

# 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

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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"> <li>• Wide range of products</li> <li>• Competitive rates for qualified borrowers</li> <li>• Established reputation</li> <li>• Often have physical branches</li> </ul>	<ul style="list-style-type: none"> <li>• Stricter qualification requirements</li> <li>• May have higher fees</li> <li>• Less flexible for those with credit challenges</li> </ul>
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"> <li>• Lower interest rates than banks</li> <li>• Fewer and lower fees</li> <li>• More flexible lending criteria</li> <li>• Not-for-profit status benefits members</li> </ul>	<ul style="list-style-type: none"> <li>• Membership requirements</li> <li>• May have fewer branch locations</li> <li>• May offer fewer specialized products</li> </ul>
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"> <li>• More flexible approval criteria</li> <li>• Quick application process</li> <li>• Options for those with less-than-perfect credit</li> </ul>	<ul style="list-style-type: none"> <li>• Higher interest rates than banks/credit unions</li> <li>• May have more fees</li> <li>• Terms may be less favorable</li> </ul>

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"> <li>• Convenient application process</li> <li>• Fast funding (often 1-3 business days)</li> <li>• May consider alternative data beyond credit scores</li> <li>• Transparent comparison shopping</li> </ul>	<ul style="list-style-type: none"> <li>• No in-person customer service</li> <li>• Variable reputation (research required)</li> <li>• May have origination fees</li> </ul>
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"> <li>• May approve borrowers traditional lenders reject</li> <li>• Fixed rates and terms</li> <li>• No prepayment penalties</li> <li>• Simple online process</li> </ul>	<ul style="list-style-type: none"> <li>• Higher rates for lower credit scores</li> <li>• Origination fees reduce loan proceeds</li> <li>• Longer funding time than some alternatives</li> </ul>
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"> <li>• Easy qualification</li> <li>• Fast funding (same day)</li> <li>• No traditional credit check</li> </ul>	<ul style="list-style-type: none"> <li>• Extremely high costs</li> <li>• Risk of debt cycles</li> <li>• Short repayment terms (typically 2 weeks)</li> <li>• Predatory practices</li> </ul>

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"> <li>• Special financing offers (e.g., 0% for 12 months)</li> <li>• Store discounts and rewards</li> <li>• Often easier to qualify for than bank cards</li> </ul>	<ul style="list-style-type: none"> <li>• High standard interest rates after promotions end</li> <li>• Deferred interest can lead to unexpected costs</li> <li>• Limited use (only at specific retailers)</li> </ul>
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## Part 2: Scenario Analysis

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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:** \_\_\_\_\_

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\_\_\_\_\_

**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:** \_\_\_\_\_

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**Alternative options:**

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### 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:** \_\_\_\_\_

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**Alternative options:**

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### 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:** \_\_\_\_\_

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**Alternative options:**

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### Reflection Questions

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

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

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### Additional Notes

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