

## **How Does Credit History Affect Car Insurance Rates?**

Many personal car insurance companies consider your credit information when determining how much premium to charge for your insurance. So if you are calling around for new car insurance, keep in mind that many insurers are looking at your credit history to determine your car insurance rates. I hope that we will be able to let you know why and how they do this.

The reason that some insurance companies use credit information is because they feel there is a direct correlation between consumer's credit history behaviors and expected claims that may occur. Therefore, they feel that people with better credit behavior are less likely to severe insurance losses.

Many insurance companies still use your age, driving history, type of vehicle, where you live in determining how much you should pay for your insurance. Therefore, if you have not established a credit history yet, the companies that use credit history may not be best for you. They may not allow you to be eligible for certain discounts, which could result in higher premiums.

The companies that do use credit scoring will still use other factors in determining your premium. They will also use your age, driving history, type of vehicle, where you live in determining how much you should pay for your insurance.

Is it fair for an insurance company even look at my credit information without my permission? The answer is yes. The Federal Fair credit-reporting act says "Reasonable procedures. It is the purpose of this title to require that consumer reporting agencies adopt reasonable procedures for meeting the needs of commerce for consumer credit, personnel, insurance, and other information in a manner which is fair and equitable to the consumer, with regard to the confidentiality, accuracy, relevancy, and proper utilization of such information in accordance with the requirements of this title." This can be found at <http://www.ftc.gov/os/statutes/fcra.htm>

If you feel that your credit history is better then the insurer can find, make sure the insurer has your correct name, address, social security number, and date of birth.

Some insurance companies will look directly at your actual credit reports when determining your rate, however most will use what is called an "insurance credit score." An insurance credit score is developed by using statistical techniques and methods to predict the likelihood a consumer will have a higher than anticipated losses. These are similar to what lenders use to predict the reliability of an applicant repaying a loan.

## **Credit History Factors and Car Insurance Rates**

Insurance companies use many factors in determining your credit score. Here are some examples of those factors:

- Public records: bankruptcy, collections, foreclosures, liens, charge-offs, etc.
- Past payment history: the number and frequency of late payments and the days between the due date and late payment date.
- Length of credit history: the amount of time you have been in the credit system.
- Inquiries for credit: the number of times you have recently applied for new credit, including mortgage loans, utility accounts, and credit card accounts.
- Number of open lines of credit: the number of credit cards, whether you use them or not.
- Type of credit in use: major credit cards, store credit cards, finance company loans, etc.
- Unused credit: how much you owe compared to how much credit is available to you.

Your insurance credit score may differ from company to company, as they will use different factors in determining your premium. Notice that we call it an insurance credit score. This means that it encompasses many factors including credit.

Since each insurance company uses different techniques to determine your credit score it is hard to tell you what a good credit score is. Usually a good credit score will result in lower premiums.

Your agent or company is not obligated to tell you your credit score. In fact, they might not even know what it is. All they usually know is that your credit score qualifies you for a specific rate or policy. Some companies also offer better rates under each qualifying tier.

If you feel that there is incorrect information on your credit report, you should tell the credit bureau. If you report an error, the credit bureau must investigate the error and get back to you within 30 days. You can ask the credit bureau to send a notice of the

correction to any creditor or insurer that has checked your file in the past six months. Once the errors are corrected, it is a good idea to get a new copy of your credit report several months later to make sure the wrong information has not been reported again.

The three national credit bureaus are:

- Trans Union (www.transunion.com or 800-888-4213)
- Equifax (www.credit.equifax.com or 800-685-1111)
- Experian (www.experian.com or 888-397-3742)

Tell your insurance company. Do not wait until the credit bureau investigates the errors to contact your insurer. Tell your insurance company right away and ask if the errors will make a difference in your insurance. If the errors are big, tell your insurer that you are disputing the information and ask if they will wait to use your credit information until the errors are corrected. Small errors may not have much affect on your insurance credit score. If the errors are big, it can make a significant difference in your premium. Some companies are unable to adjust the premiums until the score is corrected, but it does not hurt to ask.

If you have taken the steps to improve your credit, score you should ask your insurance company to re-evaluate your credit score at renewal.

<http://www.hometownquotes.com/how-does-credit-history-affect-car-insurance-rates.html>

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