

What Is Interest?

Interest is the cost of borrowing money. When a lender gives you a loan, they charge a fee — a percentage of the amount borrowed — in exchange for the use of their funds. That fee is interest.

Simple vs. Compound Interest

Simple Interest is calculated only on the original principal.

Formula: $\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time}$

Example: \$1,000 at 5% for 2 years = \$100 interest. Total repaid: \$1,100.

Compound Interest is calculated on the principal plus accumulated interest. It grows faster — and can work for or against you.

Example: \$1,000 at 5% compounded annually:

Year	Balance	Interest Earned
1	\$1,050.00	\$50.00
2	\$1,102.50	\$52.50
5	\$1,276.28	\$276.28 total
10	\$1,628.89	\$628.89 total

Key Interest Terms

- **Principal:** The original amount borrowed or invested.
- **Rate:** The percentage charged per period (usually annual).
- **APR:** Annual Percentage Rate — yearly cost of a loan, including fees.
- **APY:** Annual Percentage Yield — reflects compounding; used for savings.
- **Amortization:** The schedule by which a loan is repaid in regular installments.

Interest as a Borrower

When you borrow, interest is a cost. The higher the rate and the longer you carry the balance, the more you pay. Always compare rates before borrowing.

Loan Type	Typical Rate	Type
Credit Card	20–30%	Compound (daily)
Personal Loan	8–20%	Simple/Amortized
Auto Loan	5–12%	Simple/Amortized
Mortgage	6–8%	Amortized
Interest-Free	0%	Principal only
Payday Loan	300%+ APR	Avoid

Interest as a Saver

When you save or invest, compound interest works *in your favor*. The earlier you start, the more time your money has to grow.

- ✓ A savings account earning 4–5% APY compounds your deposits over time.
- ✓ Regular contributions — even small — benefit enormously from time.
- ✓ Reinvesting interest or dividends accelerates growth significantly

The Rule of 72

Divide 72 by the interest rate to estimate how many years it takes to double your money — or double your debt.

Rate	Doubles In	Example
3%	24 years	Savings account
6%	12 years	Moderate investment
24%	3 years	Credit card debt

✧ A Jewish Perspective on Interest & Ethical Lending

The prohibition on charging interest to a fellow community member — *Neshech* — is one of the Torah's most distinctive economic teachings. It reflects a vision of community where financial need does not become an opportunity for profit at another's expense.

- **Gemilut Chasadim (Loving Kindness):** An interest-free loan is an act of care that preserves the borrower's dignity and keeps every repaid dollar working against the debt.
- **Tikkun Olam (Repairing the World):** Breaking cycles of high-interest debt strengthens individuals, families, and communities alike.
- **Arevut (Mutual Responsibility):** Understanding how interest works — and how to avoid its trap — fulfills our responsibility to ourselves and to those who lend to us.