CHAPTER 9 - APPLICATION OF INTEREST

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1. Determination of the Beginning Date of Interest

a. Interest on any unpaid partial payment or interest on the unpaid balance of the purchase price commences on the due date specified in the billing (DRMS Form 915 or DRMS Form 433).

b. Interest accrues from the payment due date for any personal and/or company check that is not honored and returned by the bank against which it is drawn and is not redeemed within 30 days after notice.

2. Determination of the Interest To Be Paid. The interest period, i.e., the actual number of days the principal has been outstanding, is computed as follows:

a. Debt Payments. The interest period is figured from the beginning date of interest to the day preceding the postmark date on the envelope containing the payment, or the actual date the payment is made if the contractor pays in person. This is computed by subtracting the Julian date of the interest from the Julian date of the postmark on the envelope or date of payment.

NOTE: This results in the interest period being figured to the day preceding the postmark date. Retain the envelope with the postmark in the debt file.

b. Offsets from Bid Deposits of Successful Bidders Whereby the Deposits Exceed the Total Award Amount. The interest period is figured from the beginning date of interest to the date preceding award. This is computed by subtracting the Julian date of award from the beginning date of interest.

c. Offsets from Bid Deposits of Unsuccessful Bidders. The interest period is figured from the beginning date of interest to the date that the bidder is determined to be unsuccessful. This is computed by subtracting the Julian date of determination from the beginning date of interest.

d. Offsets Resulting from Under Delivery of Property. The interest period is figured from the beginning date of interest to the date preceding the final delivery date. This is computed by subtracting the Julian date of interest from the Julian date of final delivery.

e. Offsets Resulting from Amounts in Excess of Liquidated Damages. The interest period is figured from the beginning date of interest to the day preceding the final cure date. This is computed by subtracting the Julian date of interest from the Julian date of the final cure date. EXCEPTION: If the contractor voluntarily defaults prior to the final cure date, use the date preceding the postmarked date on the envelope.

f. Insufficient Funds Available to Cover the Entire Debt. Apply payments to the principal first and the interest second.

- If payment is sufficient to cover the entire principal amount, but not the entire interest due, remaining interest of less than $25 can be written off and further collection actions ceased.

- If payment is insufficient to cover entire principal amount, debt remains open and interest is computed on the unpaid balance (i.e., compute interest on full principal from interest start date to date of partial payment and then compute additional interest on remaining principal from partial pay date to date of final payment

- At any time that unpaid balance (principal + interest) is less than $25, write off the unpaid balance and inactivate the debt.

NOTES: If interest period crosses calendar years, you will have to compute the number of days from interest start day to the end of the calendar year, then add that to the number of days from start of the

next calendar year to payment date.

Round any fractional remainder to the next higher number. This number is then added to the Julian date of interest to establish the interest period covered by the offset or payment.

3. Determination of the Daily Interest Rate. Multiply the principal amount of the debt by the applicable interest rate established by the Treasury Secretary and published in the Federal Register every 6 months to determine the interest charge for 1 year; carry to two decimal places (cents) and do not round off. Divide this charge by 365 or 366 as applicable to determine the daily interest rate. Carry the result to three decimal places and do not round off.

4. Determination of the Interest Charge. Determine the interest charge by multiplying the daily interest rate by the number of days the principal was outstanding (i.e., interest period), see paragraph 2a above, carry to two decimal places (cents) and do not round off. If this charge exceeds the funds available, see paragraph 2e above.

NOTE: Complete guidance on the procedures for debts can be found in a separate instruction "Contractor Debts", updated March 14, 2000. This instruction covers procedures for contractor debt collection, interest, and accounts receivable.