



To the Chief Financial Officer
of local authorities in
England, Wales and Scotland

Circular No. 142

26 October 2009

FIXED RATE LOANS - CALCULATION OF INTEREST ON INITIAL BROKEN PERIOD

With effect from 1 December 2009, PWLB will be changing the methodology for charging interest on the first repayment due on a loan where that period falls short of the normal six months. The change is being made to harmonise the method for calculating interest on PWLB loans with that for other loans made from the National Loans Fund.

Currently PWLB calculates the interest due on an initial broken period on the basis of Actual/365 (ACT/365). This means the actual number of days in the broken period divided by 365. For all new fixed rate loans agreed on or after 1 December 2009 the interest due on an initial broken period will be calculated on the basis of Actual/Actual. This will be calculated as:-

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date - Notional Previous Payment Date)}}$$

Worked examples of the new calculation are annexed overleaf.

There is no change in the interest calculation for any subsequent repayment or for an initial period if it is for a full six months. The Board is giving advance notice of the change for information and in case authorities need to adjust their IT systems. Borrowers may wish to take their own further advice as necessary.

Mark Frankel
Secretary

Annex – Worked examples

Please note that these are for illustrative purposes only

1. £1 million Loan advanced 15 October 2009 at a rate of 3%;
repayments to be made 31 March / 30 September

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date - Notional Previous Payment Date)}}$$

$$= \frac{1,000,000 * 0.015 * \text{Days (31 March 2010 - 15 October 2009)}}{\text{Days (31 March 2010 - 30 September 2009)}}$$

$$= \frac{1,000,000 * 0.015 * 167}{182} = £13,763.74$$

2. £1 million Loan advanced 16 April 2010 at a rate of 3%;
repayments to be made 31 March / 30 September

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date - Notional Previous Payment Date)}}$$

$$= \frac{1,000,000 * 0.015 * \text{Days (30 September 2010 - 16 April 2010)}}{\text{Days (30 September 2010 - 31 March 2010)}}$$

$$= \frac{1,000,000 * 0.015 * 167}{183} = £13,688.52$$

This version has been superseded