Credit Scoring

What is a “credit score”?

A credit score is a number used by Credit Reporting Agencies. A score is assigned to every person who has a credit file. In other words, you probably have a credit score. Credit scoring is intended to measure your credit risk. The score is calculated based on several factors, including how well you have paid your debts over time, the amounts you owe, how long you have had credit accounts, and the type of credit you have.

Credit scores typically range from a low of about 200 to a high of about 900. The higher the number, the better the score. Presently, a score of about 660 or better is considered good.

Who uses credit scores?

Many lenders – including about 90% of credit card issuers and 75% of mortgage lenders (according to the National Consumer Law Center). Creditors also use credit scores for marketing, collection, adjustment of interest rates, and approval or denial of additional credit. Increasingly, auto and homeowners insurers use scores to determine eligibility and premiums. Even employers are using credit scores in hiring or other decisions.

Can you obtain your own credit score?

While the law does not require the Credit Reporting Agencies to disclose your score, the three major bureaus will make your score available for a fee.

Is your score the same at all three major credit bureaus?

No – there may be a large difference – up to 100 points – among the bureaus. This is because each one might have different information about you. To get a complete picture, check with all three bureaus. The three major bureaus are TransUnion, 1-800-916-8800, Transunion; Equifax, 1-800-685-1111 ; Equifax ; and Experian, 1-888-685-3742, Experian.

How can I improve a low credit score?

You can raise your score, according to creditors and consumer advocates such as the National Consumer Law Center, by:

- Paying debts on time – if you are falling behind, try to negotiate an acceptable repayment plan that won't be reflected on your credit report.
- Keeping balances low on credit cards and revolving loans.
- Limiting the number of new credit accounts you open.
- Checking your credit record regularly, and disputing any inaccurate or old information– see How Can I Correct Errors in My Credit Report?

What is insurance scoring?

An insurance score is a number based on credit information, similar to a credit score. Most auto and homeowners insurers use scores. The score ranges from 1 to 9; here, the lower score is better. Insurers may decide whether or not to insure you, or change your premium, based on your insurance score. The better the score, the lower the premium. Insurance companies believe there is a link between your credit history and your risk of having a claim.

Are there any laws which govern insurance scoring?

Yes, in 2004, Indiana enacted a law which regulates insurance scoring. Some of the highlights of this law include:

- Insurers cannot consider your income, gender, address, race, ethnic group, religion, marital status or nationality.
- Insurers cannot use the score as the only reason to deny or cancel insurance, or to base their premiums.
- You can't be penalized just because you don't own a credit card.
- You can't be considered "high-risk" because you lack a credit history.
- The insurer must re-evaluate the score at least every year if you ask it to; otherwise the insurer must re-evaluate every three years.
- The insurer cannot consider medical debts, marketing inquiries, or recent lender inquiries for home mortgages or auto loans.
- If you dispute your credit report and the credit bureau makes corrections, you have the right to a re-calculation of your insurance score.
- You must be notified of your rights if your score changes for the worse.

What do I do if the insurance company hasn't complied with this law?

You may send a complaint to the Indiana Department of Insurance.

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