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Does Your Credit Rating Affect Your Insurance Rates?

Many auto and homeowner's insurers look at your credit score as part of their criteria for deciding how much you should pay for coverage. Yet, blemished credit doesn't necessarily translate into higher insurance premium rates. Instead, it is the overall insurance risk score that can cause a rise in your rates.

Insurance risk scores are similar to the credit risk scores used by lenders to determine whether or not to approve a loan or line of credit because both look at your credit information. However, the two are not the same thing. Both insurance scores and credit scores look at the same five characteristics of a person's credit report, although the data are weighted differently:

- Past payment history;
- Amount of credit owed;
- Length of time credit has been established;
- New credit; and
- Types of credit established.



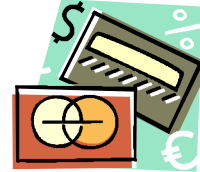
The biggest difference is that insurance risk scores are determined by looking at stability and credit risk scores are determined by looking at a reliable pattern. Insurance risk scores focus more on how regularly you pay than on how much you pay and how much you owe.

The insurance risk score is used by insurers to assist in identifying consumers who are consistent and reliable, as well as those who show a pattern of demonstrating common sense with money. Obviously, it is commonly thought that such people are less likely to file a claim on an insurance policy; thus, they are likely to cost the insurer less money.

Following is the information many insurance companies use to formulate a risk score and how each is weighed:

Past payment history (approximately 35%)

A past payment history is determined by: how you've paid your credit bills in the past; if your bills have been paid on time; items in collection status; the number of adverse public records (bankruptcy, wage attachments, liens); and the number and length of delinquencies or items in collection.



Credit owed (approximately 30%)

Credit owed is how many accounts, what kind of accounts, and how close you are to your credit limits.

Length of time credit has been established (approximately 15%)

Length of time credit established is how long you have had your credit accounts and how long you have had other specific accounts.

New credit (approximately 10%)

New credit is the number and proportion of recently opened accounts versus already established accounts; the number of credit inquiries; and the reestablishment of credit history after payment problems.

Types of credit established (approximately 10%)

Types of credit established is the various types of credit accounts including credit cards, retail store accounts, installment loans and mortgages.

In summary, insurers rely on factors that show long-term stability. So, by demonstrating responsible use of credit and keeping your balances low, you should be able to improve your insurance risk score. A lower insurance risk score could translate into lower insurance premiums if you've been impacted by a negative credit history in the past.