Name ____

Interest Rates

Interest rates are the "price of money." Some consumers need to borrow money and they pay interest on loans. Other consumers save money and they earn interest on their savings in banks.

The Federal Reserve currently has interest rates set at 0.50% for banks. This means consumers can borrow money at a low interest rate for houses (4.0%), cars (2-8% or more!) and student loans (4.0%-9.0%). If the Federal Reserve raises interest rates, rates on all these loans will rise as well as interest rates for savers.

1) Freshman year at college you run up a $5,000 bill on your credit card at 20.0% interest. If you pay $1,000 per year to the credit card company, when will your bill be paid off in full?

2) You have the option to borrow $10,000 for 1 year from a bank. The interest rate is fixed at 10%. Approximately how much will you owe the bank in one year?

3) You have the option to save $10,000 for 1 year at an interest rate of 2%. How much will the bank owe you in 1 year?

4) Borrowers of money want interest rates to be as _____________ as possible while savers of money want interest rates to be as ______________ as possible.

5) In today's economy, who is happier with the Federal Reserve—savers or borrowers? Why?

BUYING A HOUSE

When people buy houses they take out a loan (called a mortgage). Below are current monthly payments for loans at a 30-year fixed rate loan for $100,000 at different interest rates.

4%	$477 per month for 30 years
6%	$600 per month for 30 years
8%	$734 per month for 30 years
10%	$878 per month for 30 years

6) How much would the monthly payment on a $500,000 house in Marin be if you put down a $100,000 down payment and borrowed $400,000?

   a) 4% mortgage = ____________________________

   b) 8% mortgage = ____________________________

7) Taxes on a house in California are approximately 1.2% per year on the price paid for the home. Calculate the yearly and monthly tax bill on a $500,000 home in Marin. Add this number to your monthly payment.