

Will Your Credit Score Miss The Mark?

Poor Credit Scores Can Impact Future Purchases

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UPDATED: 8:05 am EDT June 11, 2007

The definition and impact of credit scores is no mystery to Jared Huizenga, a 28-year-old editor living in Minneapolis who, like many early-20-somethings, fell into the credit card trap and is still paying for it years later.

A credit score is a number that creditors -- banks, apartment owners, car dealers and anyone else who will sell you something or give you money to purchase something and draw up a contract for you to pay them back -- use to represent the risk that a consumer will default on payments.

Each of the three major credit bureaus -- Experian, TransUnion and Equifax -- has a specific, private formula from which they devise credit scores through consumers' credit history, said Sandy Shore, a manager of counselor training at the nonprofit financial counseling agency Novadebt, based in New Jersey. Those scores have a wide range of uses.

"Credit scores are used to grant credit limit increases and to re-evaluate interest rates on current lines of credit," she explained. "Scores are also used by insurance companies to decide if they will write a policy and what the premium will be, by landlords to rent apartments and by employers in hiring decisions."

According to Shore, there are several consequences of having a low credit score.

While Huizenga has plenty of debt he is paying off, his recent credit score problem had nothing to do with the debt on the plastic in his wallet. Earlier this year, he ran into some car troubles, which, with a loan, would have been simple to repair. However, his credit situation caused some snags.

"My car, which is only valued at about \$500, decided it had outgrown its old clutch and was ready for a new one -- to the tune of \$775," Huizenga explained. "If my credit was in any good standing, the logical thing to do would be to buy a different car, rather than putting almost twice of the car's value into it when it has almost 140,000 miles."

With his already-tapped budget, Huizenga said he couldn't afford to take on a new monthly payment, so he looked at other options for funding his needed repairs. He said he considered a loan through a payday-advance operation, but that was not enough to cover the bill. Then he went to his hometown bank where he'd been a customer since he was in high school.

"Instead of looking at the fact that the two loans I've had with them in the last 10 years were paid off -- one three years early, another on time -- they focused simply on my credit score and insisted I get a co-signer, whose paperwork was much more detailed than mine," Huizenga said.

Shore said Huizenga's situation is typical of consumers with low credit scores.

"Consumers with low credit scores will pay higher interest rates for credit cards, mortgages (and) car loans," she said. "They may also be turned down, pay higher fees and be victims of predatory lenders. They may have trouble finding an apartment, a job and insurance."

Huizenga's recent car repair loan trouble isn't the only problem he's had.

"My poor credit card score comes directly from racking up too much credit card debt at a very young age. It was a snowball from there," he said. "As I struggled to make the minimum payments, other things fell behind and were reported to the credit bureaus. This has also led to making everyday life difficult sometimes."

Among his difficulties, he said he cannot make any major purchases before his current debt is paid off, and he can't change cell phone service providers without an "enormous" deposit. Two of his former credit card companies have filed suit and are garnishing \$400 per month from his paycheck.

"When it came time to rent an apartment last summer, the only reason I got it was because I was upfront with the resident manager and he told the rental company he had a good feeling about me, because I was honest about my credit problems," Huizenga said. "If not for him, I would likely have not got the apartment I'm in and I may have been forced to move to South Dakota to take a job in the pizza business, just so I had a roof over my head."

Racking up credit card debt is what led to Huizenga's problems, but Shore said other actions could decrease consumers' credit scores. Not paying bills on time, owing a high percentage of the credit available, not checking credit periodically to ensure that they are not victims of identity theft and letting others use their credit have all gotten some of Shore's clients into less than desirable credit situations.

The good news, Shore said, is that although it may take a while, consumers with poor credit can become consumers who used to have poor credit. There are a number of actions to take:

- Make monthly payments on time.
- Limit the use of credit.
- Don't use credit on "luxury" items.
- Start an emergency fund to pay for unexpected expenses -- like major car repairs.
- [Check your credit report.](#)

And for consumers whose credit scores remain relatively low -- below 720 -- despite these efforts, Shore recommended they seek professional advice.

"They are paying more for credit and insurance, possibly without knowing it," she said. "If they are using credit to pay for expenses, the low credit score is just a symptom. They probably need help with budgeting and other financial matters. They shouldn't wait until they have trouble paying the bills."