

NAME: _____

DATE: _____

ACTIVITY

Interest Scenario Comparison

What + Why: Compare two loan scenarios to see how interest affects the total amount paid back and why borrowing choices matter.

Instructions:

1. Review the two loan scenarios provided.
2. Identify how much money is borrowed and how much is paid back in each case.
3. Compare the total repayment amounts.
4. Answer the reflection questions.

Scenario 1

Lina is 22 and recently moved into an apartment. After a few months, Lina realizes she needs several things at once: a couch, a new bed, a bed frame, and some basic kitchen items. Instead of putting everything on a credit card, Lina decides to take out a personal loan from her long-time bank for \$9,000 to cover the purchases (and anything else Lina may need) and pay it off steadily.

Lina has been using the same bank since high school. Her paycheck is deposited there automatically every two weeks. Lina keeps money in both checking and savings, and checks balances regularly. Last year, Lina borrowed a small amount to replace her phone and paid it off early.

After reviewing Lina's application, the bank offers this loan:

- Loan Amount: \$9,000
- Loan Term: 3 years (36 months)
- Interest Rate: 6.1% Annual Percentage Rate (APR)
- Monthly Payment: \$274
- **Total Amount Repaid: \$9,864**

Scenario 2

Ollie is 23 and works freelance jobs that change month to month. A few unexpected expenses hit at once, and Ollie needs \$9,000 quickly to stay afloat.

Ollie applies for a loan through an online lender after seeing an ad promising “fast approval.” Ollie recently switched banks and doesn’t have a savings account yet. Ollie has not borrowed money before and has limited credit history.

Ollie is approved for a loan with these terms:

- Loan Amount: \$9,000
- Loan Term: 3 years (36 months)
- Interest Rate: 21.3% Annual Percentage Rate (APR)
- Monthly Payment: \$345
- **Total Amount Repaid: \$12,420**

Reflection Questions

1. How much did Lina and Ollie each pay in interest?
2. What details in each person’s situation may have influenced the interest rate they were offered? Use evidence from the scenarios.
3. Even if Lina and Ollie had identical financial histories, what broader economic conditions could still influence the interest rates they are offered?
4. How might the same economic conditions that influence loan interest rates also affect the interest banks offer on savings accounts?