



## Affordable Choice Insurance

Your Independent Agency that keeps You Covered

### My Credit Affects My Car Insurance Rate?

You probably know that lenders use information in your credit report to determine if they'll give you credit. But did you know that in some states, insurance companies also consider your credit history? Good or bad, your credit history may affect your ability to purchase homeowners or auto insurance coverage and help determine what premium you'll pay.

For example, consider these scenarios:

Two years ago, you were unemployed for six months. Before you could find a new job, you fell behind on several credit card payments. Now your auto insurance rates are going up, even though you've never filed a claim against your policy.

- You've always paid your bills on time, and you've always paid cash instead of applying for credit. Why could this be a problem? Similar to when you apply for a mortgage or credit card, your lack of credit history means you're an unknown quantity – there is no history of monthly credit card payments.

Many people believe that only their driving record is important, but that's simply not the case. The majority of auto insurance companies consider credit to be a very important rating variable.

### What's the score here?

Insurers have always used various criteria to determine who to insure and at what rates. For example, if you're applying for auto insurance, your insurer might consider your age, driving record, make and model of your car, and how many insurance claims you've filed in the past. But within the last decade, insurance companies have also begun using credit information as an additional factor to help predict which persons pose more risk. Insurers believe that the healthier your credit history, the less likely you are to file a claim against your auto or homeowners insurance policy. And the more likely you are to pay your insurance premium payments.

If your credit history (along with other factors considered) suggests that you are likely to be a responsible driver, you may be offered a lower premium. But if your credit history is tarnished--or if you have little or no credit history--you may pay higher premiums for the coverage you're offered. You may even be denied coverage altogether.

### How you can improve the score

If you're denied insurance coverage because of your credit history, the federal Fair Credit Reporting Act allows you to order a free copy of your credit report from the bureau used by the auto insurance company who denied you. If you feel the information provided to the credit bureau is incorrect, you can dispute it.

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If you've been turned down for insurance, this may feel like too little, too late. But if your credit history is affecting your ability to get auto or homeowners insurance (or the premiums you're charged for it), here are a few things you can do:

- Clean up your credit immediately. Pay your bills on time every month, get rid of the high interest credit cards, and don't spend beyond your means.
- If you don't have any credit, get some. Your lack of history is what's hurting you; to the insurance companies, you're an unknown quantity. Although you don't want to run up excessive debt, you do want to show that you can use credit responsibly. Use your credit regularly, and always make your monthly payments in a timely fashion.
- Once a year, get copies of your credit report from all three major credit bureaus. (The information contained in one report may not be reflected by the others.) Make sure the information on them all is correct. Dispute any errors with both the creditors and the credit bureaus involved.
- Consider higher deductibles to save money. For both homeowners and auto insurance, higher deductibles can lower your premium costs. Just make sure you can cover the deductible should you be faced with a claim.

For now, the use of credit reports is an industry standard. Make your credit work for you by watching it closely. In most cases, you may be rewarded with lower premiums if you do so.

Please note that this description/explanation is intended only as a guideline.

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