Vehicle Economics

How Auto Loan APR, Interest Rate, and Fees Differ

APR, interest rate, and fees are three different numbers on the same loan offer, and dealers rarely explain how they relate.

Interest rate and APR are not the same number

The interest rate is what the lender charges on the outstanding balance each month, and it's the number used directly in the amortization math: balance times rate equals that month's interest. APR (annual percentage rate) is meant to be a more complete cost figure, it folds certain financed fees into an equivalent rate so two offers with different fee structures can be compared more fairly. In practice, dealers and lenders sometimes quote whichever number looks better, and the two can be close enough to seem interchangeable or far enough apart to change which offer actually wins. This site's engines use APR consistently, since that's the number the CFPB recommends comparing offers by.

Where fees actually go

A fee can be paid in cash at signing, or rolled into the amount financed. A fee rolled into financing doesn't just add its own cost, it also accrues interest for the life of the loan, the same as any other dollar of principal. A $500 fee financed over 60 months at a real APR is not a $500 cost, it's $500 plus however much interest that portion of the loan accumulates. Auto Loan Fees Impact Calculator isolates exactly that difference, and Payment From Out-the-Door Price shows the same effect from the other direction, starting from the full negotiated price including fees.

Why the same APR can still mean two different real costs

APR alone doesn't tell you the total interest you'll pay, that also depends on the loan amount and the term. A 6% APR on a larger balance or a longer term produces more total interest than the same rate on a smaller balance or a shorter term, even though the rate quoted is identical. Auto Loan Total Interest Calculator and Auto Loan Amortization Calculator both exist to show that total, month by month, rather than leaving the rate as an abstract number disconnected from what you'll actually pay.

When refinancing changes the math, and when it doesn't

Refinancing swaps your current rate and remaining term for a new one, and it can genuinely lower your total cost, especially if your credit improved since the original loan or rates have dropped. But a refinance can also reset the clock on a longer term, which lowers the payment while quietly increasing total interest paid, the same trap as the original loan term choice. Auto Loan Refinance Calculator and Auto Refinance Break-Even Calculator both model this directly, including how long it takes any refinance fees to pay for themselves.

What to actually check on a loan offer

- APR, not just the interest rate, since APR is the number meant to include financed fees.
- Which fees are financed versus paid in cash, and what that costs in accrued interest over the loan.
- Total interest over the full term, not just the monthly payment, especially if the term is 72 months or longer.
- Whether a refinance offer is actually a lower total cost, or just a lower payment from a longer new term.

Related calculators

Auto Loan Calculator

What will my auto loan payment be?

Auto Loan Refinance Calculator

Should I refinance my auto loan?

Auto Loan Total Interest Calculator

How much will this auto loan cost me in interest?

Payment From Out-the-Door Price

What payment does my all-in deal actually produce?