CREDIT RESOURCE CORP.

How Much Is Your Credit Score Costing You?

In the past, the credit report was instrumental in determining whether a consumer had the ability to purchase big-ticket items such as homes, cars, and appliances. This is no longer the case. Today your credit report is pulled even when you start a new account for your telephone, electricity and other utilities. And it doesn't stop there, not by a long shot. When your credit scores are low, you pay more for ***everything***.

No one has unlimited income, and no one wants to work forever. Every opportunity you have to reduce what you pay for your mortgage, your car, and your credit cards is money you can use to fund your retirement, pay for college education, and use for a brighter future. It's money you can use to establish a more solid financial footing so that you can be more comfortable and worry less.

How Credit Scores Affect Mortgage Payments

Here's a short list of how much low credit scores can cost when it comes to a mortgage:

1. **You May Never Own A Home AT ALL, AGAIN, Or FOR YEARS**

   Whether or not you've always had poor credit, or have just suffered from the recent mortgage crisis, this is a very real possibility for individuals. If you have low scores or problematic reports, lenders will either deny you flat out or penalize you with such exorbitant rates that the outcome ranges from completely undesirable to impossible.

2. **You Will Pay Higher Interest Rates**

   It just makes sense that if you have higher credit scores, you will pay a lower interest rate on your mortgage loan and will have to put less down. Fair Isaac's consumer website at http://www.myfico.com offers a mortgage payment calculator that is updated regularly to show consumers how their FICO score can affect their interest rate.

   Per myfico.com, if your credit scores are under 620, consumers could pay up to $1000 or more per month than someone with a 720 credit score for a 30-Year Fixed Rate Mortgage with a loan principal amount of $300,000. That's an ***additional*** $12,000 per year, and approximately $500,000 over the life of the loan.

   Of course, interest rates are determined by many factors but the bottom line is that individuals with ***low credit scores will pay nearly three times more in interest than those with strong credit scores.***

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3. **Now You Will Be Subject To Loan Level Price Adjustment Fees (LLPA's) when applying for a conventional mortgage.**

   Consumers with a middle score of less than 719 will now be charged an LLPA fee which was implemented by Fannie Mae and Freddie Mac in December of 2008. See the following chart to see where your scores fall with an 80-85% LTV [(2)]:

FICO Score	LLPA You Will Pay
Below 639	3.000%
640-659	2.750%
660-679	2.250%
680-699	1.000%
700-719	0.500%

   For people experiencing the worst-case scenario, carrying a middle credit score of less than 620 could cost you an extra $9,000 on a $300,000 loan amount.

4. **You Will Pay More For Private Mortgage Insurance (PMI)**

   PMI is insurance that mortgage lenders require from most homebuyers who have less than a 20% down payment on their property. If your credit scores are marginal, your private mortgage insurance rate might be hundreds of dollars higher per month than you expect, and you usually don't find this out until closing.

5. **You Will Compromise Your Ability To Refinance For "Cash Out"**

   As you build equity in the ownership of your home, you may decide to borrow against that equity for the purpose of home improvement, debt consolidation, or even to pay college tuition for your children. Lower credit scores will not only affect your ability to take out a home equity line of credit (HELOC), but you will also have to pay higher interest rates and other upfront costs if you are approved.

Credit Scores Affect Much More Than Mortgage Payments – 15 More Ways Consumers Suffer

What other ways can low credit scores affect consumers? While I am certain a comprehensive list could contain as many as a hundred items, here's a list of fifteen more ways in which consumers are suffering the cost of low credit scores.

1. **Lost Opportunity.** After hearing the stories of thousands of people, I know the biggest and most heartbreaking cost of poor credit is ***Lost Opportunity***. It's not just that the rates and/or fees will be high. It's that certain people are simply unable to qualify for loan approval. Case closed and door slammed. This cost is truly immeasurable and involves those individuals being forced to live without, or never even having the opportunity for what they want. They may never get the job they want. Never reap the benefits of home ownership. Never experience the smell of a new car in their driveway. These are real issues that millions of Americans face each and every day.

2. **Humiliation.** If you've ever been turned down for credit, you've had a taste of what poor credit really feels like. It's pretty miserable to sweat every time you try to use a gas card; when your credit card is declined at a restaurant; when you have to "explain" every time you apply for a purchase, a subscription, or a service; or when you have a good job but you're excluded from being able to use a company credit card. Such humiliation causes despair and depression. There's no reason for anyone to go through this kind of hopelessness and humiliation; especially when there are simple steps you can take to avoid this kind of unnecessary frustration.

3. **Employment Opportunities.** Just as not having a specific degree can shut you out of certain jobs, so too can your credit. More and more, getting hired, promoted, or receiving a company credit card depends upon having strong credit scores and reports. In fact, a large percentage of consumers who come to me for credit counseling are well-educated, upwardly mobile individuals who've been turned down for professional jobs because of their credit situation. Many have lost three months or more of their time interviewing for a job they ultimately did not get. Moreover, there is NO WAY that any person can be hired by a government facility, banking, lending, insurance, advising, or accounting firm if they have problematic credit scores or reports. It doesn't matter how much the employer likes you. Company policies and procedures are rapidly incorporating mandates of strong credit reports and scores.

