**State of Iowa**

### Department of Administrative Services

### Calculation of Mortgage Interest Differential

This calculation computes the payment required to reduce a person’s new mortgage to an amount that can be amortized at the same monthly payment for principal and interest over the same time period as the remaining term on the old mortgage. This payment is commonly known as the “buy down.”

The remaining principal balance, the remaining term, the interest rate and the monthly principal and interest payments for the old mortgage, as well as the interest rate and amount of the new mortgage must be known. If the interest rate on the new mortgage exceeds the prevailing fixed interest rate for conventional mortgages, the prevailing fixed interest rate shall be used in the calculation.

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| --- | --- | --- | --- | --- |
| **OLD MORTGAGE:** | Annual interest  **rate**  (round to 6 decimals) | **# payments**  **remaining** | **Monthly**  **payment**  **prin. & Int.** | **Remaining**  **principal**  **balance on**  **old mortgage**  (whole Dollars) |
| Example | 7.5% | 174 | $472.20 | $50,000.00 |
| Actual | % |  | $0.00 | $0.00 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NEW MORTGAGE:** | **Annual**  **interest**  **rate**  (round to 6 decimals) | **# payments**  **remaining** | **Monthly**  **payment**  **prin. & Int.** | **Amount to**  **be financed**  **on new**  **mortgage**  (whole Dollars) |
| Example | 10% | 174 | $472.20 | $43,292.21 |
| Actual | % |  | $0.00 | $0.00 |

|  |  |  |
| --- | --- | --- |
| **MORTGAGE INTEREST DIFFERENTIAL**  Old Mortgage (“Remaining principal balance”) minus  New Mortgage (“Amount to be financed”). | | **Remaining**  **principal**  **balance on**  **old mortgage**  (whole Dollars) |
| Example | $50,000.00 – $43,292.21 | $6,707.79 |
| Actual | $0.00 – $0.00 | $0.00 |

**MORTGAGE INTEREST DIFFERENTIAL REDUCTION:**

If the new mortgage is **less** than the “Amount to be financed,” the mortgage interest differential shall be reduced by the factor of the new mortgage divided by the “Amount to be financed.” For example, should the new mortgage be $35,000, the following calculation would reduce the amount of the differential to be paid.

|  |  |
| --- | --- |
| $35,000 X $6,707.79 | = $5,422.98 |
| $43,292.21 |

CFN 552-0703 R 12/04