

**Mortgage Tidbits**

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**Keeping you informed and in the know….**

**Interest Rate vs APR: what’s the difference?**

First let us describe the two!

* **Interest Rate**- this is the amount that is charged to the borrower, usually expressed as a percentage of the principal balance, by a lender for the use of their money.
* **APR** or **A**nnual **P**ercentage **R**ate- this rate includes not only the interest rate, but also fees and other costs involved in the loan process, think closing costs, broker fees, and/or discount points. The costs of the loan are converted to a percentage by dividing the costs into the loan amount and this percentage is then added to the rate.

**Why is this important?**

* Often time the APR is higher than the interest rate, this is due to included fees that come from the mortgage process. So, don’t panic if you see a higher number! It is not the interest rate you are being charged!
* The APR is required to be disclosed on every consumer loan agreement due to the Truth-In-Lending Act (TILA). Keep in mind though, that not every fee disclosed is included in the APR
* Don’t rely on only interest rates when shopping for a loan. The APR is the rate you will want to pay attention to as it involves the fees and other costs of the **whole** mortgage process!
* Higher APR, when comparing mortgage programs to each other, means higher closing costs. Always make sure you are comparing similar mortgage programs to each other to have an “apples to apples” comparison.
* And of course, don’t be afraid to ask questions! Ask your loan officer what costs are included, and which ones are not!

**Call us today for the best answers to the mortgage questions!**

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