

Let's Talk Finances

4 Reasons to Pay Your Bills on Time



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Paying your bills on time is a key aspect of taking charge of your financial life. Not only can it help you avoid a number of unpleasant consequences, but it may also have significant positive side effects.

1. Avoid late fees

The most obvious reason to pay bills on time is to avoid late fees. Credit card payments are a good example. As of January 1, 2020, your first late fee on a credit card payment can be as much as \$29, and additional late payments within six months can cost you up to \$40.

2. Improve credit score

Paying bills on time is also one of the best things you can do to improve your credit score. According to FICO, one of the two major credit scoring companies in the U.S., payment history is responsible for 35 percent of your score. VantageScore – the other main company – doesn't give percentages, but does say that payment history is "extremely influential." Paying bills late can definitely hurt your credit score, and the later you pay, the greater the damage.

3. Enjoy lower interest rates and other advantages

Paying bills on time can also lead to an improved credit score, and an improved credit score may qualify you for lower monthly payments when it's time to take out a loan. Whether you're buying a car, home, boat, or need funds for something else, a higher credit score can increase your chances of getting a better interest rate.

Many insurance companies also use your credit score to determine how likely you are to file claims and the amount you might claim. According to the FTC, your credit score is one factor insurers consider when deciding whether to give you insurance and how much to charge.

4. Reduce stress

Paying your bills on time and a better credit score can effectively improve your quality of life. Qualifying for reduced interest rates can make monthly payments more affordable, allowing more room in your budget for saving, vacations, or other extras. This can significantly help reduce stress.

It can be very refreshing to no longer worry about if a bill has been paid, if you have enough money to cover the amount due, or how much you'll have to pay in late-payment fees. Plus, it can be simpler to keep your checking account balanced. It's easier to relax when you know that your financial house is in order.