Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Period:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Calculating Simple Interest
Agriculture Credit**

1. **There are three types of general loans**

 **A. Short term- Used to purchase inputs**

 **1)**

 **B. Intermediate- term loans are generally used to purchase breeding stock, machinery or equipment**

 **1)**

 **C. Long Term Financing- is usually based on real estate or improvement to real estate**

 **1)**

***II. Sources of Credit***

 ***A) Short Term Credit***

 ***1)***

 ***2) Used for Supplies or Inputs***

 ***A. seed, feed, chemicals, consumable materials***

 ***Sources:***

 ***1) Seed/ Chemical Companies, Feed Co.***

 ***2)***

 ***B) Intermediate Term Credit-***

 ***1)***

***2) Used to purchase equipment, breeding livestock, machinery***

 ***3) normally covered by assets as collateral***

 ***Sources:***

 ***1) John Deere- Equipment Purchases***

 ***2) GMAC***

 ***3) Farm Credit***

 ***C. Long Term Credit***

***1)***

 ***2) Secured with a mortgage on the property.***

***Sources:***

1. ***Federal Land Bank***
2. ***Commercial banks***

***3)***

1. **Loan Terminology**
2. **Installment- one of the parts which the principal borrowed is divided when payment is made over several time intervals.**
3. **Simple Loan- this type of loan is repaid (principal and interest) is made on the maturity date of the loan.**

1. **Amortize- repaying the principal borrowed in a series of installments. Installments cover both principal and accrued interest**
2. **Balloon Loan- this type of loan generally calls for periodic payments that do not amortize the loan by its maturity date, leaving a balance due to be paid in a lump-sum.**
3. **Open End Loan- with this type of loan a variable amount of may be borrowed instead of getting a loan for a fixed amount.**
4. **Amortized Loan- a loan where the note calls for periodic payments of principal and interest that will reduce the principal balance to zero**

1. **Simple Interest- the method of calculating the dollar interest cost accrued (due) for a specific part of the term (time) of a loan.**

 **A) Formula # 1:**

 **Interest = Principal (X) Interest (X) Time**

**Example: $50,000.00 loan, 8% simple interest, what is the annual interest. (Show all work)**

 **What is the daily interest?**

1. **Suppose we want to buy a tractor with a cost of $75,000.00, but want to finance it for a year until we get the money from our crop. John Deere credit will allow us to finance this tractor at 4.5% interest.**

**What is the cost of financing this tractor for a year?**

**We get our crop check early! We are ready to pay off our tractor 240 days after we took out the loan.**

**What is our interest for 240 days?**

**What is the total final payment for our loan?**

**Principal + Interest = total cost**