Borrowing and Lending

Borrowing money can be an important and necessary part of life, whether it is borrowing from a bank for your first mortgage or borrowing for University fees.

When you borrow money it will usually generate interest, meaning that the amount you originally borrow will accumulate in compound interest over time.

1. In the tables below, calculate how much interest will increase the total debt if no payments are made?

a) Borrowing £1,000 at 40% interest.

Year	Interest Added	Debt Owed
1	£400	£1,400
2	£560	£1,960
3	£	£
4	£	£
5	£	£5,378.24

b) Borrowing £200,000 at 2% interest.

Year	Interest Added	Debt Owed
1	£4,000	£
2	£	£ 208,080.00
3	£ 4,161.60	£
4	£	£
5	£	£ 220,816.16

2. Fill in the blanks of the paragraphs below:

People borrow for many different reasons. A bank has multiple options, such as an ______________ which is a capped amount by your bank and no agreement on how you pay back, this is commonly used when you have no money left in your bank account. Similarly, using a ______________ has the same limits but you can use this in addition to your current money, but sometimes at a higher interest rate. If you wanted to buy a house, you would get a ___________. These have much lower interest rates but it will have a long-term payback deadline.

Another reason people borrow money is for higher education, like university. To pay their university course fees, students may get a _______________, and this is paid yearly to the university. To cover the cost of their living and rent, students may also get a ____________________. The amount of this is dependant on their parent or guardian's household income and is paid back as a portion of their salary when they earn a specific amount.

Sometimes though life can be difficult, and someone might not be able to borrow by using a credit card or an overdraft, so some people use _______________. These are easily obtained for borrowing small amounts but have very high _______________ and often need a _____________ for security.

maintenance loan	tuition fee loan
interest rates	overdraft
credit card	pay day loans
guarantor	mortgage

Borrowing and Lending **Answers**

a) Borrowing £1,000 at 40% interest.

Year	Interest Added	Debt Owed
1	£400	£1,400
2	£560	£1,960
3	£784	£2,744
4	£1097.60	£3,841.60
5	£1,536.64	£5,378.24

b) Borrowing £200,000 at 2% interest.

Year	Interest Added	Debt Owed
1	£4,000	£204,000
2	£4,080	£ 208,080
3	£ 4,161.60	£212,241.60
4	£4,244.83	£216.486.43
5	£4,329.73	£ 220,816.16

2. Fill in the blanks of the paragraphs below:

People borrow for many different reasons. A bank has multiple options, such as an **overdraft** which is a capped amount by your bank and no agreement on how you pay back, this is commonly used when you have no money left in your bank account. Similarly, using a **credit card** has the same limits but you can use this in addition to your current money, but sometimes at a higher interest rate. If you wanted to buy a house, you would get a **mortgage**. These have much lower interest rates but it will have a long-term payback deadline.

Another reason people borrow money is for higher education, like university. To pay their university course fees, students may get a **tuition fee loan**, and this is paid yearly to the university. To cover the cost of their living and rent, students may also get a **maintenance loan**. The amount of this is dependant on their parent or guardian's household income and is paid back as a portion of their salary when they earn a specific amount.

Sometimes though life can be difficult, and someone might not be able to borrow by using a credit card or an overdraft, so some people use **pay day loans**. These are easily obtained for borrowing small amounts but have very high **interest rates** and often need a **guarantor** for security.

maintenance loan	tuition fee loan
interest rates	overdraft
credit card	pay day loans
guarantor	mortgage