

## **Annual Percentage Rate (APR): Understanding the Cost of Your Home Loan**

**Annual Percentage Rate (APR)** is a measure that helps customers understand the annualised cost of a loan by considering the applicable interest and eligible charges associated with the credit facility, as prescribed under the applicable regulatory framework.

### **What is APR?**

**APR stands for Annual Percentage Rate.**

APR represents the annualised cost of borrowing, expressed as a percentage. It takes into consideration the applicable interest cost along with eligible fees and charges associated with the loan, as prescribed under the applicable regulatory requirements.

The **Rate of Interest (ROI)** generally represents the interest rate applicable to the loan, whereas APR provides a broader measure of the cost of credit by incorporating applicable charges considered for APR computation.

Therefore, the APR may be different from the stated rate of interest.

### **Why is APR Important?**

The interest rate is an important component of a home loan, but it may not represent the complete cost of borrowing.

APR provides customers with additional information about the cost of a loan and can help them:

- Understand the annualised cost of borrowing.
- Consider applicable interest and eligible charges together.
- Compare the cost of different credit options more effectively.
- Make more informed borrowing decisions.
- Understand the impact of applicable charges on the overall cost of credit.

Customers are advised to review the applicable loan terms, charges and APR before accepting a loan facility.

### **APR vs. Rate of Interest (ROI)**

APR and ROI are related but are not the same.

| Particulars  | APR                                                                                                | Rate of Interest (ROI)                                    |
|--------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Meaning      | Annualised cost of credit considering interest and applicable charges included for APR computation | Interest rate applicable to the loan                      |
| Components   | Interest and applicable eligible charges                                                           | Interest component                                        |
| Purpose      | Provides a broader view of the cost of credit                                                      | Indicates the rate at which interest is charged           |
| Customer Use | Helps in understanding and comparing the overall cost of credit                                    | Helps understand the interest rate applicable to the loan |

**Note:** APR may be higher than the stated ROI where applicable charges are included in its computation. The actual APR depends on the loan amount, tenure, interest rate, repayment schedule and applicable charges considered under the prescribed methodology.

### How is APR Calculated?

APR is calculated using the methodology prescribed under the applicable regulatory framework. The calculation considers relevant factors such as:

- Amount of credit/loan;
- Applicable interest rate;
- Loan tenure;
- Repayment schedule;
- Applicable fees and charges considered for APR computation; and
- Timing of cash flows between the borrower and the lender.

APR is generally derived using an annualised calculation of the relevant cash flows over the tenure of the loan.

The exact APR applicable to a customer will depend on the specific terms and conditions of the loan facility.

### Illustrative Example

Suppose a customer avails a home loan of ₹10,00,000 for a specified tenure at an applicable interest rate. In addition to the interest payable, certain eligible charges may be applicable to the loan.

The APR calculation takes into account the relevant interest and applicable charges considered under the prescribed methodology and annualises the resulting cost over the applicable loan period.

Accordingly, the APR may be higher than the stated rate of interest.

**Important:** The above is only an illustrative explanation. The actual APR applicable to a customer will be based on the specific loan terms, applicable charges, repayment schedule and the methodology prescribed under the applicable regulatory requirements.

### **What Charges are Considered for APR?**

The charges considered for APR are determined in accordance with the applicable regulatory requirements and the terms of the loan.

Depending on the nature of the credit facility, certain fees and charges may be included in the APR computation, while certain charges may be excluded as prescribed under the applicable framework.

Customers should refer to the applicable **Key Facts Statement (KFS)** and loan documentation for details of the APR and the charges considered for its computation.

### **APR and Loan Tenure**

Loan tenure can have an impact on the overall cost of borrowing and the calculation of APR.

A longer tenure may result in a lower periodic repayment amount but may increase the total interest payable over the life of the loan. The APR is determined based on the applicable loan amount, interest, charges, repayment schedule and tenure.

Customers should therefore consider both the periodic repayment obligation and the overall cost of the loan before selecting a suitable tenure.

### **Fixed and Floating Rate Loans**

The applicable interest rate structure may also affect the APR.

#### **Fixed Rate**

Under a fixed-rate loan, the applicable interest rate remains fixed for the period specified in the loan agreement, subject to the terms and conditions of the facility.

#### **Floating Rate**

Under a floating-rate loan, the applicable interest rate may change based on the relevant benchmark and the terms of the loan agreement.

Any change in the applicable interest rate may affect the customer's repayment obligations and the overall cost of borrowing.

Customers should refer to their loan agreement and applicable loan terms for details regarding changes in the interest rate.

### **APR and Home Loan Comparison**

When comparing home loan options, customers should not consider the interest rate alone.

It is advisable to review:

- APR;
- Rate of Interest;
- Loan amount;
- Loan tenure;
- Applicable processing and other charges;
- Repayment schedule;
- EMI amount;
- Benchmark and reset terms, where applicable; and
- Other terms and conditions of the loan.

A lower stated interest rate does not necessarily mean a lower overall cost if other applicable charges are higher. APR can provide an additional basis for understanding the cost of credit.

### **How Can Customers Make an Informed Borrowing Decision?**

Customers may consider the following before taking a home loan:

1. **Compare the APR and interest rate** offered by different lenders.
2. **Review the Key Facts Statement (KFS)** and understand the applicable charges.
3. **Understand the loan tenure** and its impact on total interest payable.
4. **Check the repayment schedule** and EMI obligations.
5. **Read the loan agreement and terms and conditions** carefully before accepting the facility.

6. **Ask the lender for clarification** if any charge or loan term is not understood.
7. **Assess repayment affordability** before taking the loan.

### Key Takeaway

APR provides customers with a broader understanding of the annualised cost of a loan by taking into account the interest and applicable charges considered under the prescribed regulatory methodology.

While the interest rate remains an important factor when selecting a home loan, customers should also review the **APR, applicable charges, tenure, repayment obligations and other terms and conditions** before making a borrowing decision.

A well-informed customer can make better decisions by understanding the complete cost and terms of the credit facility.

### Disclaimer

The information provided on this page is intended solely for **general customer awareness and educational purposes**. It should not be construed as financial, legal or professional advice.

The APR applicable to a customer will depend on the specific terms and conditions of the loan, applicable interest rate, loan amount, tenure, repayment schedule and charges considered in accordance with the applicable regulatory requirements.

Customers should refer to the **Key Facts Statement (KFS), sanction letter, loan agreement and other applicable loan documents** for the specific APR and charges applicable to their loan.

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**Muthoot Housing Finance Company Ltd**

Corporate Office Address:

12A 01, 13th Floor, Parinee Crescenzo, Plot No. C-38 & C-39,  
Bandra Kurla Complex – G Block, Bandra (East), Mumbai - 400051

Registered Office Address:

TC 14/2074-7, Muthoot Centre, Punnen Road, Trivandrum,  
Kerala - 695039

Toll Free Number - 1800 267 8811

Website details - [www.muthoothousing.com](http://www.muthoothousing.com)