Bankrate

The “Subprime Tax” Costs Low-Credit Households 4% of Median Income

Low-credit Americans charged an extra $3,400 on average per year for essential loans, insurance

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NEW YORK – August 6, 2025 – As household budgets continue to tighten, Americans with subprime credit scores are facing even greater costs for essential financial products. According to Bankrate’s True Cost of Subprime Credit Study, individuals with a credit score of 620 are charged an average of nearly $3,400 more per year than prime borrowers with a credit score of 700—amounting to 4% of the typical household income. Click here for more information:

https://www.bankrate.com/loans/personal-loans/true-cost-of-subprime-credit/

The median household income in the U.S. is $77,719 per year (per U.S. Census Bureau as of 2023), and the “subprime tax” can consume a larger share of yearly household budgets than essential spending categories like education (2.1%) and apparel and services (2.6%), according to the Bureau of Labor Statistics’ latest Consumer Expenditures Survey (2023).

Bankrate’s study shows that these elevated costs stem from financial products such as auto insurance, home insurance, credit cards, auto loans, personal loans, and mortgages. These extra charges, which banks justify for accepting higher-risk borrowers, affect roughly 1 in 5 American adults (21%), according to Bankrate’s 2025 Credit Denials Survey. In contrast, prime borrowers—those with credit scores of 700 or higher—face significantly lower charges.

“Having a lower credit score can cost you a lot of extra money, and this is money that many of these households don’t have,” said Bankrate Senior Industry Analyst Ted Rossman. “Fewer than half of U.S. adults have enough emergency savings to cover three months’ worth of expenses, and nearly a quarter have no emergency savings at all. In this context, credit costs rising by an average of $3,400 per year means it’s harder for Americans with subprime credit scores to build savings, and these additional costs push many deeper into debt.”

When looking at financial products based on national averages, subprime borrowers feel the “tax” most on mortgage loan interest, followed by auto loan interest, auto insurance, home insurance, personal loan interest and credit card interest.

Financial Product	Annual Subprime Tax	% of Median Household Income	Subprime Tax Over 5 Years	Subprime Tax Over 30 Years
Mortgage Loan Interest	$1,330	1.7%	$6,648	$39,886
Auto Loan Interest	$745	1.0%	$3,726	$22,356
Auto Insurance	$514	0.7%	$2,570	$15,420
Home Insurance	$398	0.5%	$1,990	$11,940
Personal Loan Interest	$328	0.4%	$1,638	$9,828
Credit Card Interest	$89	0.1%	$444	$2,664
Total	**$3,403**	**4%**	**$17,016**	**$102,094**

Additionally, the average “subprime tax” becomes more severe over time. If a borrower with a subprime credit score fails to improve their credit while using these financial products, the subprime tax would cost these borrowers roughly $17,000 over five years, and over $100,000 over 30 years.

"The good news is that a low credit score doesn't need to last forever,” Rossman added. “There are plenty of things you can do to bump yours up, sometimes in as little as a few months. Start by pulling your credit reports for free and getting any errors corrected. Next, even if you still have blemishes on your reports, look to fill those reports with as much positive information as possible. Examples include getting on a parent or spouse’s credit card account as an authorized user and signing up for alternative credit scoring methods such as Experian Boost and eCredable Lift."

Methodology:

Bankrate's 2025 Cost of Subprime Credit Study measures how much more Americans with subprime credit pay on average for essential financial products compared to Americans with prime credit.

Essential financial products in this study include full coverage auto insurance, home insurance, credit cards, auto loans, personal loans and 30-year fixed-rate mortgage loans. In the study, Bankrate defined “prime credit” as a borrower with a 700 credit score, and “subprime credit” as a borrower with a 620 credit score.

All calculations are based on national averages for loan amounts and insurance coverages. To determine the amount that subprime consumers pay, Bankrate analyzed rates for full coverage auto insurance, home insurance, and total interest accumulated for the following financial products.

- Average credit card balance ($6,730)
- Average 60-month auto loan ($26,468)
- Average 24-month personal loan ($6,200)
- Average 30-year fixed-rate mortgage on a $400,000 home with 20 percent down

The difference in loan and insurance expenditures was calculated by comparing annual interest expenses and insurance premiums for a subprime borrower (620 credit score) versus a prime borrower (700 credit score).

For the calculations, Bankrate aggregated average interest rates based on credit scores from a variety of sources, including Experian, FICO, the Consumer Financial Protection Bureau and Transunion. Average home and full coverage auto insurance rates were based on Bankrate’s internal Quadrant data as of June 2025.

About Bankrate:
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