



How to Calculate Blended Rates

Here's what you need: Current rates "Variables" Scratch pad "Formulas" Scenario

Here are the variables: LTV1 = LTV of first mortgage; First mortgage loan amount divided by property value
CLTV = Combined LTV of first & second mortgages; Cumulative loan amount divided by property value
R1 = First mortgage rate
R2 = Second mortgage rate
W1 = Weight of the first mortgage
W2 = Weight of the second mortgage
(Note: W1 + W2 must equal 1.00 or 100%)

Here's the formula: LTV1 = First mortgage loan amount / Property value
CLTV = First + Second mortgage loan amounts / property value
W1 = LTV1 / CLTV
W2 = (CLTV - LTV1) / CLTV
Blended Rate = ((W1 x R1) + (W2 x R2))

For your reference, here are examples of how the formula works:

Scenario #1 for 100% CLTV:

\$200,000 Property Value
\$160,000 First Mortgage
\$40,000 Second Mortgage
80% LTV First Mortgage
100% CLTV
7.99% First Mortgage Rate
9.25% Second Mortgage Rate

Calculations:

LTV1 = \$160,000 / \$200,000
LTV1 = 0.80 or 80% LTV
CLTV = (\$160,000 + \$40,000) / \$200,000
CLTV = 1.00 or 100% CLTV
W1 = 80 / 100
W1 = 0.80
W2 = (100 - 80) / 100
W2 = 20 / 100
W2 = 0.20 (Note: W1 + W2 must equal 1.00 or 100%)
Blended Rate = ((0.80 x 7.99) + (0.20 x 9.25))
Blended Rate = (6.39 + 1.85)
Blended Rate = 8.24%

Scenario #2 for 95% CLTV:

\$789,500 Property Value
\$500,000 First Mortgage
\$250,000 Second Mortgage
63.3% LTV First Mortgage
95% CLTV
6.35% First Mortgage Rate
9.20% Second Mortgage Rate

Calculations:

LTV1 = \$500,000 / \$789,500
LTV1 = 0.6333 or 63.3% LTV
CLTV = (\$500,000 + \$250,000) / \$789,500
CLTV = 0.95 or 95% CLTV
W1 = 63.3 / 95
W1 = 0.666
W2 = (95 - 63.3) / 95
W2 = 31.7 / 95
W2 = 0.334 (Note: W1 + W2 must equal 1.00 or 100%)
Blended Rate = ((0.666 x 6.35) + (0.334 x 9.20))
Blended Rate = (4.229 + 3.073)
Blended Rate = 7.30%

For more information, contact M&I!

Phone: (800) 827-2654
Select 1* and enter your AE's last name or
Select Option 4 for Broker Support

Fax Apps: (800) 277-2569

Website: www.miHomeLendingSolutions.com

