

What is interest?

I keep hearing about *interest on my savings*, but I'm still not sure what it really means!



It is just the payment or fee the bank pays you when you save your money with them, or charges you when it lends you money.

If you have a bakkie you hire out, your customer has to pay you a fee to use it.



In the business world, if you lend someone something, he or she pays you for it.

So if you lend money to someone, he or she pays you for the use of your money.

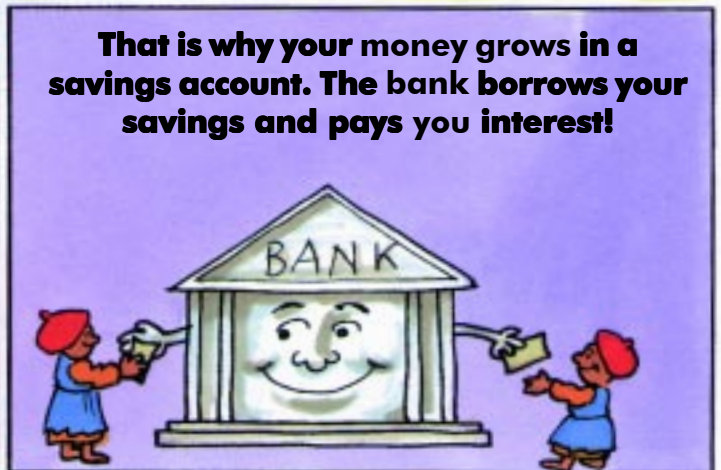


If you borrow money from someone, you have to pay him or her interest.



Interest is extra money that the borrower pays to the lender. This means you have to pay back more than you borrowed.

That is why your money grows in a savings account. The bank borrows your savings and pays you interest!



Interest is worked out as a percentage (%) of the amount you put into a bank account for one year. This is sometimes written as '...% p.a. ...'.

One per cent (1%) is one hundredth. Look at the example on the right.

1% interest

If you put in R100, after a year you get R101.

If you put in R500, after a year you get R505.

10% interest

If you put in R100, after a year you get R110.

If you put in R500, after a year you get R550.

Remember

ALWAYS ask how much interest you will pay.

Micro lenders usually charge a monthly interest rate that works out at a much higher annual rate than that charged by banks on other types of loans.

