

Calculating APR courtesy of AICCCA Member American Financial Solutions

The cost of credit is not as easy as simply knowing the interest rate. Knowing how to calculate the APR will place you in a better position to choose the appropriate credit for your needs.



The Annual Percentage Rate (APR) is the cost of credit (actual interest rate) measured on a yearly basis and is expressed as a yearly rate.

Here's how to calculate the APR;

On credit card billing statements, the interest is expressed in two ways, as a Periodic Rate (monthly or daily) and as the Annual Percentage rate. The monthly periodic rate is the annual percentage rate divided by 12.

The example below shows how the APR affects the cost of credit.

Calculate Monthly Periodic Rate on a yearly APR of 18%:

$APR (18\%) \div \text{Months in the Year } (12) = 1.5\%$

Calculate the Monthly Interest Rate using a Monthly Periodic Rate:

$\text{Average Daily Balance } (\$100) \times \text{Monthly Periodic Rate } (1.5) = \text{Monthly Interest Rate } (\$1.50)$

Calculate the Daily Periodic Rate:

$APR (18) \div \text{Days in the Year } (365) = \text{Daily Periodic Rate } (.05)$

