<u>How to Calculate School Loan Interest?</u>

1. Determine your interest rate factor:

<u>Loan Interest Rate</u> ÷ <u># Days in a Year</u> = Interest Rate Factor

______________________ ÷ 365 Days = $ ________________________

(Note: Convert percentages to decimals)

2. The amount of interest that accrues (accumulates) on your loan from month to month is determine by a simple daily interest formula:

<u>Outstanding Principle Balance</u> X <u># Days Since Last Payment</u> X <u>Interest Rate Factor</u> = Monthly Interest Amount

$______________________ **X** <u>30/31 Days</u> **X** $ __________________ = $ ______________________

This amount of monthly interest gets added to your outstanding principle balance.

<u>Example:</u>

Outstanding Principle Balance: $2985.00

Loan Interest Rate: 3.86%

Minimum Payment: $33.05

1. **Interest Rate Factor:** 0.0386 ÷ 365 Days = **0.000106**
2. **Monthly Interest Amount:** $2985.00 X 31 Days X 0.000106 = **$9.79**
3. **New Outstanding Balance:** $2985.00 + $9.79 = **$2994.79**
4. **After Minimum Payment:** $2994.79 - $33.05 = **$2961.74**

Next Month:

1. **Interest Rate Factor:** 0.000106
2. **Month Interest Amount**: $2961.74 X 30 Days X 0.000106 = **$9.41**
3. **New Outstanding Balance:** $2961.74 + $9.41 = **$2971.16**
4. **After Minimum Payment:** $2971.16 – $33.05 = **$2938.11**

Other Important Items You Should Know:

- Your lender determines your minimum payment.
- Every payment gets applied to your interest balance before it gets applied to your principle balance (Note: this does not apply to subsidized loans while you're in school or during your grace period, as the U.S. Dept. of Education pays the interest during these periods).