The computing of interest must be distinguished from compounding, which is the capitalisation of interest so that interest itself yields interest. Notwithstanding the removal of the former prohibition on compound interest, the law has traditionally leaned against it. A clear manifestation is the well established rule in the law of mortgage that in the absence of special agreement, simple interest only can be charged in a mortgage account. This principle was applied by the Court of Appeal in holding that a mortgage under which the or tgagor covenanted to pay to a mortgagee bank all monies due “so that interest shall be computed according to agreement or falling agreement to the usual mode of the bank” did not entitle the bank to compound interest, notwithstanding evidence that it was the bank's practice to charge it.

13Daniell v Sinclair (1881) 6 App Cas 181, PC.

Referring Principles:

- VII.7 - Right to charge compound interest