

Section 3: Loan Repayment – Adhoc Methods

Adhoc Methods are loan repayment methods that don't fit into either the amortization or sinking fund categories.

Module 3 Section 3 Problems:

1. Interest on a 10-year loan of 25000 is 10% annual effective. The loan is repaid with annual payments at the end of each year, with the first 9 payments equal to 125% of the amount of interest due at the time of the payment, and the final payment at the end of the 10 year period equal to a balloon payment that repays the loan entirely. Determine the amount of the balloon payment.
2. A 10-year loan of 8000 is repaid with annual payment. Each payment consists of a principal payment of 800, plus interest in the unpaid balance using 6% annual effective. When the lender receives a payment, the lender reinvests the payment in an account that pays 4% annual effective. Determine the amount the lender has in the reinvestment account immediately after the last loan payment.

Answers to Module 3 Section 3 Problems

1) 21896.48

2) 12960.49