

The differences between APR and interest rate

Annual percentage rate helps you understand a loan's total cost

When you are buying or refinancing a home, it is a good idea to look at the loan's annual percentage rate (APR) as well as its interest rate.

That's because the APR expresses the total cost of the loan. APR includes the interest charged on the monthly mortgage balance (the "interest rate") as well as costs and fees the lender may charge you to get the mortgage. The annual percentage rate gives you a better idea of the total cost of a loan, and helps you choose the right mortgage you.

What's included in annual percentage rate?

APR is calculated in similar ways by mortgage lenders, which makes it a useful tool to compare home loan costs. Annual percentage rates are expressed as percentages and can include ...

- **Interest charges.** This is the cost you'll pay to borrow money based on the loan's interest rate.
- **Discount points.** Some mortgages require you to pay points to get a specific interest rate. One point is equal to 1% of the loan amount. If your mortgage has points, their costs are included in APR. You can also choose to pay points for some loans.
- **Lender fees.** These are sometimes called "origination fees" and might be charged by lenders to process your loan application. These can be a percentage of the loan amount. They are included in the APR.
- **Mortgage insurance.** If a loan requires you to pay for [mortgage insurance](#), the cost is included in its annual percentage rate.
- **Closing costs.** Loan-related fees such as title and escrow, government recording fees, and transfer charges paid at closing are included in the APR.

Sample annual percentage rate calculation

Let's look at two sample mortgage offers to see how APR helps you better understand the cost of a home loan. For this example, we've assumed you are buying a house with a conventional



30-year fixed-rate mortgage. We've assumed you are borrowing \$200,000 and that you do not have to pay for private mortgage insurance because you have made a 20% down payment.

Mortgage A

Interest Rate: 3.10%

Points: 2

Lender Fees 1%

Closing Costs: \$1500

APR: 3.39%

Mortgage B

Interest Rate: 3.25%

Points: 0

Lender Fees: 1%

Closing Costs: \$1,000

APR: 3.37%

In this example, Mortgage A looks less expensive than Mortgage B because it has a lower interest rate. However, Mortgage A also comes with two points and higher closing costs. When you take these points and closing costs into consideration and calculate an APR, Mortgage B is estimated to be slightly less expensive.

Talk to Freedom Mortgage about your home loan options

Freedom Mortgage can help you buy or refinance a home. Talk to our experienced Loan Advisors today by calling 800-220-5533 or [Get Started](#) online.



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