What is an APR?

The **Annual Percentage Rate (APR)** is a standardized measure designed to express the full cost of borrowing as an annual rate. Governed by the **Truth In Lending Act (TILA)** and enforced by the **Consumer Financial Protection Bureau (CFPB)**, the APR is meant to provide a consistent basis for comparing different loans.

According to the CFPB, the APR takes into account not only the interest rate but also other relevant costs such as transaction charges, the amount of the loan, timing of advances, and repayment schedule. By combining these factors, the APR reflects the total cost of credit over a year, enabling consumers to make informed comparisons between different loan options.

It's crucial to understand that **APR is not the same as an interest rate**. While the interest rate impacts your monthly payment calculations, the APR considers all associated costs, including premiums for credit insurance, resulting in a more comprehensive view of your loan expenses.

The purpose of the APR, as outlined in the TILA, is to create a uniform measure that helps borrowers easily compare the costs of various credit offers. This ensures transparency and helps consumers make better financial decisions based on all relevant factors in their loan agreements.

Not an Interest Rate

Why is the APR not considered an "interest" rate in the traditional sense? Essentially, it means that neither your monthly payment nor your periodic interest expenses are determined by the APR. In actuality, your APR is determined using what you typically consider to be your "interest rate."

The APR is a Comparative Tool

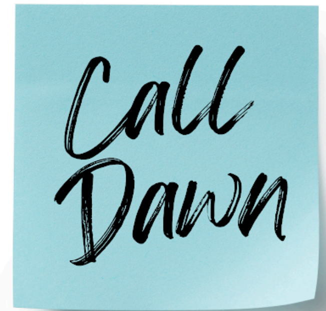
The concept behind the APR (Annual Percentage Rate) is that certain closing costs associated with obtaining a mortgage are directly related to the loan itself. When evaluating the total cost of a mortgage, you should consider not just the interest but also these loan-related closing costs and any required mortgage insurance.

Dawn Robbins
Senior Loan Officer, nmls 432345
dawnrobbins.com
(503) 805-7878
dawn@dawnrobbinsgroup.com

Ease Mortgage does not provide tax advice, credit counseling or credit repair services. Please contact your tax adviser for any tax related questions. Applicant subject to credit and underwriting approval. Not all applicants will be approved for financing. Receipt of application does not represent an approval for financing or interest rate guarantee. Restrictions may apply, contact Guaranteed Rate for current rates and for more information.

Ease Mortgage. NMLS# 2273319. 637 E. Big Beaver Rd Suite 205 Troy, MI 48083 (248) 847 - 0501. All rights reserved

The APR aims to consolidate all these expenses into a single percentage rate, allowing you to compare different loan offers more easily. This number reflects the annualized interest rate for the loan, incorporating all associated costs.



For instance, when locking in your interest rate, you will choose a combination of interest rate and discount points. Paying more in discount points will lower your interest rate. Additionally, if mortgage insurance is required, you'll have to decide on a payment method for this cost.

The APR helps the CFPB ensure that the credit cost for each loan option is disclosed uniformly, making it easier to compare one mortgage to another.

However, while the APR is useful as a comparison tool, its effectiveness as a decision-making tool depends on a few factors.

There are several key assumptions built into the APR calculation:

- You will only make minimum monthly payments.
- For adjustable-rate loans, the interest index remains constant.
- Mortgage insurance is paid for the maximum duration permitted by the loan or law.
- You will hold the loan for the full term.

Whether you should rely solely on the APR depends on how closely these assumptions align with your financial plans. If you have an adjustable-rate mortgage, consider your comfort level with assuming current interest rates will persist throughout the loan term.

Possible Scenarios

If you're refinancing to a 15-year loan and plan to stick with minimum payments until it's fully paid off, the APR is an ideal measure to compare loans. It indicates the lowest-cost option by factoring in both interest and fees.

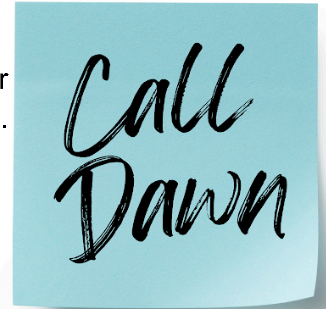
However, what if you're buying your first home and expect to stay there for just 4-6 years? Or, what if you plan to prepay your loan and pay it off early? In these cases, a loan with the lowest APR might end up costing you more than a loan with a higher APR. How is that possible?

Here's why: APR calculations assume you'll make minimum payments over the entire term. Loans with higher upfront costs but lower interest rates often show a lower APR because spreading out those initial expenses over 15, 20, or 30 years gives you time to recover that upfront investment.

Dawn Robbins
Senior Loan Officer, nmls 432345
dawnrobbins.com
(503) 805-7878
dawn@dawnrobbinsgroup.com

Ease Mortgage does not provide tax advice, credit counseling or credit repair services. Please contact your tax adviser for any tax related questions. Applicant subject to credit and underwriting approval. Not all applicants will be approved for financing. Receipt of application does not represent an approval for financing or interest rate guarantee. Restrictions may apply, contact Guaranteed Rate for current rates and for more information.

Ease Mortgage. NMLS# 2273319. 637 E. Big Beaver Rd Suite 205 Troy, MI 48083 (248) 847 - 0501. All rights reserved



But if you only plan to hold the loan for a few years, you might not own the loan long enough to recoup that initial expense. In such scenarios, a loan with a higher APR and interest rate but lower closing costs might be the cheaper option overall.

Still curious and want to dive deeper into the numbers? Check out our detailed DIY APR guide (available as a separate PDF).

The APR Disclosures

Throughout the loan process, you will encounter multiple APRs. For each loan option discussed, we will calculate and present the APR. When you sign the Truth-in-Lending (TIL) disclosure form, you'll confirm receipt of the disclosed APR. If any changes to your loan impact the APR, we will recalculate and provide a revised TIL form. Upon closing, you'll receive a final TIL document reflecting your final APR, which by law cannot exceed the previously disclosed APR by more than 0.125%.

Dawn Robbins
Senior Loan Officer, nmls 432345
dawnrobbins.com
(503) 805-7878
dawn@dawnrobbinsgroup.com

Ease Mortgage does not provide tax advice, credit counseling or credit repair services. Please contact your tax adviser for any tax related questions. Applicant subject to credit and underwriting approval. Not all applicants will be approved for financing. Receipt of application does not represent an approval for financing or interest rate guarantee. Restrictions may apply, contact Guaranteed Rate for current rates and for more information.

Ease Mortgage. NMLS# 2273319. 637 E. Big Beaver Rd Suite 205 Troy, MI 48083 (248) 847 - 0501. All rights reserved