



FINANCE AND ADMINISTRATION CABINET
KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY

Matthew G. Bevin
Governor

P.O. Box 798
Frankfort, Kentucky 40602-0798
Phone: 1.800.928.8926
Fax: 502.696.7373
www.kheaa.com

William M. Landrum III
Secretary

Contact: Tim Ballard
Phone: 502-696-7372
Email: tballard@kheaa.com

Eugene P. Hutchins
Executive Director

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 the Kentucky Higher Education Assistance Authority (KHEAA).

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 the state agency that administers Kentucky's grant and scholarship programs, including the Kentucky Educational Excellence Scholarship (KEES). The agency also provides financial literacy videos at <http://itsmoney.kheaa.com> and free copies of "It's Money, Baby," a guide to financial literacy, to Kentucky schools and residents upon request at publications@kheaa.com.

KHEAA's sister agency, the Kentucky Higher Education Student Loan Corporation (KHESLC), offers low-cost Advantage Loans to help students and parents pay for college or to refinance student loans. For more information about Advantage Loans, visit www.advantageeducationloan.com.

For more information about Kentucky scholarships and grants, visit www.kheaa.com; write KHEAA, P.O. Box 798, Frankfort, KY 40602; or call 800-928-8926, ext. 6-7214.

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