

Example Regarding the Breakdown of Principal and Interest in the Monthly Repayment of Hang Seng Personal Instalment Loan*

1. Same practice as most of the other financial companies and banks, Hang Seng uses “Rule of 78” method to breakdown of principal and interest in the monthly repayment of Personal Instalment Loan. This method allows the interest payments decrease disproportionately during the course of the loan period.
2. Demonstration of “Rule of 78”:

Using 12 months tenor loan as an example, the interest charge is divided into 78 portions. The denominator of a “Rule of 78” loan is the sum of the number of monthly payments in the loan. For a 12 month loan, the sum of numbers from 1 to 12 is 78 (12 + 11 + 10 + . . . + 1 = 78). 12/78s of the interest is assessed as the first month’s portion of the total interest, 11/78s of the interest is assessed as the second month’s portion of the total interest and so on until the 12th month at which time 1/78s of the interest is assessed as that month’s portion of the total interest. Following the same pattern, the sum of 1 to 36 is 666 (36 + 35 + 34 + . . . + 1 = 666), hence 36/666s of the interest is assessed as the first month’s interest portion of a 36 months loan.

Example of calculating interest portion of each month :

A customer borrows a 36-month loan of HK\$50,000 at a monthly flat rate of 0.65%, with 1% p.a. handling fee added on to the principal. Therefore, the total loan principal is HK\$51,500.

Monthly interest = HK\$51,500 x 0.65% = HK\$334.75

Interest for the full term = HK\$334.75 x 36 (instalments) = HK\$12,051

Monthly repayment amount = (HK\$51,500 + HK\$12,051) / 36 (monthly payments) = HK\$ 1,765.31

Based on the Rule of 78, the amount of interest paid each month

$$= \text{Interest for the full term} \times \frac{\text{Remaining number of monthly payments}}{\text{Sum of the number of monthly instalments in the loan}}$$

(For 36 monthly payments, it will be=36+35+...+2+1=666)

The calculation is as follows:

	Interest	Principal repaid
The 1 st month	HK\$12,051 x 36/666 = HK\$651.41	HK\$1,765.31 – HK\$651.41 = HK\$1,113.90
The 2 nd month	HK\$12,051 x 35/666 = HK\$633.31	HK\$1,765.31 – HK\$633.31 = HK\$1,132.00
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The 35 th month	HK\$12,051 x 2/666 = HK\$36.19	HK\$1,765.31 – HK\$36.19 = HK\$1,729.12
The 36 th month	HK\$12,051 x 1/666 = HK\$18.09	HK\$1,765.31 – HK\$18.09 = HK\$1,747.22

The above example shows that nearly 10% of the interest for the full term is repaid in the first two monthly payments.

The above example is for reference only. For enquiry, please call our Personal Loan Service Hotline 2997 3882.

* Including Hang Seng Handy Cash Personal Instalment Loan, Hang Seng Debt Consolidation Instalment Loan and Hang Seng Tax Comforter