

ANNUAL PERCENTAGE RATE (APR)

The process to choose the right loan not mean choosing the lender that advertises to offer the personal loan at the lowest interest rate. Advertised or representative interest rate fails to show the actual cost of borrowing to the borrower. In fact, it is only the nominal interest rate and does not include other rates of the loan. Due to this reason, the final cost of a loan comes out of much higher than the advertised interest rates. Following the advertised interest rates will directly affect your finances over a longer tenure.

Let us understand APR in detail and learn about how it is calculated.

- **WHAT IS APR?**

The Annual Percentage Rate is the total annual cost of your loan expressed in percentage. It includes the yearly rate of interest charged by the lender and other fees levied such as processing fees, administrative charges, loan insurance costs, etc.

- **WHAT ARE ITS BENEFITS?**

Listed below are a few of the benefits that are associated with the annual percentage rate:

- One of the salient benefits of APR is that it is known for providing you with a good understanding of the cost of the loan. You need to compare the different loan offers just by looking at the APR and determining who is offering the most affordable loan. Since the APR is known for including all fees in a loan offer, it is known for giving a clear idea of how much you will be required to pay for the loan.
- As different banks are known for having different terms, comparing different loan offers might be difficult. That's because it might not always be possible for you to go through all the any details of different loan offers available. In such cases, the APR might provide you with a standardised figure to look for among different loan providers and make the best decision.
- The APR is also known for providing you with an insight into the cost of your loan. Therefore, by looking at the APR, it is possible for you to gauge your repayment ability, and thereby plan accordingly. So, based on the information above, it is important to look up the APR important while applying for a loan. Hence, before applying for a loan from the bank, please make sure that you have calculated the APR of the loan so that you are able to choose the best loan offer.

- **HOW IS ANNUAL PERCENTAGE RATE OR APR CALCULATED?**

There are multiple factors that come into play when taking out a loan. These parameters should be aligned in order to ensure that there is no severe impact on your long term finances.

Three important factors are selecting the appropriate loan product, combining it with the right lending partner and the prevailing interest rate. Based on the interest rate as well as the fees and charges, the APR calculator helps in determining the loan's APR value. This acts as a comparative figure when you are looking at various loan products and offers by multiple lenders.

The APR is calculated by taking into account the following factors:

- Loan Amount – How much does the applicant plan to borrow
- Fees & Charges – All applicable fees and charges required to be paid to the lender to service the loan
- Rate of Interest – The interest rate applicable on the loan as imposed by the chosen lender
- Term – The number of months or years that has been designated as the repayment period

The formula for calculating APR is:

$$\text{APR} = \left[\frac{\text{Fees} + \text{Interest}}{\text{Principal}} \right] \div n \times 365 \times 100$$

Interest - total interest to be paid during the loan tenure

n - tenure of the loan in days

APR is not a foolproof method and comes with its own set of drawbacks. The formula does not work with floating interest rates and is not ideal if you are taking out a short term loan. It is also important to note that the APR value can change post taking out the loan.