

Credit Source Analysis Worksheet

Chapter 22: Choosing the Right Credit Source

STUDENT NAME

Enter your name

DATE

mm/dd/yyyy



PERIOD

Period

Part 1: Credit Source Identification

Key Vocabulary

APR (Annual Percentage Rate): The yearly cost of borrowing money, including interest and fees. **Collateral:** An asset pledged as security for a loan. **Creditworthiness:** A measure of how likely you are to repay debt.

1 Match each credit source with its primary characteristic:

| Credit Source | Primary Characteristic |
|-----------------|------------------------|
| Commercial Bank | Select... ▼ |
| Credit Union | Select... ▼ |
| Online Lender | Select... ▼ |
| Payday Lender | Select... ▼ |

Part 2: Scenario Analysis

Scenario A: Emergency Expense

Maya needs \$800 to repair her car so she can get to work. Her credit score is 620, and she needs the money within 2 days. She has a checking account at a local credit union.

2 What credit source would you recommend for Maya? Why?

I would recommend... because...

Scenario B: Large Purchase

Carlos wants to buy a \$15,000 used car. He has excellent credit (750), steady income, and can wait 1-2 weeks for approval. He is a member of a credit union and has accounts at a national bank.

3 Compare two credit sources Carlos should consider:

| Factor | Option 1: Source | Option 2: Source |
|---------------|---------------------|---------------------|
| Expected APR | % | % |
| Fees | \$ | \$ |
| Approval Time | Days | Days |
| Advantages | List advantages | List advantages |

4 Which option would you recommend for Carlos and why?

I recommend... because...

Part 3: Cost Calculation Practice

Understanding Total Cost

The APR shows the yearly interest rate, but you also need to consider fees. Total cost = Principal + Interest + Fees. Always calculate the total before deciding!

Option A: Credit Union Loan

\$3,000 loan, 8% APR, no fees, 12-month term

Principal:

Interest ($\$3,000 \times 0.08$):

Fees:

Total Cost:

Option B: Online Lender

\$3,000 loan, 15% APR, 5% origination fee

Principal:

Interest ($\$3,000 \times 0.15$):

Fees ($\$3,000 \times 0.05$):

Total Cost:

5 Which option costs less? How much would you save by choosing the better option?

Option ____ costs less. The savings would be \$...

Part 4: Decision Checklist

6 Before choosing a credit source, check all factors you should consider:

- ☐ Compare APR from at least 3 different lenders
- ☐ Check for origination fees, application fees, or prepayment penalties
- ☐ Verify I meet the minimum credit score requirement
- ☐ Calculate the total cost (principal + interest + fees)
- ☐ Consider how quickly I need the funds
- ☐ Read the terms and conditions carefully
- ☐ Have a clear repayment plan before borrowing
- ☐ Consider whether I truly need to borrow this money

Part 5: Critical Thinking

7 Why do you think payday lenders continue to operate despite charging 300-400% APR? What alternatives should people consider in emergency situations?

Payday lenders continue to operate because... Alternatives include...

8 How does your credit score affect your borrowing options? What steps can someone with a low credit score take to improve their options?

Credit score affects options by... To improve options, someone could...

Part 6: Personal Reflection

Apply What You've Learned

- 9** Think about a future situation where you might need to borrow money (buying a car, paying for education, starting a business, etc.). Which credit source would you choose and why?

In the future, I might need to borrow money for... I would choose... because...

- 10** What is the most important thing you learned about choosing credit sources? How will this knowledge help you make better financial decisions?

The most important thing I learned is... This will help me...