

Difference Between APR rate and Note Rate



Introduction

Both terms are used while applying for a loan. While choosing an option for borrowing, both these terms must be taken into consideration.

Annual percentage rate (APR)

The Annual Percentage Rate (APR) is an annual cost of a loan expressed as a percentage.

Definition of APR

An annual percentage rate (APR) is the annual rate charged for borrowing. It is the actual yearly cost of a fund borrowed over the period of that loan and expressed as a percentage. APR includes additional costs associated with the borrowing agreement; however, excludes the effect of compounding.

How to calculate APR

In APR, the interest received will add to the principal amount and the successive period's interest is calculated based on the sum total of interest and principal amount.

There are various types of fees included while doing borrowing agreements.

Fees

It includes transaction fees, processing fees of loan application, loan authorization fees, closing agent fees, other specific transaction fees for the specific transaction, underwriting, etc.

Penalty for late payment

If in any circumstances, the borrower fails to repay the loan amount, a penalty will apply.

Note rate

- Note rate is also known as nominal rate.
- The Note rate is the main rate that is laid on the loan.
- It is the applied rate of interest on a mortgage loan or on a promissory note.
- It is monthly paid by the borrower over a period of a loan and it is the normal interest rate laid upon any loan.
- There are fixed note rate and adjustable rate.
- The Note rate doesn't include fees like an APR.

Difference between APR rate and Note rate

| Base | APR rate | Note rate |
|---------|--|---|
| Meaning | It is the actual cost of a borrowed amount over a load period. | It is the main rate laid upon the loan. |

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| Cost | It includes the various types of fees in it. | It doesn't include any type of fees. |
| Beneficial | It is used while comparing borrowing option. | It is less useful as compared to the APR rate while comparing. |

Conclusion:

So, the main difference between both this terms are the additional costs included in the APR rate. In Note rate, it only includes the cost of interest applicable to it.