## Loan Interest Calculation: 360/365 Daily Interest

For Credit Union Business Lending

## INTRODUCTION

Recently there has been a new focus for credit unions on business lending. It is popular in the marketplace for business loans to be calculated using a 360/365 daily interest instead of the standard 365-day method. CU\*BASE allows this special calculation so that CU\*Answers credit unions are able to compete with today's business lenders.

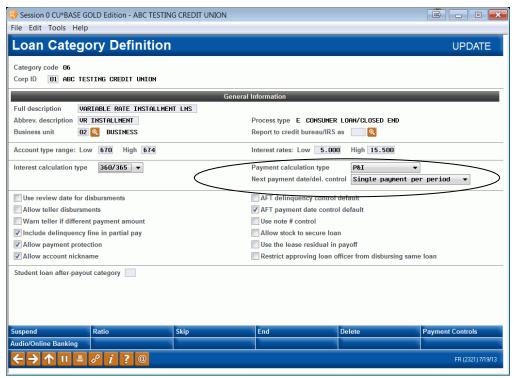
Simply put, this is a calculation that <u>acts</u> like a 365-day simple daily calculation but <u>looks</u> like a 360-day calculation where each month has only 30 days. Like the simple 365-day interest calc. type, this method calculates interest accruals every day using a daily *per diem* interest amount. But instead of using 365 or 366 days when figuring the daily interest amount, the rate is always divided by 360 days.

NOTE: See the booklet, "CU\*BASE Mortgage Products: 360-Day Interest Calculation" for details on the separate 360-day calculation used exclusively for mortgage loans, which uses a more complex calculation structure and has specific requirements for automated processing.

Other than the difference in how accruals are calculated, the servicing of these loans is exactly the same as normal 365-day type loans, making it easy to incorporate these new loan types into your credit union's loan portfolio.

## **SETTING UP THE LOAN CATEGORY**

"Loan Category Configuration" on the Loan Products (MNCNFB) menu Screen 1



For complete details, please refer to CU\*BASE Online Help by clicking while working on this screen.



## Interest Calculation Type

There are four different interest calculation types for CU\*BASE loan products:

**365** - The standard daily interest calculation using a 365 or 366-day year. Not for mortgage-type loans. Interest is accrued each day using a per diem calculated as follows:

- **None** Does not accrue interest.
- **360/post** Interest is based on twelve 30-day months, calculated once each month on the 20th for the current month (i.e., interest is paid in arrears).

See the booklet, "CU\*BASE Mortgage Products: 360-Day Interest Calculation" for details on how this calculation works.

**4 360/365** - The standard daily interest calculation using a 360-day year (30-day month). Not for mortgage-type loans. Interest is accrued each day using a per diem calculated as follows:

Rate ÷ 360 × Loan Balance = Per diem