How important are your credit scores?

They can seem like an arcane, abstract number, but your credit scores dictate your financial life.

By Gerri Detweiler, Credit.com

"How important is your credit score?"

That question was posed to me recently as I stood onstage after delivering a presentation on how to optimize your credit to a group of some 500 women for the annual Women's Money Conference in Las Vegas. I only had a few moments to summarize the importance of credit scores to the audience and tell them that, with a strong credit score, they may save thousands of dollars each year. With more time and preparation, though, this is the answer I would have given:

A good score = money in your pocket

Low credit scores cost consumers money; in some cases hundreds or thousands of dollars.

"A lower credit score can result in a borrower having to pay more than $5,000 for a $20,000, 60-month auto loan," warns Barrett Burns, CEO of VantageScore Solutions. But most people don't realize that. "According to our joint survey in partnership with Consumer Federation of America, nearly 80 percent of respondents were not aware of this important fact." The two organizations have created a credit scoring quiz consumers can use to test their knowledge.

"A good credit score can save a person thousands of dollars over the lifetime of a loan or mortgage by helping them secure a lower interest rate," agrees Antony Sprauve, director of public relations for MyFICO. He points to a calculator on the MyFICO website that provides updated information about average interest rates on various types of loans by credit score.

Using that calculator today, for example, the average monthly payment on a 30-year fixed-rate mortgage of $250,000 is $1,077 for someone with a FICO credit score above 760. For someone with a credit score of 680-699, however, the payment is $1,133. Over 30 years, that difference adds up to more than $20,000!

But the money you can save with good credit is just the beginning.

Catch the drip before it's a flood

If you are monitoring your credit scores and they start to drop, that's valuable information. It can warn you that your finances are starting to head in the wrong direction, and that a little course correction may be in order.
If your credit card balances start to creep closer to the limits, for example, you may not realize there's a problem since your minimum payments don't rise that much each month. But over time, that increase in debt may become quite large. Your credit score will reflect how close you are to your available credit limits on your cards, and may alert you to the fact that you need to investigate ways to reduce that debt.

Or a change in one of your scores can indicate a much bigger problem. If it takes a dive but nothing significant has changed in the way you handle your finances, then it may reveal that you are the victim of a credit report mistake, or worse, identity theft. If you aren't monitoring your scores, you may not know that there's an issue until it has wrecked your credit.

Boost your job prospects

Employers don't obtain credit scores; they only receive credit reports. But the information that goes into calculating a credit score is the information in your credit report, so the two are closely related. Nearly half of employers check credit reports for at least some applicants, so staying on top of the information in your reports can be helpful if you are looking for a new job.

And even if you're not job hunting, knowing your credit is in good shape can make life a little less stressful..

Keep it all in perspective

So, yes, your credit score is important, much like saving for retirement or creating a spending plan. Still, if your credit scores have been damaged as a result of the economic downturn of the past few years, don't beat yourself up. Over time, financial wounds can heal and the scars on your credit will disappear. That's especially true if you are proactive about monitoring your credit and maintaining good credit references to rebuild your credit going forward. You can monitor your credit reports for free from each of the three major credit reporting agencies once each year through **AnnualCreditReport.com**.

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