



Math Study Strategies

Math for Real Estate

Simple Interest

When you borrow money, the lender charges interest on the amount of money borrowed. The interest is expressed as a percent and can be added hourly, daily, weekly, monthly, biannually, quarterly, annually etc. If the interest is charged for one year, the amount of interest for the purchase can be computed using the simple interest formula:

$$I = PRt$$

To find the **interest I**, you need to know **the principal P** (the amount of money being borrowed), **the rate R** (the percent of the principal being paid per year as interest) and the **time t** (the length of the loan expressed in years).

To solve simple interest problems, change the percent (rate) to a fraction or decimal.

Example Problem

What is the interest on \$600 at a rate of 4% a year for 15 years?

To find simple interest, follow these steps:

Step 1

Draw a grid with interest as part, rate as the percent, and principal as the whole.

?	4
interest	rate
\$600	100
principal	

Step 2

Multiply the known diagonals.

$$4 \times \$600$$

Step 3

Divide by the number that is remaining.

$$\frac{4 \times \cancel{\$600}^6}{\cancel{100}_1} = \$24$$

Step 4

Multiply the interest by the years (time) the money will be used.

$$\$24 \times 15 \text{ years} = \$360$$

Step 5

Write the answer in dollars and cents.

\$360 interest for 15 years at 4% on \$600.