

# UNDERSTANDING YOUR DAILY SIMPLE INTEREST LOAN



# HOW IS A DAILY SIMPLE INTEREST RATE CALCULATED?

Interest adds up every day on daily simple interest rate loans. This means rather than dividing the interest rate over 12 months, the interest rate is divided over 365 days in a regular year, and 366 days in a leap year. The interest rate divided by 365 days (or 366 days in a leap year) is then multiplied by the current outstanding principal balance to determine a daily interest charge. To determine the interest due for a payment, daily simple interest rate loans count how many days are between the date your last payment was received and the date your current payment is received.

## CAN I SEE AN EXAMPLE?

Let's assume that you have a \$100,000 loan with a 6% interest rate over a 30 year term, and your monthly payment is \$599.55. The daily interest charge for a daily simple interest loan consisting of interest and principal would be calculated as follows:

$$\text{PRINCIPAL BALANCE} \times (\text{INTEREST RATE} / 365 \text{ DAYS}) = \text{DAILY INTEREST CHARGE}$$



$$\$100,000 \times (6\% / 365) = \$16.44$$

**INTEREST CHARGE PER DAY**

After your first payment is made, your principal will go down, and a new daily interest is calculated off of this amount. If you continue to make timely payments, the daily interest will continue to decrease with each payment.

In some cases, the interest rate is divided over 360 days. If your statement lists 360 days, you will simply replace that number where you see 365 in any calculations. This will only apply if noted on your original note.

Here is what your schedule could look like if you pay on time:

Payment Number	Due Date	Principal	Payment	Days Between Payments	Daily Rate	Amount Applied to Interest	Amount Applied to Principal	Principal Balance
Origination	1/5/20XX	100,000	\$599.55					
1	2/5/20XX	\$99,910.00	\$599.55	31	\$16.44	\$509.59	\$89.96	\$99,910.04
2	3/5/20XX	\$99,910.04	\$599.55	29	\$16.42	\$476.28	\$123.27	\$99,786.77
3	4/5/20XX	\$99,786.77	\$599.55	31	\$16.40	\$508.50	\$91.59	\$99,695.72
4	5/5/20XX	\$99,695.72	\$599.55	30	\$16.39	\$491.65	\$107.90	\$99,587.82
5	6/5/20XX	\$99,587.82	\$599.55	31	\$16.37	\$507.49	\$92.06	\$99,495.76
6	7/5/20XX	\$99,495.76	\$599.55	30	\$16.36	\$490.66	\$108.89	\$99,386.87

## IMPORTANT ITEMS TO NOTE WHEN YOU MAKE STANDARD PAYMENTS BY THE DUE DATE:

- Your payments will satisfy the interest that is due and will allow for principal reduction each month.
- You will avoid additional interest charges.
- Your daily interest will decrease as the balance goes down.
- You will avoid late fees, if applicable.
- Your account will pay off as scheduled.

## WHAT IF I MAKE A LARGER PAYMENT?

Larger payments can help speed up the payoff of the loan as long as your payments are made on or before your due date. However, if you make a large payment and then skip the next payment, this could have a negative impact. Just because a large payment was made **does not mean interest stops adding up**. If a payment is skipped, the principal balance will remain the same for a while before it begins to go down again.

Let's go back to our original example. You have been making payments of \$599.55 on time every month, but for your payment due on April 5th, you decide to pay \$2000. This will benefit you if you make your next payment on May 5th and every month after that. However, if you make a payment on April 5th but do not make a payment on May 5th, you will owe more interest than if you paid \$599.55 in April and again in May.

## IMPORTANT ITEMS TO NOTE WHEN YOU MAKE LARGE PAYMENTS:

- Although you may have prepaid your monthly amount due, interest still adds up.
- Skipping payments will result in a slower payoff.
- Large payments will benefit you as long as you continue to make consistent monthly payments.

## WHAT IF I MAKE A LATE PAYMENT?

If you miss a due date, you can end up paying more in interest than you should. Remember, interest is added daily on your daily simple interest loan. This means that every day your payment is late, more of your payment has to be put toward interest. This leaves less money to put toward principal, or in some cases, no money to put toward principal. That does not include any late fees or charges that may accompany the late payment.

Let's go back to our original example. You are making \$599.55 in payments every month, and you have a payment due on 2/5/20XX. Instead, you make the payment on 2/10/20XX. Rather than having \$509.59 go toward interest, \$591.84 of your payment must now go toward interest. This leaves only \$7.71 to go toward principal for this month.

If you make the payment on 2/11/20XX, you have accrued \$608.28 in interest for that month. \$599.55 of your payment will need to go toward interest, leaving no money to go toward principal, and an additional \$8.73 to be added to interest due for the next month. You can avoid future situations like these by always paying on the exact same date each month (e.g. the 5th of every month).

### **IMPORTANT ITEMS TO NOTE WHEN YOU MAKE LATE PAYMENTS:**

- Your principal amount may not go down.
- Your standard payment amount may not be enough to satisfy the interest that is due.
- Unpaid interest will continue to add up, which may make it more difficult to get back on track.
- You may receive additional charges and late fees.

## **KEEP IN MIND...**

Now that you've seen how daily simple interest loans work, here is what you should remember:

- **Make payments on time.**  
Follow the schedule you were placed on, and make payments on the given dates. This will prevent you from paying extra money toward interest, as well as possible late fees.
- **Do not skip payments.**  
Even if you make a larger payment one month, don't skip a payment. Interest adds up daily, and one skipped payment may lead to unnecessary additional payments.
- **Most importantly, keep track of your statements.**  
Make sure you are on the right track to pay off your loan.

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