

# NEWS FROM

KHEAA–Alabama

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## Money Tip for Students, April 2019

### What students need to know about interest rates

Students need to learn some basic facts about interest rates so they can make good choices when it comes to borrowing and investing, according to KHEAA–Alabama.

One interest rate is simple, or nominal, interest. It's straightforward. If you borrow \$1,000 at 5 percent simple interest per year, you'll pay back \$1,050. If you deposit \$10,000 in your savings account at 3 percent interest per year, you'll have \$10,300 in your account at the end of the year.

After that, though, it can get more complicated.

Let's say you take out a \$100,000 mortgage at 5 percent. However, you have to pay \$5,000 in closing costs, which are added to the amount of the mortgage. That means you'll be paying interest on \$105,000. Your total interest costs are \$5,250. That means you're paying an annual percentage rate (APR) of 5.25 percent. Lenders are required to disclose the APR on any loans you take out.

On the savings side, let's say you invest \$10,000 at a 3 percent compound interest rate. With compound interest, you earn interest on the interest you've already earned. At the end of the year, you'll have \$10,304.16 in your savings account.

KHEAA is a public, non-profit agency established in 1966 to improve students' access to college. It provides information about financial aid and financial literacy at no cost to students and parents. KHEAA also helps colleges manage their student loan default rates and verify information submitted on the FAFSA. For more information about those services, visit [www.kheaa.com](http://www.kheaa.com).

For more information about financial aid and college planning, visit [www.alstudentaid.com](http://www.alstudentaid.com).