

Doc. No. :	Chapter BUSINESS OPERATION POLICY	Prepared by:	Checked by:	Approved by:
Date Effective :	Topic: INTEREST COMPUTATION			
Revision # 2			<i>MNF Celicious</i> MNF Celicious	<i>BT Alano</i> BT Alano

POLICY STATEMENT

It is the policy of Alano & Sons Credit Corporation to establish guidelines on the computation of interest from loans granted to ASCC clients.

DEFINITION OF TERMS

Interest – an income earned on loan accommodations granted to clients.

Monthly Due Date – refers to the date when amortization is due on the following month as basis for interest computation

No. of Days – is the actual days from the last interest date to the actual date of payment

OBJECTIVES

To provide consistency in the computation of interest on loans granted by ASCC to clients.

SCOPE OF APPLICATION

This policy shall apply to all interest-bearing loans of Alano & Sons Credit Corporation.

GUIDELINES:

1. For Diminishing Loan Program:

- a. When the payment date of the loan falls on the same date as that of the last transaction, interest shall be computed on a monthly basis regardless of the number of days in a month.

Example: Last transaction date- January 14, 2015

Payment Date- February 14, 2015

In this case, interest due is computed as one full month based on outstanding balance.

- b. For payments made before the monthly due date, interest will be computed on a per day basis. The outstanding balance multiplied by interest rate divided by the common divisor of 30 days. The resulting amount shall be rounded off to two (2) decimal places and multiplied to the number of days where the interest payment shall apply. The succeeding formula shall be followed:

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$$\text{Daily Interest} = \frac{\text{Loan Balance} \times \text{Int Rate}}{30}$$

$$\boxed{\text{Interest} = \text{Daily Interest} \times \text{Number of days}}$$

Rounded off to 2 decimal places using the proper rule in rounding off numbers:
 0-4 = number as is
 5-9 = number plus 1

Example:

Loan Release Date : Feb. 7, 2015
 Loan Amount : Php 90,000.00
 Interest Rate : 4%

Table 1.

Date	Debit	Credit	Balance	Int Date	Formula on Computing Interest	Monthly Due Date	# of Days
2/7/15	90,000.00		90,000.00				
3/6/15		1,827.06	88,172.94	3/6/15	Int = $(90,000 \times 4\%) / 30$ $= 120 \times 27$ $= 3,240$		27 days
NOTE: Assuming payment is made on March 8 and not March 6, the computation of the row below will be followed							
3/8/15				3/8/15	Int = $(90,000 \times 4\%) + ((90,000 \times 4\%) / 30) \times 1$ $= 3,600 + 120$ $= 3,720$		1 mo & 1 day
3/23/15		763.77	87,409.17	3/23/15	Int = $((88,172.94 \times 4\%) / 30) \times 17$ $= 117.56392 \times 17$ $= 117.56 \times 17$ $= 1,998.52$		17 days
4/23/15		374.15	87,035.02	4/23/15	Int = $87,409.17 \times 4\%$ $= 3,496.37$		1 mo (31 days)
5/23/15			87,035.02	5/23/15	Int = $87,035.02 \times 4\%$ $= 3,481.40$		30 days but computed as 1 month since there's no movement in between
6/22/15			87,035.02	6/22/15	Int = $(87,035.02 \times 4\%) / 30 \times 30$ $= 116.05 \times 30$ $= 3,481.50$		30 days

- c. If payment date falls beyond the monthly due date, the interest is computed by adding interest equivalent to one month and interest computed equivalent to number of days in

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excess of the one month. The per day interest is also computed by dividing the outstanding balance by the common divisor of 30 days. The resulting amount shall be rounded off to two (2) decimal places and multiplied to the number of days where the interest payment shall apply. Please refer to table 1 transaction dated 3/8/15 for example.

- d. It is to be noted that monthly due date will be automatically changed in the system. Hence, the latest transaction date shall be the basis for determining the new monthly due date.
- e. Branch has the option to collect only one month interest in case the transaction date falls beyond or after the monthly due date and updated interest must be properly posted in the ledger cards may it be deficit or advance. System interest balance should be checked to ensure consistency both in manual and automated interest. For interest variance of 1 peso and below in the system, the system computed interest will be followed.

Example:

Loan	Release	Date	:	Feb.	7,	2015
Loan Amount	: Php 90,000.00					
Interest Rate	: 4%					

Table 2. Illustration of computation where interest collected is monthly regardless of date of payment.

