Possible Solutions

Steve is taking out a loan in the amount of $5,000. His choices for the loans are 3-year loan at 5% simple interest and a 5-year loan at 4% simple interest. What is the difference in the amount of interest Steve would have to pay for each of these two loans?

In order to compare two loans you must first calculate the interest on the two loans. The formula for simple interest is $I = Prt$ or Interest = Principal x rate x time. Once the interest has been determined for each of these two loans, the next step is to subtract the numbers.

Loan 1

I = $5,000 x 0.05 x 3

I = $750

Loan 2

I = $5,000 x 0.04 x 5

I = $1,000

The difference is $1,000 – $750 = $250.