UNDERSTANDING INTEREST RATES
FLAT RATE VS. ANNUAL PERCENTAGE RATE (APR)

Why are there two interest rates on Elantis Premium Funding loan documents?

- Displaying the **Annual Percentage Rate (APR)** is required under New Zealand's **Credit Contracts and Consumer Finance Act (CCCFA)** as part of Responsible Lending practices.
- The APR is an industry standard that helps customers compare premium funding loans with other lending options like credit cards or overdrafts.

What is a Flat Rate?

- The flat rate is calculated by dividing the total interest charges by the loan amount.
- It does **not** consider:
  - The loan's duration.
  - The reducing balance as repayments are made.
- It's similar to an "interest-only loan" where no principal is repaid, but premium funding loans are **not** interest-only loans.

What is an Annual Percentage Rate (APR)?

- The APR reflects the cost of the loan, considering the **reducing balance** as repayments are made.
- It is expressed as an **annual rate**.
- This method is similar to how interest is calculated for residential mortgages, where both principal and interest are repaid over time.
- It provides a more appropriate calculation for premium funding loans as both principle and interest are being repaid.

Why is the APR higher than the flat rate?

- You are **not being charged more**—the total cost of the loan is the same under both calculations.
- The APR appears higher because it accounts for the **reducing loan balance** as repayments are made.
- The flat rate does **not** consider the principal being paid off.

If you have further questions, please contact our Elantis Service Team or speak with a Business Development Manager.

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