
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 acts like a 365-day simple daily calculation but looks 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.

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For an updated copy of this booklet, check out the Reference Materials page of our website:
http://www.cuanswers.com/client_reference.php
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SETTING UP THE LOAN CATEGORY

Loan Category Configuration (Tool #458) - Screen 1

Session 0 CU*BASE GOLD Edition - ABC TESTING CREDIT UNION

File Edit Tools Help

Loan Category Definition UPDATE

Category code 06
Corp ID 01 ABC TESTING CREDIT UNION

General Information

Full description VARIABLE RATE INSTALLMENT LNS
Abbrev. description VR INSTALLMENT
Business unit 02 BUSINESS
Process type E CONSUMER LOAN/CLOSED END
Report to credit bureau/IRS as

Account type range: Low 670 High 674
Interest rates: Low 5.000 High 15.500

Interest calculation type 360/365
Payment calculation type P&I
Next payment date/del. control Single payment per period

Use review date for disbursements
 Allow teller disbursements
 Warn teller if different payment amount
 Include delinquency fine in partial pay
 Allow payment protection
 Allow account nickname

AFT delinquency control default
 AFT payment date control default
 Use note # control
 Allow stock to secure loan
 Use the lease residual in payoff
 Restrict approving loan officer from disbursing same loan


Student loan after-payout category

Suspend Ratio Skip End Delete Payment Controls

Audio/Online Banking

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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:

- 0 365** - 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:

$$\text{Rate} \div 365 \text{ or } 366 \times \text{Loan Balance} = \text{Per diem}$$

- 2 None** - Does not accrue interest.

- 3 360/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).

- 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:

$$\text{Rate} \div 360 \times \text{Loan Balance} = \text{Per diem}$$