

Credit Scores, or Know How **Lenders and Insurance Companies** See You ...

You're probably a wonderful person! We know you. Your mommy loves you! **But** the bank doesn't care. Neither does the insurance company. You're just a score to them - - a credit score. This number tells banks, insurers and others if you make your payments and pay your bills.

Prior to last year, credit scores were closely guarded secrets. The password to CIA headquarters was easier to get. That changed when a law was passed requiring the release of the scores.

Now, the three reporting companies —
Experian, <http://www.experian.com>,
TransUnion, <http://www.transunion.com>, and
Equifax, <http://www.equifax.com>

--have decided to make it a business. They all work with Fair, Isaac & Co., the company that developed the scoring system. All apparently massage numbers differently, because the scores usually vary. So when you check your score, you need to deal with all three.

Some web sites sell credit reports from **all** three firms. Unfortunately, most web sites only provide a score from one firm. So you **may** have to go to **each credit-reporting firm's site** and order a report and score. The total cost is usually less than \$45. As a consumer, you **need** to know your score, and what is in your credit reports.

For instance, car dealers usually advertise their best rates for people with relatively high credit scores. **A perfect score is 850.** Most car dealers want a minimum score of 750 for their best rates. Have a lower score and you pay more. But your score isn't important only with car leases or loans.

Fair, Isaac shows mortgage rates on its site <http://www.myfico.com>. If you think it is not important ..the difference between a good credit score (720-850) and a bad one (500-559) is **more than 2.5 percentage points** on a loan. This may cost over a \$170.00 extra dollars per month on a \$100,000.00 loan!

And you don't have to be a deadbeat to get a low score. If you have lots of credit cards, that could be viewed as abusive, and being thought of as a "card junkie." Or you could be seeking loans at several lenders and that they in requesting your records indicates that you're applying for credit...

Perhaps the most controversial use of scores is by the insurance industry. You may think that you're judged on your driving record, where you live, how many miles you drive per day and the type of automobile. No tickets plus no accidents equals low rates, right? Don't bet on it! If you pay your bills late or miss a couple loan payments, your rates could skyrocket. Or you might be denied insurance altogether.

Insurers take the attitude that people with bad credit are irresponsible. If you miss payments, you probably run red lights and speed, too. Is this really the case? I don't know, but insurance companies believe it is. All but a few states permit insurers to make these judgments.

In general, insurers get the scoring information from ChoicePoint <http://www.choicetrust.com>. These scores usually differ from credit scores, because insurers focus on different aspects of the credit report. Credit scores are intended to predict whether you will make your payments. Insurers are more interested in stability. So they want to see long records of bill-payments and open accounts.

You can get an insurance report on yourself, starting at \$12.95. Some insurers do their own scoring, rather than using ChoicePoint. But a ChoicePoint report should give you an idea of problem areas. If you have some time, ChoicePoint also has an illuminating section of frequently asked questions on its site. Additionally, Insure.com <http://www.insure.com/auto/whatknow.html> offers a good description of what insurance companies are doing.

There are ways to improve a low score. The Fair, Isaac simulator at the web site: <http://www.myfico.com/myfico/ScoreSimulator.asp> helps you understand how. Plug changes into the simulator ("I'll pay my bills on time, I promise!") and see how they affect the score. Credit scores can change from day-to-day. So small changes can add up fast.