

Introduction to Annual Percentage Rate (APR)

The rate at which you pay an yearly interest for a loan or the interest that you receive in your deposit account is the Annual Percentage Rate or APR. Annual rate of interest or APR is applicable on any mortgage or loan and even on credit cards.

In more simple terms, annual percentage rate or APR is the amount you pay on an yearly basis for borrowing money. As a borrower, the Annual percentage rate or APR tells you a bottom line number that you would have to pay if you borrow money from that particular lender. So, APR becomes the criteria which you can compare across lenders before borrowing money.

However, it may not be easy for consumers to compare this annual rate of interest, as it is in the lenders' power to decide what charges go into the calculation rate.

What are its benefits?

Listed below are a few of the benefits that are associated with the annual percentage rate:

- One of the salient benefits of APR is that it is known for providing you with a good understanding of the cost of the loan. You need to compare the different loan offers just by looking at the APR and determining who is offering the most affordable loan. Since the APR is known for including all fees in a loan offer, it is known for giving a clear idea of how much you will be required to pay for the loan.
- As different banks are known for having different terms, comparing different loan offers might be difficult. That's because it might not always be possible for you to go through all the tiny details of different loan offers available. In such cases, the APR might provide you with a standardised figure to look for among different loan providers and make the best decision.
- The APR is also known for providing you with an insight into the cost of your loan. Therefore, by looking at the APR, it is possible for you to gauge your repayment ability, and thereby plan accordingly.

So, based on the information on above, it is important to look up the APR important while applying for a loan. Hence, before applying for a loan from the bank, please make sure that you have calculated the APR of the loan so that you are able to choose the best loan offer.

How to Calculate APR

As per RBI circular dated April 15, 2024, APR will be computed by using the following formula.

$$=RATE((A*12),B,-(C),0)*12$$

A= tenure (in terms of no of year)

B= EMI amount

C= Net Loan amount