Money Tip for Students, September 2021

What students need to know about interest rates when borrowing

FRANKFORT, Ky. (Sept. 15, 2021) — If Kentucky students are considering borrowing money, they should do their homework on interest rates. The time students spend learning the basics about interest rates and annual percentage rates will pay off significantly, helping them save money when borrowing, according to the Kentucky Higher Education Assistance Authority (KHEAA).

“Kentucky’s economy is surging like nothing I’ve seen before in my lifetime, and we’ve got unprecedented opportunity ahead of us,” said Gov. Andy Beshear. “Kentucky students have more options than ever for career paths that can build a strong financial foundation for their families for generations to come. And they’ll be even more successful if they learn tips for paying as little as possible in interest when they borrow money.”

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. But many loans use an annual percentage rate (APR), not simple interest.

Let’s say you take out a $100,000 mortgage at 5 percent. However, your closing costs are $5,000, which is added to the amount of the mortgage. That means you’ll be paying interest on $105,000, an APR of 5.25 percent. Over the life of a mortgage, you’ll pay thousands more than you would with simple interest. Lenders are required to disclose the APR on any loans you take out.

KHEAA is the state agency that administers Kentucky’s student financial aid programs, including the Kentucky Educational Excellence Scholarship (KEES). Its sister agency, the
Kentucky Higher Education Student Loan Corporation (KHESLC), offers low-cost Advantage Loans to help students and parents pay for college or refinance student loans. For more information about Advantage Loans, visit advantageeducationloan.com.

Many of KHEAA’s student aid programs are funded by Kentucky Lottery revenue.

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

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