Simple Daily Interest

Glossary:

Principal Balance: The outstanding amount of the loan, on which the lender charges simple daily interest until the loan is paid in full. As the loan is repaid, a portion of each payment is used to satisfy interest that has accrued, and the remainder of the payment is used to reduce the outstanding principal balance. Periods of forbearance, during which the borrower makes no payments, allow for interest to accrue and periodically get capitalized. Interest capitalization will increase the borrower's principal balance. Depending on how long or often a loan goes into forbearance, the increase in principal balance could be dramatic.

Interest: Interest is money paid to the ***lender*** in exchange for borrowing money. Interest is calculated as a percentage of the unpaid principal amount (loan amount) borrowed

Simple Interest: A method of calculating the interest charge on a loan. Simple interest is determined by multiplying the interest rate by the principal by the number of periods.

$$\text{Simple Interest} = P \times I \times N$$

Where:

P is the loan amount

I is the interest rate

N is the duration of the loan, using number of periods

Simple Daily Interest:

Your loan(s) are simple interest loans. Meaning that in most cases interest accrues daily on the outstanding principal balance. Please note: Some payment plans, such as Income-Based Repayment (IBR), will allocate payments differently and will therefore, affect the amount of interest that accrues differently. If you are currently in an IBR plan, you should contact your lender/servicer to assist you in calculating your interest accrual accordingly.

(Unpaid Principal x Interest Rate) ÷ Number of Days in the Year = Approximate Daily Interest

To find out how much interest will be due each billing period, use this formula:

Approximate Daily Interest x Number of Days in Your Billing Period = Approximate Interest Due

Q: Can I prepay the interest on my loan?

A: Being a simple interest loan, interest accrues daily it is not a predetermined amount. Therefore, you cannot pay the interest before it accrues. However, you can reduce your overall interest expense by paying more than your scheduled monthly payment and reducing the principal balance, on which the interest is accruing.

Example:

You have an outstanding loan balance of $2,000, with an interest rate of 3.4%. Your monthly payment is $50.

Your payments are due the first of each month and your last payment was received April 1, 2013. Your May payment was received on May 1.

$2,000 (loan balance)

x

3.4% (interest rate)

x

30 Days (April 1 through April 30)

÷

365 (year)

=

Accrued Interest Balance is $5.59

Your payment would pay $5.59 in interest, and $44.41 to principal.