

NEWS FROM

KHEAA–Alabama

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Money Tip for Students, September 2021

What students need to know about interest rates when borrowing

If Alabama 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 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. 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 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.

The agency 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.

In addition, KHEAA disburses private Advantage Education Loans on behalf of its sister agency, KHESLC. For more information, visit www.advantageeducationloan.com.

For more information about financial aid and college planning, visit www.alstudentaid.com.