Lifetime cost of bad credit: $201,712

If you're not doing all you can to keep your credit scores high, you're borrowing trouble -- and you could pay a very heavy price.

By [Liz Pulliam Weston](http://articles.moneycentral.msn.com/Commentary/Experts/Weston/Liz_Pulliam_Weston.aspx) 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](http://www.bing.com/shopping/search?q=Your+Credit+Score&form=MSMONY)" 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](http://www.bing.com/search?q=fico+score+definition&go=&form=MSMONY) 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](http://www.finaid.org/).

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| 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](http://www.cardratings.com/). A few years ago, even those with "subprime" scores of 620 had offers.

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| 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](http://www.myfico.com/Default.aspx), 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.

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| 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 |