

What Is A Comparison Rate?

As the finance industry evolves there is a lot more emphasis on transparency when it comes to the consumer knowing exactly what they are getting! Recent changes in the finance industry require banks and lenders to display a comparison rate when advertising any loan product interest rate. This law was introduced to help consumers to better understand the total cost of a loan, that wouldn't normally be displayed. The comparison rate is often misunderstood by borrowers. It's barely noticed and most borrowers aren't even aware of what it means. So what is a comparison rate and does it really help you get a better deal?



Interest rate and a comparison rate. What's the difference?

Basically, the interest rate is the interest on your loan that you'll pay along with the original loan amount.(Principal) This is the percentage figure that most people take into account when comparing all types of loans.

Separate to this, the comparison rate is calculated by adding the interest that you'll pay and any additional fees and charges that may also apply to the loan. The main idea of this rate is to display any hidden fees, charges or costs so that the customers can make an informed decision. Collectively, all the fees, charges and interest are added together to give a "Real" cost to the loan. Many lenders will lower their interest rate (to get business) but increase their other "hidden" fees in an attempt to keep their profit margins. This can mislead consumers into thinking they are getting a "cheap" loan when in fact, the lender is still "scalping" the customer to maintain higher profits. (Buyer Beware!)

Although the comparison rate can help you get a better idea of the actual cost of the loan, it's usually inaccurate as most lenders don't include special factors such as LMI, Government stamp duty, Risk fees, conveyancing fees and break costs.

It's recommended that you speak with an EZ Finance professional before you decide to get a loan instead of just relying on the comparison rates.

Call now on 1300 727 909 or complete our enquiry form on our website at www.ezfinance.com.au

Disclaimer: The comments on this form are a guide and for general advice only and should not be relied upon as specific advice for your current financial situation. Please speak with a professional Credit Advisor, Accountant or Financial Planner to ensure you get the right advice specific to your personal circumstances. EZ Finance holds a National Credit Licence (392611) and our credit advisors are members of MFAA, FBAA and CIO.