

Interest



Do you save your money? Savers can put their money to work for them. It sounds silly to say money can work for people but it's true! When you save your money in a bank, the bank not only keeps your money safe for you, but it puts your money to work for you and helps you to earn even more money. This is because when you deposit, or put your money in a bank, the bank doesn't just hold it for you, it uses your money by loaning it out to other people. Because banks work with many different savers and borrowers every day, savers can get their money out of a bank whenever they want, however, the longer they save, the more interest they will earn by keeping it in the bank.

Borrowers pay interest. When a bank makes a loan, it charges the borrower a fee for the service it provides of loaning the money. This fee is called interest. Borrowers must pay back all the money they borrow from a bank plus the additional fee, or interest, charged by the bank. One way banks earn money is by charging borrowers a fee, or interest, for the service they provide of loaning money.

Savers earn interest. When people deposit money in a bank, the bank pays interest to the saver for allowing the bank to use their money. Banks offer savers different types of tools or ways they can save their money at the bank. Depending upon how long a saver is willing to promise to keep their money in a bank, banks offer different interest rates, or amounts they will pay you for allowing them to use your money while you save it. Over time, savers earn extra money for themselves just by allowing the bank to use their money while they save it. The earlier you begin saving, the more your money will be able to work for you!

Banks can still earn money even though they pay savers interest because they charge more interest to those who borrow money than they pay out to those who save their money.



Think about it...

What is interest?

How do savers earn interest?

Why do borrowers pay interest?

Why is saving better than borrowing?

Savers Earn Interest - Let's look at a real-life example of how interest works when people allow their saved money to work for them!

1. Sebastian saved **\$100** each year for 30 years by depositing his money into a savings account at his local bank. The bank agreed to pay Sebastian interest. After 30 years, Sebastian had saved \$3,000 altogether and had a total of \$3,244.14 in his savings account. How much interest did Sebastian earn by letting his money work for him?

\$ 244.14

2. Suppose Sebastian had saved \$200 each year for 30 years. After 30 years, how much would Sebastian have saved?

\$ 6,000

3. If Sebastian had a total of \$6,488.28 in his bank account after 30 years, how much would he have earned in interest?

\$ 488.28

4. Would Sebastian earn more interest by saving \$100 each year for 30 years or \$200 each year for 30 years? Why?

Borrowers Pay Interest - Let's look at a real-life example of how much a loan might cost a borrower.

1. Suppose you want to buy a car that costs \$20,000. The bank agrees to loan you the money to buy the car but you must pay it all back to the bank, with additional interest of \$2,645.20 within 5 years.

How much money altogether will you have to pay the bank to purchase the car?

\$ 22,645.20

2. Do you think it's worth it to pay the bank \$2,645.20 in interest in order to borrow \$20,000 to buy your car? Why or why not?

3. Suppose you decided to wait to buy the car until you saved up \$5,000 so that you only needed to borrow \$15,000 from the bank to get your car. The bank agrees to loan you the money to buy the car but you must pay it all back to the bank, with additional interest of \$1,984.20 within 5 years.

How much money altogether will you have to pay the bank to purchase the car?

\$ 16,984.20

4. Would the difference in interest charged to you make it worth it for you to wait and save up towards your car purchase so you don't have to borrow as much? Why or why not?
