PFL Academy

Teacher Guide: Chapter 5.2 — Choosing the Right Source of Credit

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Understanding the Cost of Borrowing (L-21)

LESSON FLOW

5 min — THE CHALLENGE

- Read Marcus's emergency car repair scenario aloud.
- Discussion: "Why might someone choose a payday loan even knowing it costs more?"
- Introduce the concept of predatory lending as exploiting urgent needs.

10 min — CORE CONCEPTS

- Review the 5 key terms. Emphasize the difference between credit unions and payday lenders.
- Discuss creditworthiness and how it affects available options.
- Ask: "What makes a lender 'predatory'?" (targeting vulnerable, hiding true costs)

25-30 min — APPLY IT

- **Part A (10 min):** Scenario matching. Ensure students justify beyond "lowest rate."
- **Part B (10 min):** Cost comparison. Walk through payday loan math—emphasize rollover trap.
- **Part C (5-10 min):** Personal ranking. Discuss why payday should always be last resort.

10 min — CHECK YOUR UNDERSTANDING

- Complete in class or assign as homework.
- Discuss Q5 as a class—practice explaining to a friend why payday loans are dangerous.

DIFFERENTIATION

Support

- Create a simple chart comparing credit sources on the board.
- Walk through the payday loan rollover calculation step-by-step.
- Pair students for Part A scenario analysis.
- Provide sentence starters for reflection questions.

Extension

- Research local credit union membership requirements and rates.
- Investigate state laws on payday lending—are they legal in your state?
- Calculate how long it would take to pay off $1,500 at different APRs.

ANSWER KEY

Part A: Credit Source Matching

1. COMPARE ALL THREE. With excellent credit, Jasmine qualifies for the best rates. She should get quotes from all three and compare APR, fees, and closing costs. Credit unions often have slightly lower rates.

2. CREDIT UNION. Despite 3-day wait, the 8% APR is dramatically better than 400% payday loan. Derek should negotiate with the medical provider for extra time or use a credit card as backup.

3. SBA LOAN or PEER-TO-PEER. SBA loans are designed for small businesses and have favorable terms. Peer-to-peer lending evaluates personal creditworthiness, not just business history.

Part B: Cost Comparison Analysis

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Total Repaid:
• Credit Union: $1,500 + $60 = $1,560
• Credit Card: $1,500 + $156 = $1,656
• Payday Loan: $1,500 + $230 = $1,730 (single term)
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4. 4 rollovers × $230 = **$920 in fees**. Total repaid would be $1,500 + $920 = $2,420.

5. Speed/desperation, poor credit limiting options, lack of understanding of true costs, or no banking relationship. Alternatives: credit union, payment plans with creditors, community assistance programs, borrowing from family.

Part C: Personal Credit Strategy

Rankings will vary. Look for: payday lender ranked last with clear reasoning (highest cost, debt trap), and credit union or bank ranked first due to lower rates and consumer protections.

7. Warning signs include: APR over 36%, pressure to borrow more, penalties for early repayment, hidden fees, no credit check, requires access to bank account, rollover encouraged.

Check Your Understanding

1. C (Credit unions)

2. Credit unions are not-for-profit and member-owned. Profits go back to members as lower rates and fewer fees rather than to shareholders.

3. $161 × 36 = $5,796 + $100 fee = **$5,896 total cost**

4. Credit union total: $1,560. Payday 4× rollover: $2,420. Savings: **$860**

5. *Response should include specific alternatives (credit union, payment plan, community resources) and explain WHY payday loans are dangerous (debt cycle, extreme costs).*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Payday loans are only for irresponsible people."	Many borrowers are working people facing emergencies without access to traditional credit. The problem is the product design, not the borrower.
"Credit unions are only for certain jobs or groups."	Many credit unions now have open membership or easy-to-meet criteria. Check local options—most people can join at least one.
"Banks always have the best rates."	Credit unions often beat bank rates because they're not-for-profit. Online lenders can also be competitive for borrowers with good credit.