



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

You know that having a bad credit record hurts you financially, but do you realize just how much it hurts you financially? Because credit scores are used in applications for so many services and products today, that three-digit number really does matter. If you have bad credit, the fact of the matter is that you will pay more for everything from your home loan to your insurance policy than someone with a great score would pay. This article and the one that follows are designed to help you discover just exactly what your poor credit is costing you.

Home Mortgage Loans

It is no secret that mortgage lenders base the interest rate they give you on your credit score. This is because they feel it is an accurate gauge of your trustworthiness as a borrower. For example, one study says that if you have a credit score of 780 or higher, the likelihood of you defaulting on your mortgage are 576 to 1. Yet if your credit score is approximately 630 your odds shoot up: 18 to 1. And if you have a score of 585 the story is much worse, a 2 to 1 likelihood that you will default. You can see why lenders are hesitant to loan money to those with scores of 630 or less – they are taking a huge risk with such a large sum of money!

So here is an example of the difference you'll see in mortgage rates, payments and interest based on your credit score. (These calculations come from the Loan Savings Calculator found on myfico.com.) If you have excellent credit, a score between 720-850, you might receive an annual percentage rate (APR) of 6.04% on a \$150,000 home loan with a 30-year fixed mortgage. If you have a credit score between 560 and 619, you might receive the same loan with an APR of 10.254%. Perhaps you do not think that 4.214% difference really matters that much. The difference comes in the interest and monthly payments you will make. The person with excellent credit will have a payment of \$903 per month and will pay \$175,147 in interest over the course of the loan. The poor credit borrower will make monthly payment of \$1,345 and will pay \$334,055 in total interest. That is a difference of \$442 per month and \$158,908 over the length of your loan!

Housing

If you are not buying a home, you may think you are off the hook when it comes to your credit score. Think again! Even landlords want some assurance that you will be consistent in your rent payments and most will require a credit check before leasing an apartment to you. It is even possible that they may deny your application if they feel your credit score is too low.

Jobs

Many employers today will require a credit check before they hire you. They figure that your credit history is a demonstration of your responsibility. If you have a good score, you are viewed as someone who will take your work seriously. You may not think it is fair to link your financial dealings with your ability to work effectively at a job, but apparently employers think there is an important connection between the two.

Look for Part II of this article to learn how your credit score also affects the car loans, credit cards, and insurance policies you apply for!