# Distinguishing The Difference Between APY and APR

Blog — Written by Katy Sputo on March 2, 2021

Finances can be confusing but can become head-spinning once you throw in various acronyms and unfamiliar terminology. APY and APR are two common terms that are easy to mix up and it’s important to understand these terms. So what exactly do they mean and what is the difference between the two? Let’s dive in...



## What is APY?

APY, or annual percentage yield, is commonly used when referring to the interest that you **earn** and is expressed as a percentage. APY typically applies to deposit accounts and investment products such as a certificate of deposit, money market, or savings accounts. Within this context, APY is the annual rate of return you should expect to receive on the money in your account over the course of a year, and factors in compounding interest.

To further understand APY, it’s important to understand the definition of compounding interest. Simply put, compounding interest is interest paid on the previous interest earned, which is then added to the principal amount of your deposit. It’s earning interest on your interest! Every account will have a different balance computing method to calculate the amount of interest you will earn. Interest may compound daily, monthly, quarterly, or yearly.

Level offers 0.50% APY[1] and uses the daily balance method to calculate the amount of interest on your account. Interest on your deposits begins to accrue no later than the business day Level receives your deposit. Your accrued interest is then credited to the balance in your account on the last day of each statement cycle.

When researching opening a new deposit account, look for accounts, like Level, that offer a higher APY rate. These higher rates are key because they can help you grow your account balance, including your emergency savings account.

## What is APR?

APR, or annual percentage rate, is commonly used when referring to the charges a financial institution imposes when **loaning** or allowing you to **borrow** money, and may include additional fees or charges. APR is also expressed as a percentage but unlike APY, APR doesn't typically include compounding interest. APR is typically seen more with loans or credit cards.

It's easy to confuse APY and APR but as a general rule, the higher the APR offered for a loan, the more interest you will owe on the borrowed amount. In some cases, compounding interest can make a lower APR loan cost more in interest than a higher APR loan. Always consult with your financial planner to weigh your options.

If an unexpected life emergency arises and you need extra cash to cover a bill, look for loan alternatives such as a Level's cash advance feature. Level does not charge any fees or interest for cash advances, but advances must be paid in full within 15 calendar days[2].

## How do you calculate APY?

When looking to calculate how much interest you can earn on your deposits, you can use the following equation to calculate APY.

$$APY = (1 + \frac{r}{n})^{n} - 1$$

- *r = annual interest rate*
- *n = number of compounding periods annually*

Luckily, you don't need to be a math whiz to calculate what you'll earn on your balance. There are many free APY calculators available online to help keep it simple. All you need to do is plug in your deposit amount, the interest rate you're earning, and how often it compounds to see how much total interest you will earn over a set period of time.

For example, let's say you wanted to save $50,000 into your account with an APY of 1.00% that compounds daily. After one year, you would earn $502.50 in interest!

Currently, interest rates are low compared to historical rates, but here at Level, we're doing our best to provide a competitive rate to our members. Level offers 0.50% APY[1] on deposits which is 12x the national average.[3]

## How do you calculate APR?

When calculating APR for a loan with fees, you would use the following equation.

$$APR = \left(\left(\frac{\frac{Fees + Interest}{Principal}}{n}\right) \times 365 \times 100\right.$$

- *Fees = the amount of fees paid*
- *Interest = total interest paid*
- *Principal = amount borrowed*
- *n = number of days in loan term*

Like with APY, there are many free APR calculators online to help calculate the amount of APR owned when borrowing money.

For example, for a three year, $3,000 loan with an interest rate of 15.00%, you would owe $743.82 in interest over the life of the loan, not including any extra fees that may apply.

APY and APR can be confusing and easy to mix up when researching what is best for your financial goals. Remember, when saving money you want to look for the highest APY rate to **earn** the most interest you can. If you need to **borrow** money, you want to look for the best terms that meet your needs to reduce the amount of interest you **pay back** when your loan repayment is due.


Writer Bio

**Katy Sputo**

Katy Sputo is the Marketing and Social Media Coordinator at Level. She aims to make all things financial fun and interesting to learn.




[1] Annual Percentage Yield (APY) is accurate as of April 3, 2021 and subject to change after account opening. Balance must be at least $0.01 to earn interest.

[2] Cash advances offered through your Level Bank Account is an optional, no fee service. We do not charge any interest or fees for cash advances; however, you must be enrolled in Plus or Premium membership which has monthly membership dues. To be eligible for cash advances, you must receive direct deposit(s) in your active Level Bank Account. Alternatively, you may be eligible with a Plaid connected external checking or savings account that receives payroll direct deposit(s). All cash advances must be repaid in full within 15 calendar days. To receive a higher cash advance amount, you must have a continuous and positive cash advance repayment history on your Level Bank Account. See the “Cash Advance Terms and Conditions” section of the Level Bank Account Agreement for more information.

[3] Level Bank Account APY is 12x the national rate, which is a simple average of rates paid by U.S. depository institutions on balances < $100,000 in interest checking accounts. The national rate was calculated and published by the FDIC as of April 3, 2021 at fdic.gov/regulations/resources/rates.