



Financially **SMART**

GOOD FINANCIAL HABITS: INTEREST



Content •

Words and meaning	1
Interest	3
Simple interest	3
Compound interest	4
Facts about interest	5
Notes	6

Words and meaning ●

Interest

The additional charge to the consumer for borrowing money. Each financial institution you borrow money from will charge you a different amount of interest.

Example:

The bank might charge you 10% interest. However, a microlender might charge you 25% interest.

Interest rates

The percentage of interest that a bank charges for you to borrow money, or that a bank pays you for saving money.

Example:

If you borrow R100 at 10% interest you will have to pay back R110.

Inflation

This is how much more money you will need every year to buy the same things you could buy the year before.

Example:

In 2019 you could buy a loaf of bread for R10. In 2020 inflation has gone up and you will now spend R12 on a loaf of bread.

Types of interest

SIMPLE INTEREST:

Simple interest allows you to earn interest only on the initial amount of money invested.

COMPOUND INTEREST:

Compound interest is when you earn interest on the amount of money you invested as well as the amounts of interest you have already earned during a specific period.

Interest ●

Simple interest

Simple interest means that your interest is only calculated on the amount that you save or borrow. The amount of interest that will be paid will always stay the same, never more or less.

**Initial savings
of R10 000**

**Interest earned
(10% per year)**

YEAR 1



YEAR 2



YEAR 3



"I earned a total of R3000 interest on top of my initial savings amount over a period of 3 years. I received interest on my savings yearly (R10 000)."



Compound interest

Interest that is calculated not just on the money you have saved or borrowed but also on the interest you have earned over a period of time.

**Initial savings
of R10 000**

**Interest earned
(10% per year)**



YEAR 1



YEAR 2



YEAR 3



"I earned a total of R3310 interest on top of my initial savings amount of R10 000 over 3 years. I received interest on the amount I invested PLUS the interest that I earned."

Facts about interest ●

Facts



How can compound interest work for me?

If you saved R250 monthly for 6 years between the ages of 24 and 30, and then left those savings in your account, by the age of 65 the value of your savings will be about R480 000 (This is based on an interest rate of 9%).

It is important to remember that there may be amounts that come off the interest you earn. You will have to pay bank charges and tax on the money you make.

The type of interest I pay on my debt

Compound interest also works on your debt. If you don't take care of your debt, it will grow bigger and bigger with interest being calculated on the interest.

Notes ●

A series of horizontal dotted lines for writing notes.

Notes ●

A series of horizontal dotted lines for writing notes.

Notes ●

A series of horizontal dotted lines for writing notes.



FSCA
MyMoney
Learning Series

INTEREST



The purpose of this booklet is to help you understand the difference between simple and compound interest.



© 2019 FSCA

Disclaimer

The information contained in this information booklet has been provided by the Financial Sector Conduct Authority (FSCA) for information purposes only. This information does not constitute legal, professional or financial advice. While every care has been taken to ensure that the content is useful and accurate, the FSCA gives no guarantees, undertakings or warranties in this regard, and does not accept any legal liability or responsibility for the content or the accuracy of the information so provided, or, for any loss or damage caused arising directly or indirectly in connection with reliance on the use of such information. Except where otherwise stated, the copyright of all the information is owned by the FSCA. No part of this information booklet may be reproduced or transmitted or reused or made available in any manner or any media, unless the prior written consent has been obtained from the Financial Sector Conduct Authority's Office of General Counsel.

FSCA Contact Details

Riverwalk Office Park, 41 Matroosberg Road, Ashlea Gardens, Extension 6, 0181, Pretoria, South Africa | 012 428 8000 | Share call number: 0800 20 FSCA (3722) | info@fsc.co.za | www.fsc.co.za