

68% of credit card holders don't know what an APR is and why this is costing them money

Submitted by: Key Loans & Mortgages Limited t/a KIS Finance

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Key findings:

- 69% of people, overall, could not correctly define what an APR is or what it's used for.

- 68% of credit card holders do not know what an APR is.

- 66% of mortgage holders do not know what an APR is.

According to KIS Finance (<https://www.kisbridgingloans.co.uk/>)'s financial survey, only 31% of adults in the UK could correctly identify what an APR (Annual Percentage Rate) is, including its purpose and how it should be used.

Even more worryingly - a massive 68% of credit card holders don't know what an APR is, bearing in mind that the APR is undoubtedly one of the most important factors when comparing unsecured financial products like credit cards and personal loans.

In another survey

(<https://www.kisbridgingloans.co.uk/finance-news/over-45-percent-of-people-have-suffered-financially-as-a-result-of-the-pandemic>) conducted by KIS Finance in November 2020, 15.5% of people have had to take out an additional credit card, and 25.8% have had to go into an arranged or unarranged overdraft solely because of the pandemic. With overdraft charges now being based on an APR instead of an interest rate, it's very concerning how many people don't understand how they're being charged.

The two most common believed definitions of APR were:

- The interest rate alone, without any fees or costs
- The maximum amount that a lender is allowed to charge

How do the figures look when split by age group?

Percentage of people in each age group who could not correctly define what an APR is

18 – 24: 87.5%
25 – 34: 63%
35 – 44: 77%
45 – 54: 71%
55 – 64: 60%
65+: 73%

Only 12.5% of those aged between 18 and 24 know what an APR is

The lack of basic financial knowledge in the 18 to 24 age group is worrying. Having a basic understanding of everyday financial terminology, plus general money and debt management, is an essential life skill.

This leads to the question of whether more financial education should be taught in schools as a key life skill.

Financial education was introduced to the UK's National Curriculum in 2014, however, findings from The London Institute of Banking & Finance's Young Persons' Money Index 2019 backs up our data as it revealed that students still say they are not getting enough access to financial education and they worry about money. Only 17% of students said they had access to financial education within the last year, and just 4% are taught financial education as a separate subject.

Holly Andrews, Managing Director of KIS Finance (<https://www.kisbridgingloans.co.uk/>) says:

"Financial education is clearly needed based on these recent findings and financial advisors must take steps to ensure applicants do have a clear understanding of the commitment they are entering in to.

We have long been an advocate of these, and other similar matters, being covered as part of the high school curriculum to ensure everyone has this knowledge when they leave school. From the age of 18, people will be offered unsecured borrowing and it's essential that they understand all the key points of what they are taking on."

The largest group of credit card holders struggle to define what an APR is

Another main concern is that 60% of 55-64 year olds couldn't say what an APR is. And according to KIS Finance's survey, this is the age group with the largest percentage of people who currently have a credit card. Given the often high costs associated with credit cards, it's worrying that so many people are not aware of the right way to make sure they're getting the best deal.

Holly Andrews continues to describe the importance of understanding APRs and the dangers of not doing so.

So, why is it important to understand APRs?

Whenever you apply for an unsecured personal loan or credit card you will be quoted the APR. This is very important to understand because the APR tells you what the lender will charge you for borrowing the money over a one year period.

The APR takes into account the interest charges plus any other fees or costs charged in setting up the loan. The APR therefore represents the 'true price' of your loan.

The APR is essential for you to be able to plan exactly how much you will have to repay on a loan or credit card. Credit cards are a little different however as you're only charged interest if you don't repay the balance in full every month.

APRs are a very useful tool for comparing financial products on a like-for-like basis and will allow you to make more informed decisions. It can be tempting to simply go for the product with the lowest interest rate, but the APR will give you a better idea of what the loan will cost overall.

Even if the interest rate is higher on one product, if the APR is lower, this will be the more cost effective option over the course of a year.

The findings of this survey are worrying because the majority of people cannot be choosing the cheapest products, and those working in the finance industry use the term 'APR' freely assuming it's well understood.

I think all finance providers and advisers need to take ownership of this problem together to explain things in clearly and without any jargon."

What is a representative or typical APR?

"It's also important to understand the difference between representative APRs and the actual APR you'll be charged. Lenders can't show an exact figure for what you'll be charged on a product without knowing your individual financial circumstances, so on promotional content they will display a 'representative' or 'typical' APR.

The 'representative' or 'typical' APR is the rate that at least 51% of the company's customers must be able to obtain for the finance facility being advertised. Companies can't advertise APRs that barely anyone can qualify for. You may not be in this 51%, that's why you may be charged a different rate when it comes to actually applying for the product and after the lender has looked at your credit history and your current financial situation. This could mean that the rate you actually receive may be

higher or lower than the one advertised.”

What are the dangers of not understanding APRs?

“If you don’t understand what the APR is on the financial products you’re taking out, you could end up being charged a lot more than you were expecting or budgeting for. If this is the case and you can’t meet the required repayments on your loan or credit card, you could see yourself winding up in a lot of debt and seriously damaging your credit rating. Not to mention the stress that being in debt can cause, so making sure you understand the true cost of borrowing is really important to make sure you get the best deal possible, and you don’t wind up over committing yourself financially.”

[ENDS]

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