



# This is How Bad Credit Can Hurt You

Everyone knows that bad credit can prevent you from getting a mortgage, credit card, or other loan. But did you know that in addition to hurting you financially, bad debt can damage you emotionally and even romantically? If you have a low credit score, it's important to improve your number in order to avoid these problematic issues.

## 1. Damage to Your Relationships

Often when people cannot borrow money from a traditional lender due to bad credit, they turn to friends and family to bail them out. Being late on a credit card payment will damage your credit rating. But being late on a promise to pay back a friend can destroy your relationship.

Bad credit has a terrible impact on marriages. Jeffrey Dow, a Faculty Fellow at the National Marriage Project, has extensively studied the impact of consumer debt on marital satisfaction. Dow's research uncovered that, in addition to being cited as the leading cause of divorce in America, financial disagreements were a much better predictor of future divorce than even sexual disagreements.

"Compared with disagreements over other topics, financial disagreements last longer, are more salient to couples, and generate more negative conflict tactics, such as yelling or hitting, especially among husbands," Dow says. "Perhaps because they are socialized

to be providers, men seem to take financial conflict particularly hard. Not surprisingly, new research that I have done indicates that conflict over money matters predicts divorce better than other types of disagreement."

And, talk about kicking you when you are down. During a divorce, a credit score can be used as leverage when dividing up assets.

## 2. Lack of Access to Emergency Money

One of my friends nearly lost her dog to cancer last year. Because of her low credit score, she was unable to get an emergency loan to cover her beloved pet's medical bills. Luckily, she was able to raise the money for treatment by crowd sourcing.

Unfortunately, this kind of happy ending is uncommon. Outspending your means could leave you vulnerable to a medical catastrophe.

## 3. Limited Mobility

Hurricane Katrina was devastating to just about everyone in New Orleans, but many people were put in harm's way due to financial obstacles. Katrina struck on August 29, two days short of payday for some of the city's poorest residents. With no cash on hand and no credit, people literally lost their lives because they couldn't afford to pay for a bus ticket or gasoline to evacuate the area.

Airline tickets cannot be purchased with cash. While this seems like a First World problem, homesickness and the desire to go home is a universal feeling. In addition to keeping you away from loved ones, having a low credit rating can keep you from getting the best credit card for travel. With the right rewards card, travelers can save thousands of dollars by using mileage points to purchase tickets and accommodations and avoiding foreign service fees for cash advances and purchases. Poor credit can also

keep you from owning a car or getting affordable insurance, which in turn can keep you from taking jobs that require a car.

#### 4. Costlier Car Insurance

Although this is illegal in some states, some car insurers have decided that there's a connection between on-time payments and reckless driving -- and jack up the rates or deny auto coverage accordingly. Not having car insurance can obviously negatively impact the quality of life of anyone who is dependent on a car for work.

#### 5. Increased Property Insurance Costs

Some insurance companies see a correlation between low credit scores and high insurance claims, and inflict punitive rate increases on customers with poor credit. Although California, Massachusetts, and Maryland prohibit this practice, people with poor credit pay a least twice as much as people with excellent credit in most states. For example, if you live in West Virginia and have poor credit, you will pay up to 208 percent more than your neighbor with a high credit score!

#### 6. A Struggle to Refinance a Mortgage

Following the epidemic of foreclosures, new banking rules have been applied that make borrower's creditworthiness even more critical to negotiating a reasonable interest rate for home loans. Getting a loan allowed me to turn my rundown house into a beautiful rental property that pays for itself every month. The ability to get a loan for home improvement revolutionized my life by putting me on the fast track to financial independence.

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#### 7. Difficulty Renting

As a landlord, I check the credit score of potential tenants for late payments. I won't rent to people with too many late payments because the eviction process costs me too much time and money. It doesn't matter how much I like the prospective renter; I've learned the hard way that any goodwill I might have will be quickly turned into hate by tardy renters who have to be nagged into paying. Most landlords I know only look at the credit score and don't allow potential renters to put their low score into context (i.e. "I was hit by a drunk driver and my medical bills bankrupted me!").

#### 8. Grim Job Prospects

Most people I know don't have a poor credit rating because they are shopaholics. When the recession hit, a lot of unemployed people had to make emergency financial decisions that are still dogging them today.

There's a push to prevent employers from using credit reports against potential employees. But right now you can be denied a job due to a poor credit score. Allegedly, employers are supposed to inform you if your credit is the reason you were not hired, but this is no consolation to any job seeker who really wants and needs to work. One out of four Americans have had to go through an employer credit check, and one out of 10 are denied work because of a low credit score.

## 9. Stunted Growth for Start Ups

Many lenders require borrowers to put up their home as collateral for a small business loan. But even getting a home equity line of credit requires a good credit rating. Like landlords, many franchisers make decisions about licensing new franchises based on credit rating.

## 10. Higher Interest Rates

Even if you can borrow money, borrowers who are considered to be higher risk pay higher interest rates.

## 11. Loss of Basic Utilities

Utilities regularly check credit before beginning service. If you have been late making payments -- especially utility payments in the past - you might be required to pay a deposit in order to get service.

## 12. Impact on Professional Licensing

The Fair Credit Reporting Act allows government agencies that regulate professions to use credit reports. This means that states can require proof of creditworthiness before issuing everything from medical licenses to doctors, to construction licenses to contractors.

## 13. Lack of Disposable Income

I am working furiously to pay down my home equity line of credit early, so I can achieve the peace of mind that financial independence offers, and save thousands of

dollars in interest payments. To achieve this goal, I have cut out pretty much all varieties of elective spending. No eating out. No dry cleaning. No college classes. No new purchases beyond the absolute necessities, such as food and health care. While I spend part of every day feeling annoyed and inconvenienced by my lack of ready cash, I realize that my situation is temporary. I will enjoy a better retirement because of the savings I am making today. Persons with poor credit spend more on fees and interest and, therefore, have less money to spend on experiences that enrich their lives.

#### 14. Increased Stress

When I was 20, I watched as a sales clerk cut up my credit card right in front of me. That experience scared me straight. I will do almost anything to avoid public shaming, including pay my bills on time. However, most people would rather struggle with the stress of debt than admit that they can't afford something.

#### 15. Poor Quality of Life

Debt can keep you from getting an education. It can keep you in an unhealthy relationship. It can keep you from getting a better job. Debt can keep you from fulfilling your potential as a person.

Every journey starts with a single step, including the journey towards creditworthiness. Even if you can only afford to pay down an extra \$10 a month on your credit card debt, that is \$10 you are spending to make your future better and more financially secure. Don't you deserve a better future?

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