Exeter

HOW SIMPLE INTEREST CONTRACTS WORK

Your auto finance retail installment contract is also known as a 'simple interest' contract ("Contract").

How is simple interest calculated?

- Interest calculates and accrues every day until the Contract is paid off.
- The daily interest is calculated as follows:
  - **P** = The outstanding principal balance for that day is multiplied by,
  - **I =** The interest rate (e.g. annual percentage, APR), then divided by,
  - **Y =** Year (expressed in 365 days, or 366 days for a leap year).

  (**P** x **I**) / **Y** = the daily interest, sometimes called the "per diem", that accrues to the account.

  Example:
  P = 18,000.00
  I = 19.25%
  Y = 365

  (18,000.00 * .1925) / 365 = $9.49 accrued for that day or for each day until the principal amount decreases.

How does the timing of payments impact the interest you pay?

- Interest begins accruing on the date the Contract is executed and is collected FIRST out of each payment received.
- The number of days between payments determines the accrual amount of daily interest to be collected, regardless of the scheduled due date. A payment due date keeps scheduled payments consistent and sets other contractual obligations (late fees).

  Example:
  - Contract signed on 4/20/2015.
  - First payment scheduled for 5/20/2015.
  - Days between = 30 days.

  Scenarios:
  1. Payment of $430.00 paid on 5/**20**/15 would result in $284.79 going to interest, and $145.21 to principal ($9.493151*30 days = 284.79).

  2. Payment of $430.00 paid on 5/**30**/15 would result in $379.73 going to interest, and $50.27 to principal ($9.493151*40 days = $379.73).

  3. Payment of $430.00 paid on 5/**10**/15 would result in $189.86 going to interest, and $240.14 to principal ($9.493151*20 days = $189.86).
- Late payments not only increase the amount of interest accrued and thus taken from a payment, but also causes the principal to be reduced at a slower than intended rate (according to the Contract and the amortization used to establish the payments). If the principal is not "caught up", the remaining principal will continue to increase the final payment due at the end of the Contract.

Please note:

- Accrued interest must be satisfied before any amount will be posted to the principal balance. If the interest has accrued above the amount of a normal payment, the entire payment will go towards interest, and the interest remainder will be added to what accrues during the next span between payments.
- Paying early will reduce the interest accrual for that payment, however, if you pay according to the schedule the next month, the days elapsed between payments will be greater, thus increasing the interest out of that payment.
- Once a payment is received and the interest is satisfied, the simple interest calculation and accrual begins again on the following day, taking into account the reduced principal.