

Credit Scoring: How Does it Affect You?

If you are shopping for auto or homeowners insurance, or if a current policy is up for renewal, your insurance company may be looking at your credit history. Here are some tips from the National Association of Insurance Commissioners to help you understand how your credit information may be used and how it may affect your insurance premiums.

1. What is Credit Scoring?

A credit score is a snapshot of your credit at one point in time. The credit information from your credit report is put through a mathematical formula (credit scoring model) that assigns weights to the various factors and summarizes your credit information into a three-digit number. Generally, the higher the number, the more financially responsible the consumer.

2. How is Credit Scoring Used?

If your insurance company relies on credit scoring, they may use it in two ways:

- **Underwriting** — Deciding whether to issue you a new policy or to renew your existing policy. (In Kentucky, an insurance company **cannot** use your credit score as the sole basis of non-renewing, canceling or refusing to write insurance coverage.)
- **Rating** — Deciding what price to charge you for your insurance by placing you into a specific rating “tier” or level.

Some insurers use credit information along with other more traditional rating factors, such as motor vehicle records and claims history. Other insurers may use credit alone to determine your rate.

3. What Affects a Credit Score?

There are several factors that determine credit scores. Each factor is assigned a weighted number that, when applied to your specific credit information and added together, equals your final three-digit score. Following is a list of common factors:

- **Major negative items** — Bankruptcy, collections, foreclosures, liens, charge-offs, etc.
- **Past payment history** — Number and frequency of late payments.
- **Length of credit history** — Amount of time you’ve been in the credit system.
- **Homeownership** — Whether you own or rent.
- **Inquiries for credit** — Number of times you’ve recently applied for new accounts, including mortgage loans, utility accounts, credit card accounts, etc.
- **Number of open credit lines** — Number of major credit cards, department store credit cards, etc., that you’ve actually opened.
- **Type of credit in use** — Major credit cards, store credit cards, finance company loans, etc.
- **Outstanding debt** — How much you owe compared to how much credit is available to you.



4. Know Your Credit History

There is a good chance your current or prospective insurance company is looking at your credit. Therefore it is a good idea to review your credit history to make sure it's accurate. According to the Federal Trade Commission, the Fair Credit Reporting Act requires each of the nationwide consumer reporting companies – Equifax, Experian, and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. To request a free copy of your credit report call 877-322-8228 (toll-free) or go online to www.annualcreditreport.com.

The Fair Credit Reporting Act also requires an insurance company to tell you if they have taken an “adverse action” against you, in whole or in part, because of your credit report information. If your company tells you that you have been adversely affected, they must also tell you the name of the national credit bureau that supplied the information so that you can get a free copy of your credit report and correct any errors.

5. Take Charge of Your Credit History

If your insurance company is using your credit score to evaluate your rates, you can take steps to improve your premiums:

- Get a copy of your credit report and correct any errors. Notify your insurance agent and company of any errors.
- Improve your credit history if you've had past credit problems. If your credit score is causing you to pay higher premiums, ask your insurer if they will re-evaluate you when your credit improves.

6. Get More Information

Insurance rates based on credit information can vary from company to company, so if you feel your premiums are too high, shop around. Some states have regulations in place for how — and if — insurance companies may use credit scores. In the state of Kentucky, credit scoring currently is not prohibited as a criteria for underwriting or rating. However, as previously stated, an insurance company cannot decline, refuse to renew, or cancel an automobile insurance policy based only on credit history or lack of credit history.

For more information on credit, contact the Federal Trade Commission at www.ftc.gov. If you have additional questions or concerns about credit scoring in Kentucky, please contact the Kentucky Department of Insurance at 800-595-6053 (in KY) or 502-564-3630 (out of state). The number for the deaf/hard-of-hearing is 800-648-6056. You also may visit the Department of Insurance website at <http://insurance.ky.gov/>.



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