



# HOW MUCH IS YOUR BAD CREDIT REALLY COSTING YOU?



More today than ever before, our increasingly tight credit market demands a high credit score. Why? Over three quarters of all lenders use credit scores when approving loans or credit. The importance of your credit score doesn't end there. It's also used to determine your interest rate, the amount of your down payment and the variety of mortgage types available to you if you're buying a house, your ability to get a car loan, the premium on your auto or homeowner's insurance, and even your ability to get a job. For example, some insurers are using low credit scores as indicators to identify individuals they believe are more likely to make claims against their insurance policies. Last, but not least, if you have a low credit score, you'll pay a higher interest rate on bank loans and credit cards, and may even see your credit limit decreased.

## Cost of Bad Credit Over a Lifetime: \$201,712

The examples below demonstrate the cost of bad credit over the lifetime of two fictional woman. The estimated difference of interest paid is \$201,172. (Courtesy of MSN Money)

### THE SCENARIO

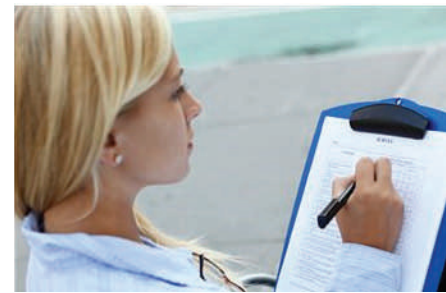
Emily and Karen are friends who borrow the same amount of money over their lifetimes.

- Each gets \$20,000 in private student loans to help pay for college.
- College is also when they get their first credit cards and they each carry an \$8,000 balance, on average, over the years.
- They buy new cars after graduation and replace them every seven years until they buy their last vehicles at age 70.
- Each buys her first home with a \$300,000 mortgage at age 30 and then moves up to a larger house with a \$400,000 mortgage after turning 40.
- Each takes out a \$50,000 home-improvement loan to remodel the second house.

However, Emily has a FICO credit score of 750, which is considered good to excellent; while Karen has a 650 FICO credit score, which is considered fair to poor, depending on the lender.

**The extra cost of a student loan—An \$8,000 difference**

	Emily	Karen
Interest Rate	7.25%	13.25%
Monthly Payment	\$234	\$302
Total Interest Paid (10 years)	\$8,176	\$16,189
<b>Karen's Penalty</b>		<b>\$8,013</b>



**The extra cost of credit cards—\$60 more every month**

	Emily	Karen
Interest Rate	10.99%	19.99%
Annual Interest Paid	\$880	\$1,600
Lifetime Interest Paid	\$44,000	\$80,000
<b>Karen's Penalty</b>		<b>\$36,000</b>



**The extra cost of auto loans—\$5,400 more per car**

	Emily	Karen
Interest Rate	5.78%	13.24%
Monthly Payment	\$481	\$572
Interest Cost Per Loan	\$3,843	\$9,310
Lifetime Interest Paid	\$30,768	\$74,480
<b>Karen's Penalty</b>		<b>\$43,712</b>



**The extra cost of houses—Nearly \$100,000!**

House 1 (\$300,000 Mortgage)	Emily	Karen	House 2 (\$400,000 Mortgage)	Emily	Karen
Interest Rate	4.84%	5.66%	Interest Rate	4.84%	5.66%
Monthly Payment	\$1,581	\$1,734	Monthly Payment	\$2,108	\$2,312
Total Interest Paid (10 years)	\$132,592	\$156,802	Interest Cost Per Loan	\$359,004	\$432,221
<b>Karen's Penalty</b>		<b>\$24,210</b>	<b>Karen's Penalty</b>		<b>\$73,217</b>

**The extra cost of a home equity loan—Almost \$100 a month**

	Emily	Karen
Interest Rate	7.82%	10.89%
Monthly Payment	\$473	\$565
Interest Cost Per Loan	\$85,140	\$101,700
<b>Karen's Penalty</b>		<b>\$16,560</b>



**The total cost of Karen's lower credit scores? As a 30-year-old with a mortgage, car payment, student loan and credit card, she pays \$372 a month more than Emily does for the same amount borrowed. Over a lifetime of borrowing, she pays an astounding \$201,712 more in interest.**