

Annual Percentage Rate (APR)

What does the Annual Percentage Rate (APR) mean for my home loan?



It helps to start by understanding what APR is not - APR is not the loan interest rate and it is not used to calculate the loan's monthly payment.

APR is a tool developed by the government to help the borrower measure the total cost of their loan when the fees charged by the lender to get that loan are considered. Since fees charged by lenders will vary, the APR will also vary.

Put simply, if two lenders offer identical loans (same loan amount, interest rate and terms), then the monthly payment will be identical. But the APR may be different based on the fees charged by the lenders.

Here is an example:

FEATURE	LENDER A	LENDER B
Loan Amount	\$100,000	\$100,000
Loan Term	30 Years	30 Years
Loan Type	Fixed, Fully Amortizing	Fixed, Fully Amortizing
Interest Rate	4.000%	4.000%
Monthly Payment	\$477.42	\$477.42
Lender's Loan Fees	\$1,250.00	\$1,750.00
APR	4.104%	4.147%

The APR calculation includes all fees charged by the lender including origination, discount, underwriting, processing, appraisal, credit report, mortgage insurance, lender's title insurance, and other loan-related fees. The APR would not normally include settlement charges, government fees and real estate charges and commissions or other fees that the lender does not control.

It is important to remember that the APR should only be used as a basis of comparison for loans the borrower has actually been approved for. An advertised APR may not actually be available once the loan application has been reviewed.