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Bad credit hurts in many ways

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Julie Sturgeon

Most people understand that low credit scores will translate into higher mortgage and credit card interest rates. But few realize there are plenty of other insidious ways that low scores can add to a person's payment costs.

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Car insurance

It comes as a surprise to most of the clients working with Trish Lynch, a financial specialist with ClearPoint Financial Solutions in Richmond, Va: Yes, some companies base your auto insurance premiums on your credit scores.

In fact, according to a 2002 survey by Conning & Co., 92 of the 100 national and large regional players it queried use this avenue. Some only apply it on the initial application for insurance, others pull your score every

three years, says Bruce Hale, a Conning research analyst. Thirty-eight percent of insurers responding to the survey use credit to determine eligibility into different underwriting programs. Fifty-two percent use it to determine both eligibility and rating classification.

It boils down to consumers with bad credit paying between 20 percent and 50 percent more in auto insurance premiums than their good-credit neighbors, says Clarence Smith, who authored Conning's study.

"It's profiling," Lynch says. "Think about it: If you have all these credit issues, a lot of times your mind is not exactly where it should be, like when you're driving."

Homeowners insurance policies also follow this path.

Car loans

In 2004, the Consumer Federation of America announced that its investigation into American Honda Finance Corporation revealed dealers in this car manufacturer's network charged different markups to customers from different credit tiers. Those in the least creditworthy tier could face prices that were 3.5 percentage points higher than their better credit brothers.

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Although they have capped their markups at 2.5 percent, both General Motors Acceptance Corporation and Ford Motor Credit Corporation take the same approach.

People with poor credit usually pay from 19 percent to 26 percent interest rates on a new car purchase, compared to the 6 percent to 7 percent average, says Lynch. "People don't equate that into dollars and cents. That can be a difference of \$100 to \$200 a month on your car payment. It hits the pocketbook kinda heavy," she says.

Meanwhile, at Citizens Bank in Green Bay, Wis., client advisor Jeanne Wolf has seen as much as a 10 point difference in car loans she approves, depending on that all-important credit score. "It's about what the perceived risk is to the companies offering the loan," she says.

Job

The second shock that hits Lynch's clients between the eyes: employers care about those credit ratings.

Just ask Sanyika Calloway Boyce, a "financial fitness coach" who graduated from Norfolk State University a semester early with honor society membership, several internships and \$15,000 in unsecured debt. She says the latter cancelled out all of her positives with potential employers. And that was in 1994.

Today, 70 percent of companies will check credit before they decide to hire a candidate, says Doug Borkowski, a financial counselor for Iowa State University's Financial Counseling Clinic. Larger companies are more likely to check than small ones.

The fear is that credit problems at home create tension and distraction at work, Lynch says. "If you are their employee, will you be getting phone calls from collectors at work? Will the employer have to garnish your wages?" she asks.

Housing

Rental property owners may reject tenant applications with poor credit scores, something only 48 percent of consumers know, says the CFA.

Utilities

Only 30 percent of the Americans that CFA surveyed know that utilities, too, care about credit scores. Even slow credit indications are enough to slap you with a \$500 deposit before the telephone company connects your line or the electric company turns on the juice, says Lynch.

Cell phones

These providers increasingly rely on credit scores to sort the good risks from the bad credit. And bad credit definitely doesn't get the sweetest deals at Verizon. Instead of contract plans that offer more minutes for your dollar and come with a wider selection of phones, those who don't make the cut must consider pay-as-you-go phones.

Elective medical procedures

When Lynch looked into laser eye surgery, the doctor immediately pulled her credit score to see if she qualified for his monthly payment plan. Otherwise, the bill is due in full at the counter. "They're not denying you service, and if it were a mandatory treatment, this would never come up," she says. Wolf has seen the same situation at orthodontist offices.

School loans

When Judge John C. Ninfo II, chief judge of the U.S. Bankruptcy Court for the Western District of New York, made a documentary as part of his "get out of debt now" program for high schoolers, he included the sad story of a Nazareth College of Rochester student who was turned down for a law school student loan because of his FICO score.

He isn't alone. Lynch, too, has watched families' dreams burst when their scores disqualified them from university and federally funded loans. And in this case, it isn't a matter of sucking it up and paying a higher interest rate. "It's black and white. You get financing or you don't," she says. "Not furthering your education is a far-reaching consequence."

Marriage

More than half (52 percent) of CFA survey respondents think a married couple has a combined credit score. Nope. You can't marry your way out of a bad FICO rating, and many times a disparity between partners causes too much tension for the marriage to survive, says Brette McWhorter Sember, author of "The Complete Credit Repair Kit." She personally knows several couples who skipped the church aisle over it.

"If the owner spouse dies, the home and mortgage become part of the estate. If the surviving spouse wants to take over the mortgage, he or she needs to qualify for credit," says Sember. "Most people bank on the fact that they'll live to pay off the mortgage so this isn't a concern."

Unfortunately, Wolf adds, more and more Americans are becoming acquainted with these uses of credit scores the hard way. "People who need the loans typically are paying the higher payments. It's a Catch-22. Once they get bad credit, it is difficult to overcome with these bills," she says.

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