

The Cost of Borrowing

Read a loan offer closely to identify the annual price of credit.

SS.8.FL.4.1 “Explain that people who apply for loans are told what the interest rate on the loan will be. An interest rate is the price of using someone else’s money expressed as an annual percentage of the loan principal.”

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline the sentence that begins, “The interest rate is.” Circle every number followed by a percent sign to identify the rate an applicant is told.

Maya Compares Loan Offers

- ① When Maya compares loans for a used bicycle, each lender gives her information before she agrees to borrow. The loan offer states the amount borrowed, called the principal, and the interest rate. The interest rate is the price of using someone else's money, stated as an annual percentage of the principal. Maya can use this information to compare offers because lenders tell applicants the rate before the loan is finalized. This notice helps her know a cost of borrowing before choosing.
- ② Suppose Maya is offered a \$200 loan at a 9% interest rate. For one year, 9% of \$200 is \$18, so the yearly interest cost would be \$18 if the principal stayed at \$200 for the full year. The 9% is not an extra \$9. It is an annual percentage. Loan terms can differ, so a borrower should read the offer to learn both the principal and the stated interest rate before accepting a loan.
- ③ A lower interest rate usually means a lower price for using the same principal during a year. However, borrowers also need to notice other terms, such as the amount borrowed, repayment time, and fees. Interest can be calculated in different ways, and payments may change the balance. Still, the stated annual interest rate gives applicants an important, clear number for comparing the cost of credit before they decide whether to borrow or select another option.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 What two pieces of loan information does Maya's offer state?

2 According to the passage, what is an interest rate?

3 What would the yearly interest cost be on Maya's \$200 loan at 9% if the principal stayed at \$200 for the full year?

4 Why is it useful for Maya to know the interest rate before the loan is finalized?

3 YOUR TURN _____ Your own words

Create a loan offer with a principal and an annual interest rate. Write two sentences that explain what the rate means and calculate the interest for one year if the principal stays the same.

PART 1 • READ AND MARK

Underline the sentence that begins, "The interest rate is." Circle every number followed by a percent sign to identify the rate an applicant is told. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	What two pieces of loan information does Maya's offer state?	The amount borrowed, called the principal, and the interest rate.
2	According to the passage, what is an interest rate?	It is the price of using someone else's money, stated as an annual percentage of the principal.
3	What would the yearly interest cost be on Maya's \$200 loan at 9% if the principal stayed at \$200 for the full year?	\$18.
4	Why is it useful for Maya to know the interest rate before the loan is finalized?	She can compare loan offers and know a cost of borrowing before choosing.

PART 3 • YOUR TURN (SAMPLE ANSWER)

I apply for a \$500 loan with a 6% annual interest rate. The rate is the price of using the lender's money, and 6% of \$500 is \$30 in interest for one year if the principal stays the same.

Accept equivalent statements that identify interest as the annual percentage price of using borrowed money, based on the principal. For the open task, accept any accurate principal, annual rate, and one-year interest calculation that matches the stated values.