What is Annual Percentage Rate (APR)?

Worksheet

APR is the total annual cost of credit, shown as a yearly percentage. It helps borrowers compare loan offers fairly because it includes interest plus fees, unlike the simple interest rate.

Questions

1. Which is more useful when comparing two loans?
A) Interest rate only
B) APR
C) Principal amount
D) Loan term

2. A loan at 3% interest + 200 fee on a5,000 principal. APR?
A) 3%
B) 3.04%
C) 4%
D) 7%

3. APR is always higher than interest rate because…
A) Lenders are greedy
B) It includes fees and other costs
C) It's calculated yearly
D) Inflation

4. If two cards have same interest rate but different fees…
A) Same APR
B) Different APR
C) No way to compare
D) Card with higher fee is better

5. A credit card has a 5% interest rate and 25 annual fee. If you borrow1,000, what is the approximate APR?

6. A car loan of 20,000 at 4% interest includes500 in fees. What is the APR?

7. Compare two credit cards: Card A (5% APR) vs Card B (3% interest + 50 fee). Same2,000 balance.

8. Define: What does APR stand for?

9. Define: What does APR include?

10. Define: Why is APR important?

Answer Key

1. B) APR — APR includes all costs (interest + fees), making it the fair standard for comparison.
2. C) 4% — Interest = 5000 × 0.03 = 150; Total = 150 + 200 =350; APR = (350/5000) × 100 = 7%
3. B) It includes fees and other costs — APR adds interest plus fees, closing costs, and other charges.
4. B) Different APR — APR = Interest + Fees; different fees = different APR even with same interest rate.
5. Interest cost: 1000 × 0.05 = 50 Fee:25 Total annual cost: 50 + 25 = $75 APR ≈ (75/1000) × 100 = 7.5%
6. Interest for 1 year: 20000 × 0.04 = 800 Fees:500 Total annual cost: 800 + 500 = $1,300 APR ≈ (1300/20000) × 100 = 6.5%
7. Card A: APR = 5% = 100/year Card B: Interest = 2000 × 0.03 =60 + Fee = 50 =110/year Card A is better (lower APR).
8. Annual Percentage Rate — the yearly cost of borrowing as a percentage.
9. Interest rate plus all fees (origination, closing, annual) and other loan costs.
10. It lets you compare different loans fairly — same basis across lenders.