What is a Simple Interest Contract and How Do My Payments Impact My Balance and the Finance Charges I Pay?

What is a simple interest contract?

On a simple interest contract, finance charges (*e.g.,* interest) are calculated based on the unpaid principal balance of the contract. As each payment is made, the payment amount is applied toward the finance charges that have accrued since the last payment was received. The remaining portion of the payment is applied in accordance with the terms of your contract.

It is important to remember that finance charges are calculated on your declining principal balance and your daily finance charge declines as your principal balance declines. That means that a greater percentage of your monthly payment is distributed to finance charges/interest early in the life of the contract because of the larger principal balance, and a greater percentage is distributed to the principal toward the end because of the smaller principal balance. Thus, the principal balance decreases slowly at first and more quickly closer to the end of the contract.

How are finance charges calculated?

Finance charges accrue daily based on the unpaid principal balance. For example, if the unpaid principal balance on your account is $19,737.71, your Annual Percentage Rate (APR) is 9% and your normal monthly payment amount is $415.17, your daily finance charge amount is calculated as follows:

(Unpaid principal balance x APR)/ Number of days in a year = Daily finance charge amount (also called per diem)

($19,737.71 x .09) / 365 = $4.8668

If we received your payment 28 days from the date we received your last payment, your finance charge for that period would be $136.27 ($4.8668 x 28). Finance charges are paid first and the remainder of the payment is applied in accordance with the terms of your contract. Your payment would be distributed as follows (if there are no applicable fees due and payable):

Finance Charges/Interest:	$136.27
Principal:	$278.90
Total:	$415.17

For your next payment, the new unpaid principal balance would be $19,458.81 ($19,737.71 - $278.90). The new daily finance charge amount is calculated as follows:

($19,458.81 x .09) / 365 = $4.7981

If we received your payment 31 days from the date we received your last payment, your finance charge for that period would be $148.74 ($4.7981 x 31). Your payment would be distributed as follows (if there are no applicable fees due and payable):

Finance Charges/Interest:	$148.74
Principal:	$266.43
Total:	$415.17

How does the timing of my payments affect my account?

The timing of your payments will vary the finance charges you owe. Since finance charges will accrue daily for simple interest contracts, the actual amount of finance charge and the actual amount of your final payment will depend on your payment record. If you make every payment on the due date, you will pay off the contract in the time frame and amount described in your contract. If you make your payments before the due date, you will pay less in finance charges. The later you make your payments after they are due, you will pay more in finance charges. This illustrates the importance of making payments on time.

For example, continuing with our last example, if we receive and apply your payment **31 days** from the date we received your last payment, your finance charges for that period would be $148.74 ($4.7981 x 31) and your payment would be distributed as follows:

Finance Charges/Interest:	*$148.74*
Principal:	$266.43
Total:	$415.17

However, if we receive and apply your payment **45 days** from the date we received your last payment, your finance charges for that period would be $215.91 ($4.7981 x 45) and your payment would be distributed as follows:

Finance Charges/Interest:	*$215.91*
Principal:	$199.26
Total:	$415.17

This demonstrates the impact late payments will have on your unpaid principal balance and the interest you will pay.

What else other than late payments will impact my payment?

Depending on your contract, you may be subject to a late fee if the monthly payment is not made within the "grace period." Depending on your contract, you may be subject to an NSF fee for payments made with insufficient funds. If permitted by the contract and state law, part of your payment may be applied to these fees prior to principal. Payment extension(s) will result in a longer repayment period than originally scheduled. A payment extension(s) will result in more finance charges/interest accruing on your account and a higher principal balance than if payments were made as originally scheduled in your contract. Interest will continue to accrue during the extension period and your payment following the extension period will be disproportionately allocated to the unpaid interest. Similarly, a due date change may result in more finance charges/interest.

How will I know the amount of my final payment or payoff?

The amount of your final payment will depend on your payment history throughout the term of your contract. If you consistently pay early or make additional principal payments, your last payment should be lower. If you pay late or request payment extension(s), your last payment will be higher. You may contact us at 1-800-249-6305 for the final payment or official payoff amount.

Is there a penalty if I pay off my contract early?

There is no prepayment penalty if you want to pay off the simple interest contract prior to the original maturity date. An early payoff requires that the current unpaid principal balance be paid plus the interest due from the date of the last payment until the payoff date, plus all other amounts due and owing under your contract.

Will I receive a refund of finance charges if I pay off the contract early?

You will not receive a refund of finance charges if you pay off the contract early. On a simple interest contract, you pay finance charges on the principal balance for each day the account is open. If the contract is paid off early and the account is closed, no future finance charges are required. You will receive a refund if the amount we receive as a payoff exceeds the total amount owing on your contract at the time of payoff.