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What a Bad Credit Score Really Means To You: Part II

Your credit score is a big determining factor in many of your financial and life opportunities. Creditors and lenders have grabbed on to the idea that how you have handled financial obligations in the past is a good predictor of how you will handle them in the future. You may agree or disagree with this line of reasoning, but nonetheless you just have to deal with the fact that many people are going to base their dealings with you on your credit score. The first part of this article described how your credit score affects the rate you get on a mortgage loan, the jobs you apply for, and your ability to be approved for rental leases. This part further explores the ways your credit score influences your business opportunities.

Insurance Policies
Employers and mortgage brokers are not the only ones that have decided credit scores are a good way to measure your dependability. Many insurance companies will also request a copy of your credit report. Basically they figure if you have had poor credit in the past you will be more likely to file more claims based on your lack of financial responsibility. Not all insurance companies run credit checks, but some do, so your credit score may, in part, determine your insurance premium.

Car Loans
Don’t forget about car loan interest rates! Most dealers will pull your credit and you can expect to pay anywhere from 5% -15% more for a car loan if you have poor credit. Just like with a mortgage payment, that small difference in percentage will make a big difference in the long run, even thousands of dollars extra in interest. For example, lets say you want a $20,000 car loan and you want to pay it off in 3 years. If you have good credit, you might get an interest rate of 8%. If you have really poor credit you might get an interest rate of 20%. With good credit, your monthly payment will be $626.73 and over the course of the entire loan you will pay $2562.18 in interest. With bad credit you make a monthly payment of $743.27 and end up paying $6757.78 in total interest. That is a monthly difference of $116.54 and a total difference of $4195.60 in interest over the long run! Even if you were able to qualify for a 14% loan you still end up paying about $60 more a month and $2045 more in total interest. There is no doubt that a good credit saves you money!

Credit Cards
If you have bad credit, getting a new credit card account with good terms can be very difficult. This is because as much as credit card companies like charging high interest rates, reputable credit card companies know that they will get their money and interest back more often from those with solid credit scores. A person with good credit might get a new card with an interest rate of 9% or so with no annual fees. Someone with bad credit is more likely to have to pay several hundred dollars each year in fess and might have an interest rate around 24%. This means you will end up paying more than double in interest for your balances than you would if you had good credit.

Hopefully, it is now obvious how much a poor credit score will cost you in your life, both financially and in opportunities. Do not get discouraged if you have poor credit though. The key now is to do something about your score. Start making your payments on time from this moment forward, start lowering your balances on your credit cards, and make a financial plan or budget that will put you on track to improve your credit score and your future!