



# fast facts

## CREDIT SCORES DO NOT REFLECT PERSONAL RESPONSIBILITY

### **A good credit history $\neq$ A good credit score**

“The fact is that credit scoring casts too wide a net and penalizes people engaged in behavior we would all consider good financial management.” \*

**79%** of credit reports contain mistakes of some kind. \*\*

### **Medical bankruptcies destroy credit scores**

“Bankruptcy is the nuclear bomb of the credit world -- worse than delinquencies, loans or collections. ... Bankruptcy can knock 200 points, or more, off the score of someone with otherwise good credit.” \*\*\*

**46%** of bankruptcies are caused by the overwhelming cost of medical bills or illness. \*\*\*\*

**87%** of bankruptcies are caused by being laid off from a job, a major medical problem, or divorce. \*\*\*\*\*

\* “Insurance Credit Scoring: An Unfair Practice,” Center for Economic Justice, January 2005.

\*\* “Mistakes Do Happen: A Look at Errors in Consumer Credit Reports,” U.S. PIRG, June 2004.

\*\*\* “Beef up your credit score in 5 steps” by Liz Pulliam Weston, <http://moneycentral.msn.com/content/Banking/Yourcreditrating/P38052.asp>

\*\*\*\* “Illness and Injury As Contributors to Bankruptcy,” Health Affairs, February 2005.

\*\*\*\*\* Consumer Bankruptcy Project, “The Two Income Trap” (p. 81), 2001



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## CREDIT SCORING IS A MOVING TARGET THAT IS IMPOSSIBLE TO HIT

### Insurers use credit scores inconsistently

“[I]t is entirely possible that two insurers ... could come to divergent underwriting decisions. For example, an insured with a credit score of 650 may be considered a good risk by one insurer but an average risk by another.”

### Credit scores vary widely among the three credit bureaus

**31%** of individual credit files have a range of 50 points or greater between scores. \*\*

**43** points is the average spread between an individual's high and low scores. \*\*

### You simply cannot satisfy the different insurers

Each credit scoring model has a “magic number” for the ideal number of credit cards you should carry. If you have more or less than the arbitrarily chosen number, your credit score will take a beating. \*\*\*

\* “Report to the 79th Legislature: Use of Credit Information by Insurers in Texas,” Texas Department of Insurance, 12/30/04, page 7.

\*\* “Credit Score Accuracy and Implications for Consumers,” Consumer Federation of America and the National Credit Reporting Association, 12/17/02, p. 22.

\*\*\* Independent research on insurance credit scoring models conducted pursuant to Article 21.49-2U, Sec. 10, Texas Insurance Code.



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## CREDIT SCORING HURTS WORKING TEXAS FAMILIES

### **Texans with moderate incomes are disproportionately harmed by credit scoring**

“[M]oderate income level populations tend to be over-represented in the worse than average credit score categories and under-represented in the better than average credit score categories.” \*

### **The backbone of the Texas economy is hurt by credit scoring**

“[T]he data shows that the average credit scores for upper income level[s] are better than those for lower and moderate income level populations.” \*

### **Texas is not alone; other states find credit scoring hurts working families**

An independent study conducted by the Missouri Department of Insurance showed that “insurance-credit scoring systems produces significantly worse scores for residents of low-income ZIP Codes. ... Policyholders in low-income communities were overrepresented in the worst credit score group.”

\* “Report to the 79th Legislature: Use of Credit Information by Insurers in Texas,” Texas Department of Insurance, 12/30/04, at p. 4.

\*\* “Insurance-Based Credit Scores: Impact on Minority and Low Income Populations in Missouri,” Missouri Department of Insurance, 1/04, at p. 1-2.



# fast facts

## **CREDIT SCORING DOES NOT TELL THE WHOLE STORY**

### **TDI found that other factors are more predictive of risk for auto insurance**

“For personal auto liability insurance, the Department concluded that class (which reflects the age, gender and marital status of the driver combined with usage of the vehicle) was consistently a more important rating variable for predicting claim experience.” \*

### **Insurance credit scoring does not predict claim severity for auto insurance**

“[T]he Department found very little or no statistical evidence that credit score was related to the amount of a claim or claim severity.” \*

### **Lawmakers must look beyond predictability when setting public policy**

Using a factor that may be technically “predictive” without considering the public policy implications is extremely dangerous. When setting policy, lawmakers can not rely solely on actuaries and statisticians. They must weigh the public policy ramifications as they attempt to achieve fairness.

\* “Supplemental Report to the 79th Legislature: Use of Credit Information by Insurers in Texas,” Texas Department of Insurance, 1/31/05.



# fast facts

## YOUR PERSONAL CREDIT INFORMATION IS NOT SAFE

### **ChoicePoint recently admitted that con artists gained access to the company's database of personal information**

“ChoicePoint, Inc. said Monday that people in all 50 states ... may have been affected by the breach of the company's credentialing process.” \*

### **ChoicePoint has disclosed personal information to criminals before**

“[T]he vast commercial database of personal information at ChoicePoint was tapped by identity thieves in 2002 -- contradicting a statement by its chief executive that a much more recent breach was the first of its kind.” \*\*

### **ChoicePoint has put thousands of Texans at risk**

“In what may be one of the biggest identity thefts ever, ChoicePoint is notifying almost 145,000 people that their information may have been compromised. Some 11,000 of them are in Texas, more than any other state except California.” \*\*\*

\* “ChoicePoint to rescreen 17,000 business customers,” The Associated Press, 2/22/05.

\*\* “ChoicePoint breach not the first,” The Associated Press, 3/3/05.

\*\*\* “\$17 million seems to be reward for job poorly done,” Houston Chronicle, 3/1/05.