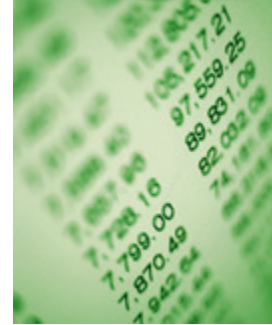


What is the difference between the interest rate and the A.P.R.?

You *should* see BOTH an interest rate and an Annual Percentage Rate (A.P.R.) for each mortgage loan you see advertised. The easy answer to "why" is that federal law requires the lender to tell you both.



The A.P.R. is a tool for comparing different loans, which will include different interest rates but also different points and other terms. The A.P.R. is designed to represent the "true cost of a loan" to the borrower, expressed in the form of a yearly rate. This way, lenders can't "hide" fees and upfront costs behind low advertised rates.

While designed to make comparing loans easier, A.P.R. is many times confusing because it includes some, but not all, of the various fees and insurance premiums that accompany a mortgage. Additionally, federal law requires that lenders disclose the A.P.R., but unfortunately there is no clear definition regarding what goes into the calculation. Furthermore, A.P.R. can vary from lender to lender and loan to loan.

The A.P.R. on a loan tied to a market index, like a 5/1 ARM, assumes the chosen market index will never change. But ARMs were invented because market indices do in fact change; therefore making it possible to differentiate between the acquisition cost of a variable rate loan relative to those of a fixed rate loan -- That is much of the reason behind the introduction of variable rate mortgages in the first place!

So, A.P.R.s are at best a rough estimate. The lesson is, that A.P.R. can be a guide, but you need to consult a Mortgage Planner to help find the best loan for you.

Note when you are browsing for loan terms that the A.P.R. will not detail balloon payments, prepayment penalties, or how long your rate is locked. You may also see that A.P.R.s on 15-year loans will carry a higher relative rate due to the fact that points and closing costs are amortized over a shorter period of time.

And finally, the A.P.R. does not consider whether the lender pays closing costs for you, which they do in some cases, whether the closing costs are tax-deductible or not, and most importantly—just how long you will have the loan. The A.P.R. assumes the loan will be carried the full length of the loan. It assumes you will not sell or refinance before the loan is fully paid off. This is obviously the biggest flaw in using A.P.R. for comparing *true* loan costs.