The Credit Pyramid

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Many consumers are not aware of the need to comparison shop for credit. For example, despite a credit score above 700, a middle-aged couple continues to borrow money from the local finance company at 36 percent APR because that's where they got their first loan and they know the finance company will lend them money. The perception among many consumers is that all credit sources are equal, and that finance charges are based primarily upon their credit scores. These misunderstandings and misperceptions increase the likelihood that consumers will pay more for credit than their particular situation warrants.

The credit pyramid is a visual representation of the differences among various lenders. At the bottom of the pyramid are options such as rent-to-own, refund anticipation loans, car title loans, and payday loans. At the top of the pyramid are the lowest cost alternatives, such as prime home mortgages, loans against cash-value insurance policies, and interest free loans such as 90-days same as cash. The credit pyramid is designed to help consumers understand that all loans are not equal, and to provide guidance in where to shop for credit.

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