

Chapter 25 The Basics of Credit

Section 25.2 Types of Credit

Reading Activity—Compare and Contrast

Directions Read the excerpt from the textbook. Then fill in the table to compare and contrast the sources of credit. For each category, write one of these sources of credit in each of the blank cells in the table.

- Banks, savings and loans, and credit unions
- Consumer finance companies
- Payday advance services

Banks and Other Financial Institutions

Financial institutions such as banks, savings and loans, and credit unions offer many types of loans. However, they tend to place many demands on the borrower, which can make it more difficult to get a loan. For example, these financial institutions only want to lend money to people with good credit ratings.

Consumer Finance Companies

Consumer finance companies specialize in loans to people who might not be able to get credit elsewhere. Loans from consumer finance companies cost more because there is greater risk involved.

Other Types of Loans

For people who have difficulty getting a loan, there are other options, although they are the most costly. *Payday advance services* offer short-term loans until payday. However, they charge high fees and interest. A *pawn shop* loan is based on the value of something you own that is left with a pawnbroker as security against money borrowed. You can later buy back your item.

| Difficulty involved in getting loan | |
|-------------------------------------|--|
| Greatest | |
| In the middle | |
| Least | |
| Cost to the consumer | |
| Greatest | |
| In the middle | |
| Least | |
| Risk to the lender | |
| Greatest | |
| In the middle | |
| Least | |