LesMark Capital, LLC

The difference between a 30/360 payment and an actual/360 payment

A number of our customers have been asking about payment calculations and the difference between 30/360 and actual/360 payments. As they receive quotes of one type or another, they are having difficulty comparing them and deciding which is better.

In our view the 30/360 method is the most straight-forward calculation. For most of the 20th century, all lenders used a 30/360 calculation. They assumed every month had 30 days and each year had 360 days. This allowed for easy calculation of interest rates and amortization schedules. A 30/360 calculation is listed on standard loan constant charts and used by your calculator or computer in determining mortgage payments.

Actual/360 payments started to become in vogue in the 1990s. These call for the borrower to pay interest for the actual number of days in a month. This effectively means that you are paying interest for 5 or 6 additional days a year. Therefore, a lender can quote you a lower spread and rate on a transaction but actually collect the same or a greater amount of interest each year. The difference between the two methods translates into an 8-12 BPS difference in the spread and rate. In order to compare a 30/360 to actual/360 quote you should subtract 10 BPS or so from the 30/360 quote to put it in the same terms as an actual/360.

To make things more complicated, most lenders collect the same amount of P&I payment under both scenarios but adjust the amortization schedule to account for the difference in interest. Therefore, your balloon balance for an actual/360 loan would be slightly higher than for a 30/360 with the same payments. An actual/360 loan will have a balloon balance approximately 1% to 2% higher than a 30/360 loan with the same payment.