

DISCOUNT

Dollar discount is similar to dollar add-on except that the proceeds to the borrower are reduced by the amount of the discount, but the full amount is repaid. For example, considering a \$1000 one year loan again, if the discount is 6% the amount received by the borrower is \$1000 less \$60. However the amount repaid would be \$83.33 per month, or \$1000. The annual percentage rate would be about 11.6%.

PRECOMPUTATION

Precomputation is a procedure authorized by many states to facilitate clerical operations. Essentially, the operation appears to consist of adding the finance charge (however determined) to the amount to be financed and dividing by the number of payments to find the amount of each payment.

Excerpts from Barbara Curran's "Trends in Consumer Credit Legislation" are given below. They explain the device in greater detail.

"Charges are precomputed in the following manner: after the lender and the borrower arrange the amount of the loan and determine the schedule for installment payments of principal, the lender computes the charges which would accrue over the term of the loan if the borrower were to repay the principal amount exactly in accordance with the installment schedule agreed upon; he then adds the charges so computed to the principal and divides by the number of installments scheduled to determine the amount of each installment payment which now represents charges and principal combined.⁷² The advantage in using the precomputation method lies in the fact that not only will the amounts of all installment payments be substantially equal but the lender will not be put to the trouble of allocating principal and charges as each installment payment is made.⁷³

⁷² It is not suggested here that a lender follows the precise steps indicated in the text for each loan. Not only is there a redundant step in the procedure as described in the text but, as a practical matter, most lenders would have charts for speedy reference by clerks which would give the necessary information about charges for a particular loan.

⁷³ It would seem most lenders would have charts available for use by clerical help which would show the allocation information for loans paid on schedule, and the actual computation would not need to be made each time, even for non-precomputed loans. However, the dollar allocation of principal and charges would, under the uniform act, have to be entered on the loan records.

⁷⁴ Precomputation is not to be confused with the method described in note 56 supra. The method described in note 56 is merely a means by which the lender selects a different amount for each monthly installment of principal so that when each such installment of principal is added to the charges computed for the principal outstanding during the preceding month, the sum of principal and charges will be the same for all installments, even though the amount allocated to principal and the amount allocated to charges for all installments is different. The following tables taken from Ayres, *Installment Mathematics Handbook* (1946), should illustrate the difference:

"TABLE I.—STANDARD METHOD (UNIFORM PRINCIPAL PAYMENTS WITH INTEREST ON DECLINING BALANCES)

"Balances	Interest	Principal	Total payment
\$300	\$6	\$50	\$56
250	5	50	55
200	4	50	54
150	3	50	53
100	2	50	52
50	1	50	51
-----	21	300	321