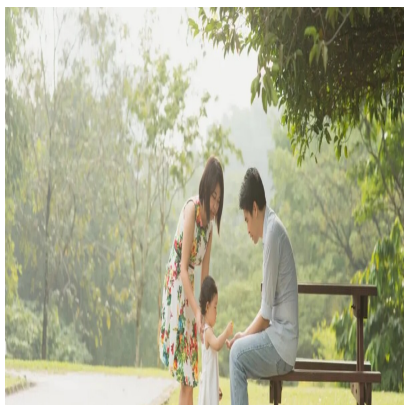




Flat Rate vs Effective Interest Rate: Compare the Real Loan Cost

Description

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.

Name the calculation method

Flat interest uses original principal; monthly rest uses the declining balance. 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. ([MoneySense borrowing-cost guide](#))

EIR incorporates the timing and frequency of payments. Ask the lender for EIR rather than estimating from an advertisement alone.

Situation	What changes
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

Related: [compare another compounding debt cost](#)

Check total dollars

A low instalment can hide a longer tenure and more interest. Add every scheduled payment and upfront fee. ([MoneySense instalment-plan guide](#))

Processing, amendment, late, cancellation and early-payment charges can alter the decision. List the likely case, not every hypothetical fee.

Example: 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.

Stress test payment

A shorter loan lowers total interest but raises monthly cash demand. Test income disruption and essential expenses.

The repayment schedule is the audit trail for principal, interest and balance. Compare the first statement with the signed schedule.

- Identify rate method
- Request EIR
- Add all repayments
- List relevant fees
- Check early-repayment terms
- Stress test instalment
- Save and reconcile the schedule

Related: [prepare before a credit application](#)

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