Lifetime cost of bad credit: $201,712

By Liz Pulliam Weston, MSN Money

Bad or even mediocre credit can cost you a fortune over your lifetime. That was true even before the credit crunch, when I first put together the example of two fictional women, Emily and Karen, for my book "Your Credit Score" and tracked what they paid in interest over a lifetime. Now, with so many lenders fleeing risk, the contrast in score-based interest rates is even more stark on many loans. The short version: Lower scores can cost you hundreds of thousands of dollars in extra interest and radically change the way you're able to live your entire life.

Here's a scenario that can help you understand how. Emily and Karen are friends who borrow about 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.

But Emily has a FICO credit score of 750, which is considered good to excellent. Karen has a 650 score, which is considered fair to poor, depending on the lender. Emily maintains her good credit scores by always paying her bills on time, applying for credit sparingly and never maxing out her credit cards. Lenders respond by increasing her credit limits and giving her more offers of credit, allowing her to spread her balances across several cards and further protect her scores.

Karen, on the other hand, doesn't always pay on time and sometimes maxes out her cards, which makes lenders reluctant to extend more credit. She tends to carry larger balances on fewer cards than Emily, which further hurts her scores, and Karen has less ability to negotiate lower interest rates.

The following examples of what they pay are only illustrations. In real life, interest rates will wax and wane over time while the amounts paid for houses and cars will vary. But the illustrations will give you a pretty good idea of the potential cost of not-so-great credit.

Private student loans: An $8,000 difference

Federal student loans don't take credit scores into account, but private student loans do, and the penalty for worse credit is significant. Interest rates vary by lender, but someone with a 750 score can expect rates that are around 5 to 6 percentage points cheaper than someone with a 650 score, said Mark Kantrowitz of FinAid.

The extra cost of a student loan		
	Emily	**Karen**
Interest rate	7.25%	13.25%
Monthly payment	$234	$302
Total interest paid (10 years)	$8,176	$16,189
Karen's penalty		$8,013

Credit cards: $60 more a month

Credit card issuers have tightened their lending standards in the past couple of years, which means higher rates and stricter standards for just about everyone. Whereas a 720 credit score used to get you the best rates and terms from many issuers, some now require 750. Even getting a card can be tough if your scores are below 675, according to Curtis Arnold of CardRatings.com. A few years ago, even those with "subprime" scores of 620 had a slew of offers.

The extra cost of a credit card		
	Emily	**Karen**
Interest rate	10.99%	19.99%
Annual interest paid	$880	$1,600
Lifetime interest paid	$44,000	$80,000
Karen's penalty		$36,000

Auto loans: $5,400 more per car

A few years ago, Karen would have paid about 3 percentage points more for a 60-month new-car loan. Today, that penalty is more than twice as high, according to myFICO.com, which tracks rates for auto and mortgage loans based on FICO credit scores. The difference significantly inflates the interest costs for every $25,000 vehicle she finances over a lifetime.

The extra cost of a 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
Karen's penalty		$43,712

Mortgages: An extra 100 grand

Interestingly, the penalty for poorer credit is somewhat less these days than during the boom years of real-estate lending.

Back then, credit scores drove the ship, with other factors, such as your down payment, provable income and debt load, taking a back seat. Lenders weighed the scores so heavily in their calculations that even small differences in scores could result in large interest-rate differences.

That gap has narrowed as mortgage lending in general has become stricter and lenders take other factors into account, but the cost of a lower score is still significant.

For the women's first homes, paid for with 30-year, fixed-rate loans for $300,000 paid over 10 years:

The extra cost of house No. 1		
	Emily	**Karen**
Interest rate	4.84%	5.66%
Monthly payment	$1,581	$1,734
Total interest paid (10 years)	$132,592	$156,802
Karen's penalty		$24,210

For their second homes, paid for with a 30-year, fixed-rate loan for $400,000 over 30 years:

The extra cost of house No. 2		
	Emily	**Karen**
Interest rate	4.84%	5.66%
Monthly payment	$2,108	$2,312
Interest cost per loan	$359,004	$432,221
Karen's penalty		$73,217

Home equity loan: $92 a month

Like car loans, home equity lending is extremely sensitive to credit scores, so Karen pays a rate that's 3 percentage points higher than Emily's for a 15-year loan for $50,000:

The extra cost of a home equity loan		
	Emily	**Karen**
Interest rate	7.82%	10.89%
Monthly payment	$473	$565
Interest cost per loan	$85,140	$101,700
Karen's penalty		$16,560

The total cost of Karen's lower 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.

That estimate may be low. It doesn't count the higher cost of insurance she's likely to pay, because most auto and homeowners insurers charge bigger premiums for those with worse credit. It doesn't factor in the trouble Karen may have had renting apartments before she bought her first home, because landlords check credit scores, too.

It also doesn't count opportunity cost -- what Karen might have earned if she'd been able to invest the extra money she was paying to lenders. If you divided the $201,712 penalty over 50 years and figured an 8% average annual return, those interest payments could have turned into a retirement kitty worth more than $2.3 million.

But mostly, the cost above doesn't quantify a lifetime of struggling with money. Because more of Karen's paycheck went to lenders, she had less money for everything else, from vacations to her kids' educations.

If you've ever wondered why some families flounder while others in similar circumstances don't, the answer could be (and probably is) rooted in how they handle credit.

Liz Pulliam Weston is the Web's most-read personal-finance writer. She is the author of several books, most recently "Your Credit Score: Your Money & What's at

Stake." Weston's award-winning columns appear every Monday and Thursday, exclusively on MSN Money. She also answers reader questions on the Your Money message board and helps middle-class families cope at Building a Brighter Future.

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