Date	Loan			Interest				# of Days
	Debit	Credit	Balance	Int Date	Debit	Credit	Int Balance	
2/7/15	90,000.00		90,000.00					
2/21/15		1,827.06	88,172.94	2/21/15	= (90,000x4%)/30 x 14 = 120 x 14 = 1,680	1,680.00		14 days
3/23/15		763.77	87,409.17	3/23/15	= (88,172.94x4%) + (88,172.94x4%/30)x2 = 3,526.92 + 235.12 = 3,762.04	3,526.92	235.12	1 mo & 2 days
4/20/15		374.15	87,035.02	4/20/15	= ((87,409.17x4%)/30)x28 = 116.54556 x 28 = 3,263.40	3,496.37	2.15	28 days
5/19/15		475.50	86,559.52	5/19/15	= ((87,035.02x4%)/30)x29 = 116.046693333 x 29 = 116.05 x 29 = 3,365.45	3,481.40	(113.80)	29 days
6/24/15			87,035.02	6/20/15	= (86,559.52x4%) + (86,559.52x4%)/30)x5 = 3,462.38 + (115.41 x 5) = 4,039.43	3,462.38	463.25	1 mo & 5 days

- f. For barangay with diminishing accounts and were given exemptions to follow the rules

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mentioned above, interest collected shall be based on the schedule computed using the factor rate regardless of date of payment.

Example:

Loan Date	: 01/06/14
Loan Amount	: 40,000
Int rate	: 2%
Term	: 36
Amortization	: 1,569.31

Table 3. Schedule

Month	Payment	Interest	Principal	Balance
				40,000.00
1	1,569.31	800.00	769.31	39,230.69
2	1,569.31	784.61	784.70	38,445.99
3	1,569.31	768.92	800.39	37,645.60
4	1,569.31	752.91	816.40	36,829.20
5	1,569.31	736.58	832.73	35,996.47
↓	1,569.31	719.93	849.38	35,147.09

Date	Loan			Interest				# of Days
	Debit	Credit	Balance	Int Date	Debit	Credit	Int Balance	
2/7/15	40,000.00		40,000.00					
2/21/15		769.31	39,230.69	3/07/15			800.00	1 mo
3/23/15		784.70	38,445.99	4/07/15			784.61	1 mo
5/20/15		1,616.79	36,829.20	6/07/15		= 768.92 + 752.91		2 mos
7/24/15		832.73	35,996.47	7/07/15			736.58	1 mo
7/30/15		35,996.47	-0-	7/30/15		= (35,996.47x2%)/30)x23 = 24 x 23 = 552		23 days

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- g. Full payment of DepEd clients due to arrival of salary/incentives, interest will be based on the arrival of salary and not the date of OR issuance and notation must be made in the ledger card.
- h. For cases where last transaction date fall on the 31st of the month and succeeding month has only less than 31 days, interest computation as illustrated on table below will be followed.

Int rate = 2%

Date	Debit	Credit	Balance	Month (Interest Date)	Cr	# of Days
2/28/15	100,000		100,000.00			
03/31/15		833.34	99,166.66	03/31/15	2,200.01	1 mo & 3days
05/01/15		1,666.67	97,499.99	05/01/15	2,049.44	1 mo & 1 day
05/31/15		1,666.67	95,833.32	05/31/15	1,950.00	30 days
06/30/15		1,666.67	94,166.65	06/30/15	1,916.70	30 days

- i. For incentives with advance interest, interest refund will be computed as follows:
(Assuming incentive loan of 8,000 at 3% is availed on March 31, 2015)

Date	Debit	Credit	Balance	Month (Interest Date)	Cr	Balance	# of Days
03/31/15	8,000.00		8,000.00				
03/31/15			8,000.00	08/31/15	1,200.00	(1,200.00)	5mos
08/29/15		8,000.00		08/29/15		(8.00)	4mos & 29 days

i. Overpayment and underpayment of Interest

ii. Overpayment of Loans and Interest

- o If disbursed to client
- o If paid to other acct's L/R
- o If paid to other acct's interest
- o Refund of interest/principal for fully paid clients

	If disbursed to client	If paid to other acct's L/R	If paid to other acct's Interest
Overpayment of FS1 interest of Mr. A	Interest Inc-FS1 A xx A/P- A xx #JV-Loan Adj	Interest Inc-FS1 A xx L/R - FS 2 A xx # JV-Loan Adj	Interest Inc-FS1 A xx Interest Income-FS2 A xx #JV-Loan Adjustment

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Amount of Overpayment	With existing Loan in ASCC	No accounts in ASCC
Immaterial (Below Php300)	<ul style="list-style-type: none"> <input type="radio"/> Charged as partial payment to existing account <input type="radio"/> JV will be prepared. If client will ask for an OR, a copy of JV or client's system ledger will be printed and given to client 	<ul style="list-style-type: none"> <input type="radio"/> To be reclassified to A/P – Name of Client <input type="radio"/> If not claimed after 2 months, it will be recognized as Miscellaneous Income, provided the branch has informed the client on the overpayment.
Material (Php300 and above)	Return to Clients (to be reclassified as A/P- Name of Clients)	

Reminders for Loan Adjustments:

- It must be made in LM – Loans/Monthly Loan Adjustment to ensure adjustments will be reflected in the client's ledger
- Remarks portion must be utilized. Example: Overpayment-name of client-OR#
- No OR's will be prepared. If client asks for an OR, a copy of JV or a printed copy client's ledger may be given to the client.

