

What is APR?



APR or Annual Percentage Rate APR or Annual Percentage Rate is a well intentioned but somewhat flawed formula that combines two elements of financing (rate and closing costs) into one number .

The Idea

By using an "effective" interest rate to indicate the total cost of financing over the term of the loan, consumers should be more readily able to determine which loan option or provider might offer the lowest total expense.

The Formula

Certain closing costs are subtracted from the real loan amount and then your payment is factored as though it were applicable to this fictitious loan amount. Unless there were no costs to subtract, this would always result in an APR that's higher than the rate that you really pay. Ex. \$100,000 loan amount @ 6% with \$3000 closing cost = 6.29% APR. In essence, it's the interest plus costs expressed as an interest rate.

The Reality

Though this was designed to make it easy to compare loans, more often, it just adds to the confusion. The reality is that you pay the actual rate of interest as it accrues against the balance of the loan and your closing costs are a one time expense.

The Problems

APR would be just fine if you had your loan for it's entire term, yet, that rarely happens. If you paid more in costs to obtain a lower APR and then only had that loan for a few years, it's rare that you would have earned your money's worth. This is simply because it can typically take 5 or 6 years before you make up the extra cost by way of a lower rate and payment.

As well, there are variances in the way APR is calculated and it can actually change on the same loan from day to day and from lender to lender.

The Solution

While the government requires that lenders disclose APR, it doesn't mean that you have to be confused by it. You are free to make your own comparison by considering rate and costs separately. Chances are good you already are. I can also provide you with a True Percentage Rate[®] comparison. This takes into account any specific number of years that you would expect to have your loan and as a result, provides real clarity as to what's right for you. As it also contrasts APR, you can actually see how misleading relying on just that might have been. Please reach out anytime using the contact information below and I'll be happy to walk you through it.

Licensed by the Department of Corporations under the California Residential Act License #813B544. Subject to applicant and property qualification and availability of funds. Subject to change without notice. Rates and terms apply only to subject programs. Registered with the Nationwide Mortgage Licensing System and registry, Broadview Mortgage #170528. Branch NMLS #170952.813B544



Tim Harrison
Branch Manager
Broadview Mortgage
1164 N. Monte Vista Ave. Ste 4
Upland, CA 91786
tim@hlcteam.com
Office: (909) 920-5252 x 108
NMLS #170960



Mr. Sam Ple
Real Estate Agent
Notreal Realty
6789 Fictitious Aveune
Mock City, CA 99999
SamPle@phony.net



DRE License # 0000001