



Key concepts

- A **Credit Score** is your financial report card, but instead of letters it consists of numbers (300-850). Instead of measuring how well you do in school, it measures how well you do at paying back money you borrow and how well you manage your money. If you pay your bills on time and do not borrow more than you can pay back you will have a good credit score.
- A **Debit Card** looks like a credit card, but it actually accesses your own money. If you use your debit card the money is taken right out of your checking account.
- A **Credit Card** allows you to borrow money from the bank or lending institution whenever you want, but you have to pay it back. If you don't pay it back fast you will be charged extra money we call interest. The interest rate you are charged per year is called Annual Percentage Rate (APR). With a credit card you have a limit as to how much you can spend.
- A **Loan** is when you borrow money from a bank, credit union or other financial institution. Loans are usually used for larger purchases such as college, a car, or a house. With a loan you must pay it back within a certain time and pay a certain interest rate. You should know what the interest rate and the terms (how long you have to pay it back) are before getting the loan.
- **Interest** is the fee to borrow money. If you borrow money you pay interest as with a credit card or loan. If someone borrows money from you they pay interest. This is similar to the interest you receive on your savings account. You are essentially lending your money to the bank to use for other loans and they, in return, pay you interest.
- **Compounding Interest** can work for you or against you. Compounding interest is when interest grows on interest. For example, you put \$100 into an investment that earns 10% interest per year. $\$100 \times 10\% = \110 . At the end of the first year you have \$110. But in year 2 you will earn 10% on the entire \$110 (not just the original \$100). $\$110 \times 10\% = \121 .

smart future

module 4



Key concepts (cont.)

- **The Rule of 72** shows you how long it will take for your investment to double. Let us say that you saved \$1,000 to invest. You invest this money in an account that pays you 8% interest. Here is how you calculate the Rule of 72: $72 \div 8 = 9$ years. That means that your \$1,000 will double every 9 years.

Additional resources

For more games and activities about money ask your parents to help you visit Umpqua Bank's website at www.umpquabank.com.