

# How Interest Rates and APR Differ

Two important rates can make a huge difference in how much you owe each month.

One study found that as many as 35% of homebuyers did not know what the interest rate was on their own loan. Figuring out APR can be even trickier.

## WHICH IS WHICH?

Your interest rate represents the percentage your balance is multiplied in order to determine what you'll pay in interest every year. In the run up to purchasing, lenders and real estate agents will often throw a lot of acronyms at borrowers, including HUD, RESPA and GFE, among many others.

APR, or your annual percentage rate, may be the most important of all. This includes the interest rate as well as other costs associated with your loan, including pre-paid interest (known colloquially as "points") and lender fees. In most cases, these costs are paid monthly, though they are sometimes paid in a lump sum at the beginning or end of your home loan.

Either way, these often-overlooked figures can really add up over time.



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## REAL ESTATE 101

### FHA Rehab Loans

The Federal Housing Administration offers financing through Section 203(k) for those looking to make certain home improvements. Modernization through reconstruction or structural alterations is covered, as well as improvement that eliminate safety or health hazards. Financing is also available for installing septic systems or wells, roof work and gutters, flooring and site improvements that enhance energy conservation or accessibility for the disabled.

Paying attention to the APR is crucial to understanding what you'll actually be shelling out over the life of your mortgage.

### COMPARING THE RATES

Lenders are required to disclose your annual percentage rate by law through the Real Estate Settlement Procedures Act. Still, it can be difficult to

compare APRs because there aren't clear guidelines in place to spell out which specific fee has to be included in the overall rate. That means you'll have to pay close attention when evaluating these numbers. One loan, for example, may include a lower APR but not the bank's standard loan origination fees or title insur-

ance. Consider how long you'll reasonably keep the loan, too. Most long-term homeowners refinance at least once, in particular if they are trying to avoid an upward rate adjustment. But if you choose to refinance after a few years, you won't be able to recoup any of the fees you paid up front. In that case, it

might be smart to pay a higher overall APR to get lower fees on closing day.

### WHEN TO BE CAUTIOUS

As with most things, study the small print through the lending process. Rates that seem too good to be true almost always are. You should also be cautious when considering adjustable-rate loans. Fixed-rate loans might appear to have a more unfavorable APR, but the adjustable-loan APR would not reflect the maximum interest rate allowable on the mortgage. Closed-end loans include fees, while the APR on an equity line of credit on your property would not.

Qualified lenders will walk you through a complicated process where a loan with no prepaid interest actually costs more monthly than a similar loan with one point. You can save by paying some portion of the interest up front, but a lack of cash reserves may mean that you're stuck with the higher interest rate.

It's best to research the type of loan you'll need and how that squares with your credit score before discussing possible rates, so you'll make the best choice. As always, any mortgage decision should take into account your current income, cash on hand and any expenses.



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HOMEWISE GLOSSARY

**Wrap-around mortgage:** A mortgage to the new buyer which includes the seller's existing first mortgage payment, plus an additional amount that will be proceeds to the seller.

SOURCE: MLS.com

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