

Interest-Only Loans.

These are loans where the payment is equal to the interest charged.

Hence the amount owed remains the same.

Thus for Interest-Only Loans

$$\text{Payment} = \text{Interest Charge.}$$

$$D = \frac{r}{100} \times V_0.$$

Where. $D =$ payment per compounding period

$r =$ interest rate per compounding period

$V_0 =$ principal of the loan.

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Eg Mr Spacely borrows \$180 000 to expand his Sprocket Factory. He negotiates an interest-only loan, at a rate of 7.6%, compounding fortnightly. What is the fortnightly payment?

$N = 1$ (for this question use 1 for a fortnight).

$I = 7.6$

$PV = 180\,000$

$P/Y = 26$

$FV = -180\,000$

$C/Y = 26.$

← owes.

$PMT = -526.1538462.$

∴ He pays \$526.15 per fortnight

Questions: Ex 9D Page 329 All Questions.