

APR: The Importance And The Cost

APR or annual percentage rate is a key element in securing a loan. As you are searching for the best loan for your home purchase, it is important to take note of the changes that can happen in your interest rate. Using a mortgage calculator you can get a clearer picture of what you are actually paying for purchasing your home and that is something you should do long before you sign on the dotted line. Many times, the loan interest rate that you think you are getting is a bit different when all is said and done. You should be prepared for what that interest rate will really be. Just a few differences really can make a difference in the total cost of the loan to you and how much you will be paying for that loan.

The Importance Of Interest

Why is it so important to consider the interest rate of the loan that you receive? It is quite simply because the costs determine how much you will pay for the home in the long run. Interest is the price tag of your loan. It is what you will pay to borrow money and therefore it should be as low as possible to save you money. A fraction of a percentage really does make a huge difference in paying off your loan and for that you should consider just where you stand.

You can see what the difference in interest can do to your loan by simply using a mortgage calculator to calculate this information for you. Simply enter in the various costs of the loan. Here's an example.

Original loan amount: \$200,000
Term: 30 years
Interest rate: 6.50 percent
Monthly Payment: \$1264, or a total cost of \$455,089

Original loan amount: \$200,000
Term: 30 years
Interest rate: 6.75 percent
Monthly Payment: \$1297, or a total cost of \$466,990

This may look like a small monthly difference but it actually amounts to a considerable amount in the long term. As you can see, your interest rate is very important.

What Factors Change The APR?

There are many reasons why an interest rate will change from the time that you secure it with the lender and what actually is your effective interest rate. You will want to work on getting this lower, of course, but chances are good that it will change some over the time of the acceptance of the loan. Let's look at a few examples to help you to see the various changes.

Perhaps you are considering paying points on your mortgage loan. Points are a paid percentage of interest that is paid upfront on the loan at the time of starting the loan. This one time payment lowers your interest rate over the life of the loan, possibly saving you money. If you have a \$250,000 loan with an interest rate of 6.5 percent for 30 years, you are likely to have an annual percentage rate of 6.55 percent with a monthly payment (effective loan amount) of \$1588.

On the other hand, let's say that you pay off two points of the loan at the start of it. By doing this, you are not paying an interest rate of 6.75 in annual percentage rate and the effective loan amount for your loan payment would be \$1619. You can use a mortgage calculator to show you how much you are actually paying on the loan, not just what the stated loan amount is. Do this whenever you are considering a loan so that you can, ultimately save a good deal of money in the long term.

Consider What APR Really Is

The fact is that APR is an important and clear understanding of what your loan will cost you. That is because APR helps to show you what you will pay in actual costs of the mortgage loan over the course of a full year. Lenders must provide you with this APR at the time that they submit the loan to you as well as throughout the advertising that they do for interest rates. The APR is different from one lender to the next and that is why it is important to get a good understanding of what the APR from one company is so that you can compare it to another.

For example, things like fees and costs of the loan set up are factored into the process of securing a loan. These things add additional cost to the loan which means a higher interest rate, in many cases. It is a requirement of the government to provide you with the loan that you need based on what is actually available to you, not just the very low rate that is being advertised.

The factors that go into making the APR different include Discount Points, Origination Fees, Mortgage Insurance Premiums, and Prepaid Mortgage Interest. What you need to do, then, is to know what these will cost you to know what you will actually pay. That can be very hard to calculate on your own, which is why you will want to use a mortgage calculator to help you through the process. Your goal is to know what you will actually pay for the loan, not what is an estimate or even a rough guess which is what many lenders push for in their advertising.

You can be and should be a smart consumer by taking the time to work through the APR cost of your loan. You can do this by using a mortgage calculator designed to help you to [calculate the APR of a loan](#). Doing so gives you a clear indication of what the loan will cost you. Learn this information to be an educated buyer of a mortgage loan. You also can gather an exact quote like this for your own loan from your potential lender. Use this to compare one loan and lender to the next.

Copyright © 2005-2008, ARSIDIAN LLC