

How a Bad Credit Score Can Hurt You

While a credit score may seem like an arbitrary number, calculated by an invisible credit agency with no real bearing on your life. However, bad credit can cost your real money. To get an idea of just how much money you can lose due to bad credit, take a look at the following examples.

Credit Cards

If you have a low credit score, you will not be eligible for prime credit cards. These cards have the best interest rates, payment terms and credit limits, making it easier for you to maintain good payment history, thus further establishing good credit. Consumers with less than stellar credit "qualify" for less attractive credit cards or "sub-prime" cards. These cards often require exorbitant fees, monthly fees, low credit lines, or cash deposits. In most cases, these cards are difficult to maintain a positive payment record with and often fail to report your positive credit activity to the credit bureaus. A sub-prime credit card cannot only cost you money, but can also make it very difficult for you to improve your score.

Car Buying

When trying to buy a car with bad credit, you will not qualify for the lowest interest rates available. This often translates to \$3000 to \$6000 more in interest payments. This additional interest will take the form of slightly higher monthly payments. While it may not seem like a lot on a month by month basis, when calculated over the life of the loan, it will be a sizable amount.

For example: A loan for \$25000 to be repaid over 5 years:

Credit Status	Interest Rate	Monthly Payment	Extra Interest Paid
Excellent	8%	\$507	\$0
Poor	12%	\$556	\$2,952
Bad	16%	\$608	6,062

Home Buying

As you might imagine, the effects of bad credit are most evident the larger the purchase, such as when you are trying to purchase a home. For most people, a home is the largest purchase they will ever make. If you have a poor or bad credit score, you may end up paying between \$2000 and \$3000 of interest a year over the course of the loan, which can amount to \$60000 and \$100000 more in interest than if you had an excellent score.

For example: A \$200,000 mortgage to be repaid over 30 years:(rates vary from time to time)

Credit Status	Interest Rate	Monthly Payment	Extra Interest Paid
Excellent	7%	\$1,331	\$0
Poor	9%	\$1,609	\$66,140
Bad	12%	\$2,057	\$99,019