

How we calculate settlement figures.



Thank you for asking how we calculate settlement figures.

Settlement figures are calculated using the rules made under the Consumer Credit Act 1974. Under the Consumer Credit Act if you settle your agreement early, you are entitled to a rebate of some of the interest charges. The formula used to calculate the rebate is called the 'Actuarial method'.

Using this formula we allocate the repayments you have made to date towards the interest due and then reduce the capital balance.

Example: If you borrow £10,000 to be repaid over 36 monthly instalments at an APR of 6.9%, you will pay the first month's interest on £10,000, but after that you only pay interest on the remaining balance each month.

YOU PAY AN AGREED FIXED AMOUNT EACH MONTH, WHICH INCLUDES YOUR INTEREST PAYMENT.

YOUR INTEREST PAYMENT IS BASED ON YOUR CAPITAL BALANCE, SO YOU PAY LESS EACH MONTH.

EACH PAYMENT WILL REDUCE YOUR CAPITAL BALANCE.

Repayment Month	Payment Amount	Interest Payment	Closing Balance
0	£0.00		£10,000.00
1	£307.38	£55.79	£9,748.41
2	£307.38	£54.39	£9,495.43
3	£307.38	£52.98	£9,241.02
4	£307.38	£51.56	£8,985.20
5	£307.38	£50.13	£8,727.96
6	£307.38	£48.70	£8,469.27

The figures in the example above are for illustration only.

The same principle will apply however much you borrow and however long the agreement. Your agreement shows the amount you borrowed and the interest rate. Each repayment you make is made up of both capital and interest. The proportion of capital and interest will vary every month and in the early part of your agreement the outstanding capital reduces slowly. So, the interest payable on the money you borrow is higher at the beginning of the agreement than towards the end.

A settlement figure is valid for 28 days after the date requested; this date is called the Settlement Date. The settlement figure will also include an additional 30 days interest after the settlement date as allowed under the Consumer Credit Act 1974 in order to offset any charges that we have incurred.

Once the settlement date has been decided, we calculate your settlement figure by taking the current capital element of the balance outstanding, adding the interest due up to the agreed settlement date, plus one month's additional interest (as outlined above).

This is the actual settlement figure.

The difference between the settlement figure and the total outstanding balance still to be repaid will be displayed to you as the 'rebate of charges' on your settlement quotation.

We trust this has helped clarify how your settlement figure would be calculated.

Black Horse Finance