

Credit Source Comparison Worksheet

Chapter 7.2: Choosing the Right Source of Credit

Instructions

This worksheet will help you analyze different credit sources and apply your knowledge to real-world borrowing scenarios. Review the credit source chart, then determine the most appropriate lender for each scenario provided.

Part 1: Credit Source Comparison Chart

Credit Source	Typical Interest Rates	Common Fees	Qualification Requirements	Best Uses	Advantages	Disadvantages
Commercial Banks	4-36% (varies by product)	Application fees, origination fees, late payment fees, annual fees (for credit cards)	Good-excellent credit score (typically 680+), stable income, low debt-to-income ratio	Mortgages, auto loans, personal loans, credit cards, home equity loans	<ul style="list-style-type: none"> Wide range of products Competitive rates for qualified borrowers Established reputation Often have physical branches 	<ul style="list-style-type: none"> Stricter qualification requirements May have higher fees Less flexible for those with credit challenges
Credit Unions	3-18% (generally lower than banks)	Minimal fees, lower late payment penalties	Membership in the credit union, moderate-to-good credit (often more flexible than banks)	Auto loans, personal loans, mortgages, credit cards, small personal loans	<ul style="list-style-type: none"> Lower interest rates than banks Fewer and lower fees More flexible lending criteria Not-for-profit status benefits members 	<ul style="list-style-type: none"> Membership requirements May have fewer branch locations May offer fewer specialized products
Consumer Finance Companies	10-36%	Origination fees, application fees, prepayment penalties	Fair-to-good credit (more flexible than banks), proof of income	Personal loans, debt consolidation, financing large purchases	<ul style="list-style-type: none"> More flexible approval criteria Quick application process Options for those with less-than-perfect credit 	<ul style="list-style-type: none"> Higher interest rates than banks/credit unions May have more fees Terms may be less favorable

Online Lenders	6-36% (varies widely)	Origination fees (0-8%), late fees, sometimes no fees	Varies widely; some focus on excellent credit, others on fair credit	Personal loans, debt consolidation, specialized financing	<ul style="list-style-type: none"> Convenient application process Fast funding (often 1-3 business days) May consider alternative data beyond credit scores Transparent comparison shopping 	<ul style="list-style-type: none"> No in-person customer service Variable reputation (research required) May have origination fees
Peer-to-Peer Lending	6-36%	Origination fees (1-8%), late fees	Minimum credit score typically 600+, income verification	Debt consolidation, personal projects, small business funding	<ul style="list-style-type: none"> May approve borrowers traditional lenders reject Fixed rates and terms No prepayment penalties Simple online process 	<ul style="list-style-type: none"> Higher rates for lower credit scores Origination fees reduce loan proceeds Longer funding time than some alternatives
Payday Lenders	400-700% APR equivalent	Loan fees (\$15-30 per \$100 borrowed)	Proof of income, active checking account, ID (minimal credit check)	Short-term emergency expenses when no other options exist	<ul style="list-style-type: none"> Easy qualification Fast funding (same day) No traditional credit check 	<ul style="list-style-type: none"> Extremely high costs Risk of debt cycles Short repayment terms (typically 2 weeks) Predatory practices

Retailer Credit	0% promotional to 30%	Late fees, sometimes deferred interest penalties	Varies by retailer, often more flexible than traditional cards	Purchasing specific products from the retailer	<ul style="list-style-type: none"> • Special financing offers (e.g., 0% for 12 months) • Store discounts and rewards • Often easier to qualify for than bank cards 	<ul style="list-style-type: none"> • High standard interest rates after promotions end • Deferred interest can lead to unexpected costs • Limited use (only at specific retailers)
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Part 2: Scenario Analysis

For each scenario below, identify the most appropriate credit source(s) and explain your reasoning.

Scenario 1: Emergency Car Repair

Situation: Maya needs \$800 to repair her car immediately to get to work. She has a fair credit score (640) and a stable job, but limited savings.

Most appropriate credit source(s): _____

Explanation: _____

Alternative options: _____

Scenario 2: Home Renovation

Situation: The Rodriguez family wants to remodel their kitchen for \$25,000. They have excellent credit (780), own their home with 40% equity, and can comfortably afford monthly payments.

Most appropriate credit source(s): _____

Explanation: _____

Alternative options: _____

Scenario 3: Debt Consolidation

Situation: James has \$12,000 in high-interest credit card debt spread across three cards (18-24% APR). He has a good credit score (700) and wants to consolidate this debt into a single, lower-interest loan.

Most appropriate credit source(s): _____

Explanation: _____

Alternative options:

Scenario 4: First-Time Appliance Purchase

Situation: Aisha just moved into her first apartment and needs to purchase a refrigerator for \$1,200. She has limited credit history but steady income from her new job.

Most appropriate credit source(s): _____

Explanation: _____

Alternative options:

Scenario 5: Medical Emergency

Situation: Trevor has \$3,000 in unexpected medical bills not covered by insurance. He has poor credit (580) due to past financial difficulties but is now employed steadily.

Most appropriate credit source(s): _____

Explanation: _____

Alternative options:

Reflection Questions

1. Based on what you've learned, why do you think payday lenders continue to be legal despite their high costs?

2. What alternatives could someone use if they're in a financial emergency and don't have access to other borrowing options?

Additional Notes
