated over the year for disclosure on the 1098-E.

Note: Use the output AIP and Unpaid Yield as inputs for the next call to SLOID for this loan.

4. What's this option to have SLOID calculate the payments? I'm the lender, don't I know the payments?

We hope that, most of the time, you will know the scheduled payments. However, some lenders don't even compute the payments until conversion (and the borrower might make a payment before conversion). Other times the payments you have on the books are out-of-synch with the AIP.

For example, when you have more than one disbursement, the AIP from the first disbursement is much less than the total on which the booked payments are probably based, so the yield rate would be miscalculated far too high, resulting in earned yield that was too high. At the time of the subsequent disbursement event, SLOID needs to calculate the payments that correspond to only the first disbursement's principal in order for them to be in synch with the first disbursement's AIP.

5. So when, exactly, should I have SLOID calculate the payments?

Any time the payments don't correspond to the principal balance as of Last Date, SLOID should calculate the payments. Examples of this situation include multiple disbursements (described above), or situations where the borrower's payments diverge from the scheduled payments. This can happen either because the borrower makes a significant prepayment, or falls behind in payments. It is up to you to decide "how far off" is acceptable; some lenders may choose to delegate payment computation to SLOID for any deviation, no matter how small. A loan that goes into default and becomes due immediately can have SLOID calculate a single payment (set the term to one) due at Next Date, and use that as the payment for calculating the yield.

SLOID can also calculate a new term (with odd final payment) if you want the borrower to keep the same scheduled payment (be warned that this can result in an "interest short" error if that payment isn't large enough to cover the earned interest).

Once you start having SLOID calculate the payments, you must continue until you re-disclose the payments, at which point you are now back in synch and can use your payment schedule again.

6. What about capped (capitalized) interest? Isn't that deductible, too?

If you pass in the payments, there's nothing else to do. The capped interest is built into the payments, so it increases the yield appropriately. If SLOID calculates the payments, you have to input the cap date as the Conversion Date (so named because most capping occurs when the loan converts from interim to repayment). Make sure you select an Interest Handling method that tells SLOID to cap the interest at the Conversion Date.

7. When do I tell SLOID about capped interest?

We at Carleton have identified only one instance where capping must be input as an actual event, and that's when two or more caps occur sequentially without any other intervening event (payment or disbursement), *and* SLOID must calculate the payment streams after the subsequent cap. For example, this may happen when the borrower requests a deferment immediately after conversion (capping), resulting in a new conversion (capping) date a few months later; the originally booked payments don't apply anymore, because they included only the first cap, so unless you recomputed the payments yourself, SLOID will have to compute them. In this case, the correct capped balance must be used to get the payments, and the way to do that is to send a zero-payment event to SLOID on the *second* conversion date. This call will use the original Conversion Date, Next Date, and payments (or you can have SLOID calculate the payments) to establish the earned (but obviously unpaid, since no payment is made at that time) yield up to the new conversion date. Then for the next event (which might be another zero-payment event, if there's a third capping in a row), you input the new total principal including both caps, use the Next Date corresponding to the conversion date that was the last event, and leave out the Conversion Date (since it just converted).

8. What if the rate changes?

If you input the payments, then the rate changes are built into those payments, and SLOID doesn't need to know. Only if SLOID must calculate the payments does it need to know the rates. Currently, SLOID allows you to input one rate up to the conversion date, and then allows rate changes on scheduled payment dates (if your rate changes are not on scheduled payment dates, just find the nearest payment date). Remember, though, that you should only input rate changes you knew about *at the time of the event* you're sending to SLOID. This is a very important thing to remember: Even if you're doing all the processing at the end of the year, always call SLOID *as if* you were making the call on This Date.

9. What about subsidized loans?

As the answer to the previous question says, you are allowed to input one rate up to conversion and then change the rates. Simply input a 0% rate until conversion. Again, this only applies if you need SLOID to calculate the payments.

10. How do I take borrower benefits into account?

The IRS says that for the purposes of computing the yield, we must assume the borrower takes advantage of all benefits they are qualified for. Perhaps this is a rate reduction after twenty-four on-time payments; this is covered under “rate changes” above. Another benefit might be a principal reduction if the first twenty-four payments are on-time. Currently SLOID cannot calculate changing payments (or term) due to a principal reduction at a later time, so if you have a rate reduction benefit, you *must* compute the payments yourself (until either the borrower forfeits the principal reduction benefit, or the reduction date is passed and the principal is already reduced). This will be tricky if you also have multiple disbursements.

At the time of reduction, you’ll pass a zero-payment event to calculate the earned yield up to that time. The input AIP for the next call will be the output AIP from the zero-payment call *less* the dollar amount of the principal reduction.

11. How do I handle consolidation?

A consolidation is, at the technical level, paying off the underlying loans and making a new loan in the amount of the sum of the payoff amounts. Generally, the consolidation incurs no new fees, although it could. If any of the underlying loans is external (coming in from another lender), you can only assume that the other lender will properly pay off the old loan, reporting all remaining yield as earned and paid. That portion of the new loan, then, will come in with AIP equal to the payoff amount and no unpaid yield. Likewise, if one of your loans is paid off to move to an external consolidator, the payoff event will earn and pay all remaining yield (it’s up to you, of course, to determine the true total payoff amount), which you will then report on form 1098-E.

For an internal consolidation, we believe it is legitimate to treat it more as a “bookkeeping” task. First, identify the consolidation date (effectively, the origination date of the consolidated loan). Then send a zero-payment event *instead of a payoff event* to each underlying loan as of that date. This will generate a new AIP and some unpaid yield. The next event (first payment, e.g.) on the new loan will then have a Last Date of the consolidation event, and the input AIP will be the sum of the final output AIPs of the underlying loans, and the input unpaid yield will likewise be the sum of the output unpaid yields.

It may be possible (although it may not be *legal*; check with your tax lawyer!) to treat external consolidations like internal consolidations, if the other lender is capable of providing you with final AIP and unpaid yield as of the consolidation/payoff event, if you are acquiring another loan, or is capable of accepting your final AIP and unpaid yield, if they are acquiring your loan (perhaps the other lender is also a Carleton customer). In this case, it is paramount that the lender of the underlying loan *not* calculate the final earned and paid yield as if it were a payoff event, since the remaining yield will continue to be amortized as part of the new loan.

12. Why am I getting a negative yield?

Actual payments that deviate from the scheduled payments can cause the yield calculation to under- or over-report during any given time period. A negative yield means the module is self-correcting for an earlier over-report (perhaps there was a very large payment). If the total cumulative yield for a year is negative, this may have tax implications beyond Carleton's expertise. Please consult with your tax lawyers to determine how to report this and whether or not a revised 1098-E is required for a previous tax year.

13. Why is AIP left after the loan is paid off?

When a loan is paid off on a different schedule than the expected one (perhaps a large lump-sum), the yield calculated up to that point, expecting a longer term, may have been over-reported. AIP that remains after the principal is paid represents over-reported yield, and must be subtracted from the cumulative paid yield (just as if it were negative yield; see the previous question).

14. What if I don't find the answer to my question here?

We have a spreadsheet full of examples and a report that discusses many issues in great detail (as well as the "live" version of this FAQ) available on our website, <http://www.carletoninc.com>; look under "Services". Further questions may be emailed to support@carletoninc.com with "SLOID" in the subject line. Please provide example transactions, if possible.