

Solution 1.14

Callahan Construction borrowed \$2.6 million to finance the construction of an entertainment complex in a smart community development project. The company made “interest only” payments of \$312,000 each year for 3 years and then repaid the principal in a single lump sum payment of \$2.6 million.

What was the interest rate on the loan?

Solution:

$$\begin{aligned}\text{Interest rate} &= \text{interest paid/principal} \\ &= (312,000/2,600,000) \\ &= 0.12 \quad (12\%) \end{aligned}$$