

Annual percentage rate of charge

The annual percentage rate of charge is defined in Act No. 264/2006 amending Act No. 258/2001 on consumer loans and on changes and amendments of the Slovak National Council Act No.71/1986 Code of law on the Slovak Trade Inspection in the wording of subsequent regulations and in Article 1(2) (e) of Council Directive No. 87/102/EEC as “that rate, on an annual basis which equalises the present value of all commitments (loans, repayment and charges), future or existing, agreed by the creditor and the borrower, [and] shall be calculated in accordance with the mathematical formula set out in Annex II“. Annex II gives the following basic equation expressing the equivalence of loans on the one hand and repayments and charges on the other:

$$\sum_{K=1}^{K=m} \frac{A_K}{(1+i)^{t_K}} = \sum_{K'=1}^{K'=m'} \frac{A'_{K'}}{(1+i)^{t_{K'}}$$

Meaning of letters and symbols:

- K Number of a loan
- K' Number of a repayment or a payment of charges
- A_K Amount of loan number K
- $A'_{K'}$ Amount of repayment number K'
- m Number of the last loan
- m' Number of the last repayment or a payment of charges
- t_K Interval, expressed in years and fractions of a year, between the date of loan 1 and those of subsequent loans 2 to m
- $t_{K'}$ Interval, expressed in years and fractions of a year, between the date of loan 1 and those of repayments or payments of charges 1 to m'
- i Percentage rate that can be calculated (either by algebra, by successive approximations, or by a computer program) where the other terms in the equation are known from the contract or otherwise.

The annual percentage rate of charge means total costs of a loan for a client that contains an element of the interest rate and an element of other associated costs. Other associated costs mean costs of gathering information, administration, preparation of documents, etc.