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Explanation of Simple Interest Calculation

Interest on simple interest loans accrues daily. Therefore, the portion of your monthly payment allocated to interest may fluctuate. To calculate the interest due on your loan, follow these steps:

1. Obtain the new principal balance of your loan from your online banking account.
2. Multiply your principal balance by your interest rate.
3. Divide that figure by 365 days (366 days in a leap year) to find your daily interest accrual, known as the "per diem".
4. Multiply the per diem by the number of calendar days elapsed since the date of your last payment.

The following is an example of how the number of calendar days between payments can affect the portion of your regular payment allocated to interest.

1. Suppose $15,000 is the principal balance.
2. Multiply $15,000 by 7.5% interest divided by 365 days in the year, which equals $3.08 per diem.
3. $3.08 multiplied by 33 days elapsed since the date of your last payment equals $101.64. This is the portion of your payment allocated to accrued interest.

Now let us consider that only 29 days have elapsed between payments.

1. Suppose $15,000 is the principal balance.
2. Multiply $15,000 by 7.5% interest divided by 365 days in the year, which equals $3.08 per diem.
3. $3.08 multiplied by 29 days elapsed since the date of your last payment equals $89.32. This is the portion of your payment allocated to accrued interest.

In this example, the difference of 4 days between payments affected the portion of the payment allocated to interest by $12.32.

Over time, accrued interest each month will decrease as your principal balance reduces. As your loan ages interest decreases and more of your monthly payments will go toward the principal balance.

A late payment on a loan, even by a few days, may be detrimental to you as a borrower with simple interest. Since interest accrues daily, a late payment means more of your money goes toward your interest first. Consistently late payments may add significantly to the amount you pay over the life of the loan, costing you more than originally intended.

Paying early or extra may have the opposite effect and potentially save you some interest. This presumes no other charges have been assessed such as late fees or collateral protection insurance.

INFORMATION ABOUT YOUR FIRST PAYMENT:

Depending upon how many days there are between your Note Date (the effective date of your Loan Agreement) and the Due Date of your first loan payment, there will likely be an impact on how much of your initial payment will go toward interest versus how much will go toward principal (the loan amount).

The more days that elapse between your Note Date and your first Due Date, the more of your first payment will go toward satisfying interest because interest accrues daily. It is important to remember that payments, or portions of payments that go toward satisfying interest, **do not** reduce principal.

If you make all payments in accordance with the payment schedule you received, your obligation will be fully satisfied as disclosed.

We value your business and want to provide you the best possible service. If you have any questions, visit our website, www.alliantcreditunion.org, or call us toll free at 800-328-1935 to speak with our Member Care Center.