DISB
Government of the District of Columbia
Department of Insurance, Securities and Banking

CONSUMER ALERT

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A Consumer's Credit Score May Affect Auto and Homeowners Insurance Premiums

Insurance companies may look at your credit history when you apply for new auto or homeowners insurance, or if your current policy is up for renewal. Here is some valuable information that may help you understand how insurance companies use your credit history.

What is an insurance credit score?

A credit score is a snapshot of your credit at one point in time. Insurance companies enter information from your credit history and your insurance application into a credit-scoring computer model to calculate a specific insurance credit score. Each factor chosen for the model is assigned a weighted number. Your insurance credit score ranges from 0-999, with a higher number conveying a better score.

What kind of credit information do insurers use?

Each insurer decides what information to use in its credit-scoring model. Insurance companies may weigh each factor differently. Some of the more common credit factors used by insurers are:

- ***Major negative items*** – bankruptcy, collections, foreclosures and liens;
- ***Past payment history*** – number and frequency of late payments, and days between due date and payment date;
- ***Length of credit history*** – amount of time a consumer has been in the credit system.
- ***Homeownership*** – whether a consumer owns or rents property.
- ***Inquiries for credit*** – number of times a consumer recently has applied for new accounts, including mortgage loans, utility accounts and credit card accounts.
- ***Number of open credit lines*** – number of major credit cards and department store credit cards.
- ***Type of credit in use*** – major credit cards, store credit cards and finance company loans.
- ***Outstanding debt*** – how much a consumer owes compared to how much credit is available.

Some states have laws that limit what credit information insurers may use and how they use that information. For more information, contact the District of Columbia Department of Insurance, Securities and Banking.

How is an insurance credit score used?

If your insurance company relies on credit scoring, it might use your credit score to ***underwrite*** and ***rate*** your policy.

- ***Underwriting*** is the process of deciding whether to issue you a new policy or to renew an existing policy.
- ***Rating*** is the process that determines how much you pay for insurance.

In addition to using credit information, insurance companies will use other, more **traditional rating factors** to determine the premium you pay for your auto or homeowners insurance policy. Some of these **traditional rating factors** include:

- ***Auto Insurance*** – driving record, type of car you own, where you live.
- ***Homeowners Insurance*** – where you live, cost to replace your home, claim history.

Is it legal for insurance companies to use my credit information? Yes. The Fair Credit Reporting Act (FCRA), a federal law, states that insurance companies may look at your credit information without your permission.

Will having no credit history affect my insurance purchase?

It is possible. Depending on your credit history, an insurance company may not find a meaningful credit history. In that case, some companies will charge you more, while other companies will use the previously mentioned "traditional factors." If you are young and have yet to establish a credit history, do not believe in using credit, or recently have become widowed or single and previous credit was in your spouse's name, you may not have credit information. In these cases, your insurance purchase may be affected.

How will I know if my credit history has affected my insurance purchase?

The FCRA requires insurance companies to notify consumers if an adverse action is taken because of their credit information. FCRA defines adverse action to include denying or canceling coverage, increasing premiums, or changing the terms, coverage, or amount of coverage in a way that harms the consumer. If an insurer takes an adverse action due to your credit history, it also must notify you of the name of the national credit bureau that supplied the information.

Examples of an adverse action include:

- Canceling, denying or not renewing coverage;
- Giving the consumer a limited coverage form;
- Limiting benefits, such as eligibility for dividends;
- Issuing coverage other than for what was applied;
- An increase in your premium;
- Adding a premium surcharge.

How can I review my credit report?

Monitoring your credit report is important because many decisions now are based on how your finances are managed. It is a good idea to obtain a copy of your credit report once a year and review it for any errors. Consumers now can receive one free copy of their credit report every 12 months from each of the three national credit bureaus. To receive your free credit report, visit www.annualcreditreport.com. Or contact the three credit bureaus directly:

- **Equifax**: www.credit.equifax.com or 800-685-1111
- **Experian**: www.experian.com or 888-397-3742
- **Trans Union**: www.transuion.com or 800-888-4213

It is important to remember that your credit report is not the same thing as your credit score. To obtain your credit score, you will have to buy it from one of the credit bureaus. However, it may not be the same credit score that the insurer used to make its decision.

How can I improve my credit?

To improve your credit, it is helpful to review your credit report for any false information and outdated items. Create a plan that will improve your credit over time. Ideas to help improve your credit history are:

- Pay bills on time every month
- Pay at least the minimum balance due
- If you can't make a payment, contact the creditor
- Work to reduce the amount you owe, especially on revolving debt such as credit cards
- Limit the number of new credit accounts

Your insurance agent or company should be able to identify for you up to four factors that make an impact on your insurance credit score the most. It may take up to seven years for an accurate, negative report to be removed from your credit report. You must notify each of the credit bureaus of any errors you find on the report. The credit bureaus do not share information. The Federal Trade Commission has excellent information regarding a consumer's rights and use of credit. This information can be found at www.ftc.gov or by calling 877-382-4357.

Important points to remember:

- There is a good chance your current auto or homeowners insurance company, or a prospective insurer, will review your credit history.
- Verify whether your auto or homeowners insurance company uses credit scores, and ask how that information influences your insurance premium.
- Once a year, obtain and review a copy of your credit report from each of the three credit bureaus.
- Report any errors to your insurer and each credit bureau.
- Work toward improving your credit.

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