Flat Rate vs Effective Interest Rate: Compare the Real Loan Cost

Description

default watermark

A flat rate applies interest to the original loan amount even as principal is repaid, so the effective interest rate is higher than the advertised flat rate. Compare EIR, total repayment, schedule, fees and early-repayment terms. This guide is for a singapore borrower comparing car, personal or instalment loan offers and resolves one task: translate an advertised rate into a comparable all-in borrowing decision. The material claims were checked against MoneySense borrowing-cost guide and MoneySense instalment-plan guide.

Choose the route that matches your case

Situation	What to do
Offer quotes flat rate	Ask for EIR and full schedule
Offer quotes monthly rest	Check whether the advertised rate equals EIR and what fees change it
Monthly payment is lower because tenure is longer	Compare total repayment
Early repayment is possible	Read the penalty before choosing

Name the calculation method

Flat interest uses original principal; monthly rest uses the declining balance. According to MoneySense borrowing-cost guide, the controlling detail for this branch is the specific rule or service condition cited here.

Two identical headline rates can therefore produce different costs. Write the method beside every quote so a later reviewer does not compare incompatible headline numbers.

Use EIR for comparison

EIR incorporates the timing and frequency of payments. According to MoneySense instalment-plan guide, the controlling detail for this branch is the specific rule or service condition cited here.

Ask the lender for EIR rather than estimating from an advertisement alone.

Check total dollars

A low instalment can hide a longer tenure and more interest. According to MoneySense borrowing-cost guide, the controlling detail for this branch is the specific rule or service condition cited here.

Add every scheduled payment and upfront fee.

Add penalties and charges

Processing, amendment, late, cancellation and early-payment charges can alter the decision. According to MoneySense instalment-plan guide, the controlling detail for this branch is the specific rule or service condition cited here.

default watermark

List the likely case, not every hypothetical fee.

Stress test payment

A shorter loan lowers total interest but raises monthly cash demand. According to MoneySense borrowing-cost guide, the controlling detail for this branch is the specific rule or service condition cited here.

Test income disruption and essential expenses.

Retain the schedule

The repayment schedule is the audit trail for principal, interest and balance. According to MoneySense instalment-plan guide, the controlling detail for this branch is the specific rule or service condition cited here.

Compare the first statement with the signed schedule.

Run the numbers or sequence

MoneySense shows a S$90,000 car loan at 2.5% flat rate costs S$11,250 interest over five years and S$15,750 over seven years. The lower seven-year instalment costs more overall.

The calculation or sequence above is an LBRD working example. Replace every example input with the amount, date, access condition or document from your own case. Keep the official rate or threshold beside the working so another person can reproduce the answer.

Build a verification note another person can check

Before acting, create a one-page case note headed with the task, the date checked and the person responsible. Copy only the facts that affect your decision, then attach the statement, booking, application, receipt, map record or screenshot that supplies your own input. This separates a published rule from a personal assumption. If the official page changes, keep the earlier dated record but rework the decision with the live version.

Controlling source	What to verify	What to retain
MoneySense borrowing-cost guide	Flat rate, monthly rest, EIR, frequency and fee comparisons with worked examples.	Record the page date, the exact rule used and the case input it governs.
MoneySense instalment-plan guide	Flat-rate in-house plans, repayment periods and comparison with card instalment plans.	Record the page date, the exact rule used and the case input it governs.

default watermark

Read the source in context, including definitions, exceptions and effective dates. A relevant page is not proof by itself: the cited passage must contain the particular rate, deadline, eligibility condition, access rule or warning used here. Where two official channels appear inconsistent, pause and ask the authority about the exact case rather than choosing the more convenient answer.

Use the guide with its limits

This guide is decision support, not personalised financial or legal advice. Protect essential spending first, use exact statements and contracts, and treat any modelled amount as an estimate until the relevant institution confirms the case-specific figure.

No interview, personal use, fresh field visit, survey result or price check is claimed unless explicitly stated. Availability, fees and procedures can change. Reopen the linked authority page immediately before payment, travel, filing or emergency use.

Before you act

1. Identify rate method
2. Request EIR
3. Add all repayments
4. List relevant fees
5. Check early-repayment terms
6. Stress test instalment
7. Save and reconcile the schedule

Mistakes that change the outcome

- Comparing headline rates

- Choosing only the lowest instalment
- Ignoring fee timing
- Assuming EIR covers every penalty
- Discarding the schedule

Continue with the relevant LBRD guide

Next, compare another compounding debt cost. You can also prepare before a credit application.

Questions readers ask

Which source controls this decision?

MoneySense borrowing-cost guide controls the main rule, with MoneySense instalment-plan guide used for the second check.

default watermark

Can I use the worked example as my final figure?

No. Replace every input with your own dated record and confirm the live rule before acting.

What should I save?

Keep the official page date, your case inputs, the calculation or sequence, and the submission or payment acknowledgement.

Date Created
10/08/2026
Author
rachelng