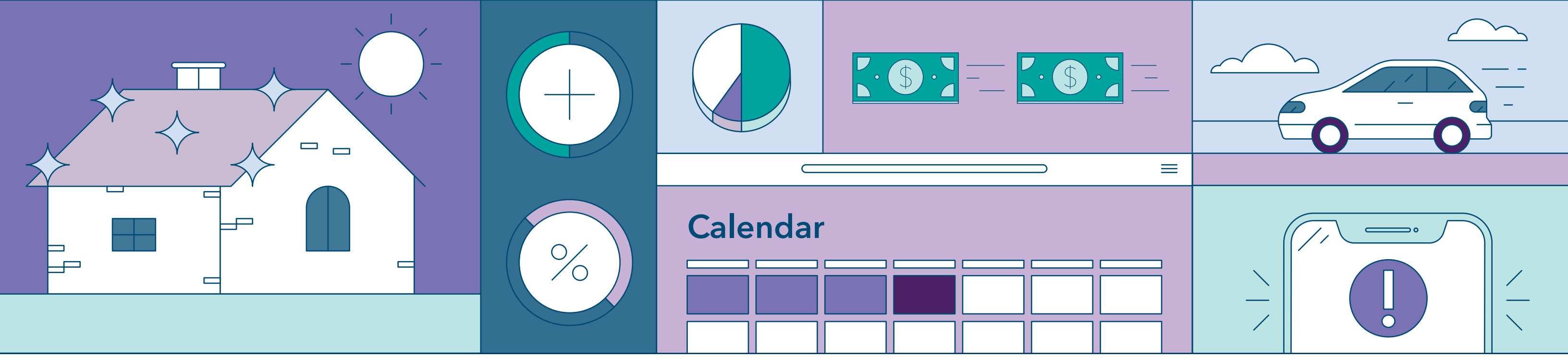


Your Guide to Learning Precomputed Interest Loans

Check your understanding of precomputed loans and make sure you know how they work.

Interest and payments

Let's start with a basic question: When is interest on a precomputed loan calculated?

- A it is calculated monthly
- B it is calculated annually
- C it is calculated daily
- D it is calculated when the loan is made

The correct answer is D – the interest is calculated for the loan term all up front when the loan is made and included in the starting account balance. Interest charges do not change.

Which of the following make up the starting account balance (or "Total of Payments") of a precomputed loan?

- A precomputed interest for the term of your loan
- B the amount borrowed
- C loan origination fee
- D all of the above

Again, the correct answer here is D – the starting balance of a precomputed loan includes the amount borrowed, the precomputed interest and any prepaid charges (like a loan origination fee) due.

Which formula then shows how your monthly loan payment is calculated?

A

$$\frac{\text{PRECOMPUTED INTEREST}}{\text{LOAN TERM (MONTHS)}} = \text{MONTHLY LOAN PAYMENT}$$

B

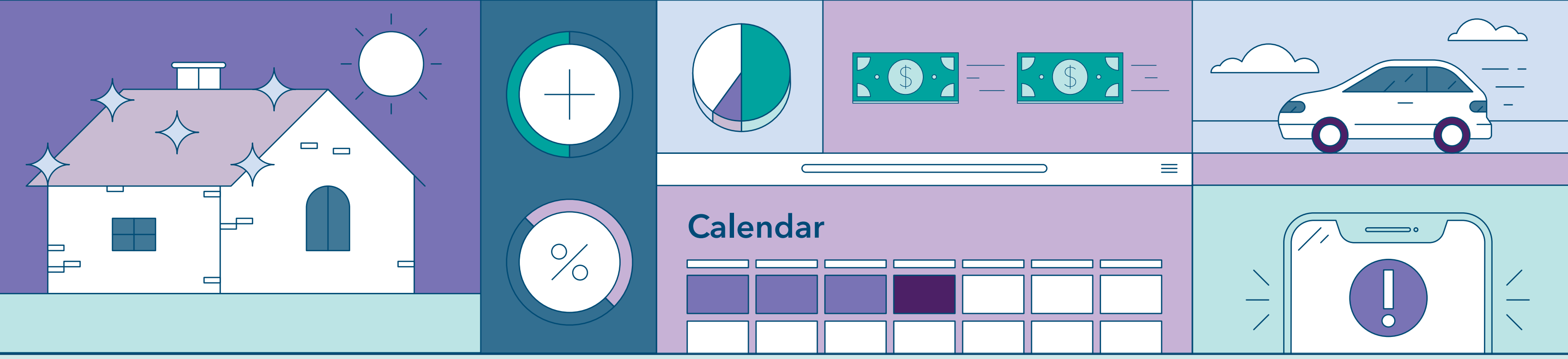
$$\frac{\text{STARTING ACCOUNT BALANCE}}{\text{LOAN TERM (MONTHS)}} = \text{MONTHLY LOAN PAYMENT}$$

C

$$\frac{\text{AMOUNT FINANCED}}{\text{LOAN TERM (MONTHS)}} = \text{MONTHLY LOAN PAYMENT}$$

The right answer here is B. Remember, interest is precomputed and already in the starting account balance. Simply divide that by the loan term to get your monthly loan payment.

And while we are on the subject of monthly payments, it's really important that you make them on time!



Late and missed payments

If you miss a payment, or pay late, what might happen? (circle all that apply)

A A late payment fee may be applied

B Additional interest may be charged

C You might not pay off your loan within the timeframe you agreed to

D Your credit report may show the late or missed payments.

E The whole loan balance will immediately become due

The right answers here are A), C) and D) – you may be charged a late payment fee, your credit report may show the late or missed payments, and if you don't include applicable late charges in your payment it could extend the time it takes you to pay the loan in full. Because interest for the loan term has already been included within your account balance, you shouldn't be charged any additional interest when you make a late payment or if you miss a payment. But it's still important to make your monthly loan payments on time to avoid things like negative credit reporting.

Early payoff

If you pay back your loan early, what may happen to some of the interest that was calculated for the full loan term?

A You lose it. You agreed to pay the interest for the full loan term, and you won't get any of it back just because you decide to pay back the loan early.

B You may be entitled to a refund or rebate of some of the precomputed interest, which will be credited to your account balance, reducing your payoff amount.

The correct answer is B! If you pay back the loan early, the lender may not have "earned" all the precomputed interest, and you may be entitled to a refund (or rebate). You can check your loan agreement for more details.

The bottom line

How did you do? If there's one thing to remember about precomputed interest loans, it's this: the total interest for your loan term is calculated up front and included in your starting account balance, which is divided by your loan term to determine your monthly payments. As long as you make the regular payments in full and on time, you will pay off your loan as scheduled.

OneMain Financial.

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