4. **Medical Emergencies.** In the imminent future, hospitals will likely pull your credit scores to determine your ability to pay your medical bills. It is called MedFICO and I talk about this in more in my book, The Big Score – Getting It & Keeping It. Developers of this new system say the scores will not be used to decide whether or not treatment should be given. However, considering the flaws associated with the current scoring system, how can consumers be sure? Literally, this could be a matter of life or death. This concern is as true as it is serious, and it provides yet another reason why staying on top of your credit is so important.

5. **Auto Loans.** You've seen the ads, the ones that promise low, low, low interest rates with no money down for that brand new luxury car, and with a monthly payment of just $199! What a great deal, right? Then there's that really teeny, tiny writing at the bottom of the screen that says that the deal depends on good credit. If consumer credit scores are not impeccable, they will pay a very high interest rate. Up to 28% or more. They will also have to put a lot more money down.

   Unfortunately, low credit scores force individuals to pay in cold, hard cash, or suffer punitive interest rates. This is cash they could use for other necessities. Adding insult to injury, paying cash does nothing for consumer credit scores; however, a healthy installment loan is crucial to two major factors that make up consumer credit scores.

6. **Educational Loans.** Parents want to give their kids the best of everything, and most families rely on lines of credit or savings to fund their children's college education. But when you are forced to pay more for *everything* because of poor credit scores, saving for

college is virtually impossible. And once again, seeking a line of credit based on home equity isn't a viable option either. If you have low credit scores and pay a high interest rate on your existing mortgage, lenders will consider you a risk as you seek to incur more debt.

7. **Business Ownership.** Entrepreneurship–Being your own boss!–has long been one of the items high on the list of American Dreams. Yet because of lower credit scores, for many consumers, entrepreneurship will remain merely a dream.

   You may have a stellar business plan and the commitment to put your stake in a profitable venture as an entrepreneur, but if your credit scores are low, lenders will approach you with caution, hindering the process, depleting the excitement. As always, the higher the score the better your chances are to secure an interest rate that won't cut into your potential profits.

8. **Surety Bonds**. When applying for a business license, most state governments require a surety bond to guarantee that the licensed individual will operate his or her business in accord with state regulations.

   Because the surety bond industry assumes a 0% loss ratio, only those with good credit are approved (often times, credit scores above 660 are required.) And those who do not meet the credit score guidelines will pay 8-10% or more, which could make the difference in whether or not they can obtain or renew a business license.

9. **Checking Accounts.** Many banks will not open a checking account if you have poor credit scores; particularly if you have an NSF (non-sufficient fund) record filed against you that hasn't been handled. Day-to-day living can become very difficult and inconvenient if you have to pay cash for everything.

10. **Credit Cards.** We live in a world that's very difficult to navigate without credit cards. Let's face it, you can't rent a car without a credit card in hand, much less order airline tickets or other items over the phone or online. Low credit scores result in denial, or, if approved, suffer the highest interest rates. If you have low credit scores, you could be paying up to 30% financing on your credit cards. Additionally, consumers with low credit scores tend to pay setup fees, account maintenance fees, and higher annual fees that are often waived for customers with good credit scores.

11. **Renting An Apartment Or Home.** Landlords like to get paid, and they won't rent to someone they think they will have to hunt down every month or worry that the rent check will bounce. And that's exactly why a landlord checks your credit standing before he or she signs an agreement with you. It doesn't matter if you have a strong payment history with former landlords, or a big paycheck. If your scores are low, you will have to pay a higher security deposit and will most likely require a co-signer.

12. **Renting A Car.** Car rental agencies are now pulling credit reports if someone wants to rent a car using a bank debit card rather than a credit card.

13. **Utilities.** More of the same. If you have low credit scores, your utility deposit will be higher than for those with good credit. As with renting an apartment, you may also be required to have a co-signer on the account.

14. **Insurance Rates And Options.** Many auto car insurance companies now use credit scores to determine payments and payment schedules. Studies show that consumers with poor credit histories are more likely to file claims (which makes no logical sense at all.) Large insurance companies charge poor-credit consumers as much as three times the rate for customers with excellent credit.

    Having lower credit scores also reduces your option to negotiate a payment plan for your premium. If you are considered a high-risk client, the insurance company can demand that your annual premium be paid in full as a one-time payment. This is something most consumers can't afford.

15. **Less--Or No, Retirement Savings.** When you spend all of your money on high interest rates, or have to pay cash for everything, you have an incredible hurdle in saving for retirement. Your quality of life will suffer at a time when you would hope to relax and enjoy life.

IN CONCLUSION

The single first step you can take toward planning for a more secure future is to ensure you derive the very best value from every financial commitment you make. The best value means NOT spending hundreds or thousands of dollars on high interest rates for credit cards, auto loans, and mortgages.

Strong credit scores are the golden ticket to financial freedom for right NOW, and it prepares the foundation for financial security LATER. Isn't that what we all want? Planning for tomorrow by improving your situation today, you can eliminate the risk of limited financial security that comes from spending too much.

The good news is that loans can always be refinanced and credit card interest rates can be renegotiated. If you find yourself in a position of having to pay higher rates on credit cards, auto loans and mortgages due to low credit scores, once you get your credit back on track you will be in a good position to refinance and renegotiate with your creditors.

Remember, the key to good planning starts with good understanding. It starts with paying attention to what is happening with your credit report, and to what is happening in the financial world around you.

(1) http://www.nabe.com/publib/pol/08/03/pol0803.pdf

(2) https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0818.pdf