- j. No interest shall be computed on any payments made on the same day as that of the loan release date.

2. For Straight Accounts:

- a. Monthly interest is computed based on the original loan amount multiplied by the interest rate.
- b. If full payment of account made did not fall on the monthly due date, interest to be computed must be based on the loan date.
- c. Example in updating of interest as first payment of loan assuming that loan release date fall in the middle of the month
- d. For first payment, please refer to branch BOP for related guidelines.

Ex. 1

Loan Release Date: May 16, 2015

Interest Rate: 1.5% Fixed

Term: 60 months

Monthly Amort: 3,166.67

Date	Debit	Credit	Balance	Formula on Computing of Interest	Month (Interest Date)	Cr	# of Days
5/16/15	100,000		100,000.00				
5/24/15		833.34	99,166.66	(100,000 x 1.5%)/2	June 1	750	
6/23/15		1,666.67	97,500.00	(100,000 x 1.5%)	July 1	1,500	

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7/21/15		fp	95,833.33	(100,000 x 1.5%)	July 21		1,000	1/2 mo & 5 days
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Upon full payment, the following steps should be followed.

- Step 1. Determine the month/s and days from loan date to date of full payment.
Ex. From 5/16/15 to 7/21/15= 2 months and 5 days
- Step 2. Compute for the interest due.
 $(P1,500 \times 2) + (P1500/30 \times 5) = P3250$
- Step 3. Compute for the total interest amount paid.
As of 6/23/15= P2,250
- Step 4. Subtract the computed interest (step 2) and the interest paid by the client (step 3) to get the interest due.
 $P3250 - P2,250 = P1,000$

Ex. 2

Loan Release Date: February 16, 2015

Interest Rate: 1.5% Fixed

Term: 60 months

Monthly Amortization: 3,166.67

Date	Debit	Credit	Balance	Formula on Computing of Interest	Month (Interest Date)	Cr	# of Days
2/16/15	100,000		100,000.00				
2/24/15		833.34	99,166.66	$(100,000 \times 1.5\%)/2$	March 1	750	
3/23/15		1,666.67	97,500.00	$(100,000 \times 1.5\%)$	April 1	1,500	
4/21/15		1,666.67	95,833.33	$(100,000 \times 1.5\%)$	May 1	1,500	

- e. Upon full payment, reloan or restructure, interest is computed on a per day basis based on the original loan amount using 30 as the divisor. The formula below shall be followed:

$$\text{Interest} = \frac{\text{Monthly Interest}}{30} \times \text{Number of day(s)}$$

Ex. 1

Loan Release Date: May 16, 2015

Interest Rate: 1.5% Fixed

Term: 60 months

Monthly Amort.: 3,166.67

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Date	Debit	Credit	Balance	Formula on Computing of Interest	Month (Interest Date)	Cr	# of Days
5/16/15	100,000		100,000.00				
5/24/15		833.34	99,166.66	(100,000 x 1.5%)/2	June 1	750	
6/23/15		1,666.67	97,500.00	(100,000 x 1.5%)	July 1	1,500	
7/21/15		1,666.67	95,833.33	(100,000 x 1.5%)	Aug 1	1,500	
8/15/15	FP	95,833.33	-0-	(100,000 x 1.5%)/30 x 15 days	Aug 15	750	

Upon full payment steps stated in Ex. 1 shall be applied.

Step 1. From 5/16/15 to 8/15/15= 2 months and 30 days

Step 2. $(P1,500 \times 2) + (P1500/30 \times 30) = P4,500$

Step 3. As of 7/21/15= P3,750

Step 4. $P4,500 - P3,750 = P750$

Ex. 2

Loan Release Date: February 16, 2015

Interest Rate: 1.5% Fixed

Term: 60 months

Monthly Amortization: 3,166.67

Date	Debit	Credit	Balance	Formula on Computing of Interest	Month (Interest Date)	Cr	# of Days
2/16/15	100,000		100,000.00				
2/24/15		833.34	99,166.66	(100,000 x 1.5%)/2	March 1	750	
3/23/15		1,666.67	97,500.00	(100,000 x 1.5%)	April 1	1,500	
4/21/15		1,666.67	95,833.33	(100,000 x 1.5%)	May 1	1,500	
5/18/15	FP	95,833.33	-0-	(100,000 x 1.5%)/30 x 17 days	May 18	850	

- f. Upon full payment, the branch manager's approval in the system is required. However, in the absence/unavailability of the manager, the receipt can be printed without his approval in the system but it cannot be forwarded to the Accounting System.

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