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Department of Justice

February 14, 1997

RE: 360/360 Day Accounting
Informal Advisory # 82

Dear

You asked whether 360-day accounting could be used in calculating mortgages, as that is the method used on the secondary market.

Iowa law, applicable both to transactions subject to the ICCC by virtue of Iowa Code § 537.2401(3), and to all other credit transactions (except government bonds) by virtue of Iowa Code § 537.2601(1),¹ would allow a 360/360-day year for calculation of interest due for full months. However, for partial months, calculation must be on a 365/365-day basis. Clearly prohibited is the "bankers' year," or 360/365 day accounting.

Both sections 537.2401(3) and 537.2601(1) provide:

[a]ny month may be calculated as one-twelfth of a year, but a day is to be counted as one three-hundred sixty-fifth of a year.

When unit periods of full months are at issue, a 360/360-day calculation would be the same as a calculation on the basis of 12 30-day months in a year. A single month's interest on a 10%, \$50,000 loan, for example, would be the same either way.

1 month = 1/12 yr:
 $(50000)(.10/12)(1) = \$416.67$

1 month = 30/360 yr:
 $(50000)(.10/360)(30) = \$416.67$

Consequently, when full months are at issue, the 360/360-day year may be used.

However, when partial months are at issue, as with per diem interest in a long first period, or early payoff, a day must be

¹ See attached copy of Informal Advisory # 65 (Kochenberger to Bueneke, July 6, 1992).

1/365th of a year, and the 365/365 day-year is the prescribed method.

For purposes of comparison, assume there are 18 days in the partial period. The 365/365 accounting method would yield:

$$(50000)(.10/365)(18) = \$246.58$$

Iowa law does not permit a partial period to be calculated as a fraction of a 30/day month. Compare the yield if one were to calculate the interest due for 18 days as if it were 18/30, or .6 of a month.

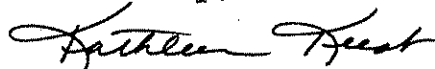
$$18/30 = .6$$
$$(50000)(.10/12)(.6) = \$250$$

I am enclosing for your information a discussion of the 365-day, 360-day, and 360/365 day calculation methods.

You also asked about permissible charges on mortgage loans. Enclosed is a copy of Informal Advisory # 81, addressing the issue of permissible prepaid finance charges in home equity loans.

If you have any further questions, please do not hesitate to call.

Sincerely,



Kathleen E. Keest
Assistant Attorney General
Deputy Administrator,
Iowa Consumer Credit Code