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# Nevada Fair Housing Center, Inc.

*paving the way to a world of resources*

## NEVADA FAIR HOUSING CENTER, INC

### TESTIMONY BEFORE THE COMMITTEE ON COMMERCE AND LABOR ON THE NEED TO REGULATE INSURERS' USE OF CREDIT INFORMATION FOR CERTAIN POLICIES

March 5, 2003

Nevada Fair Housing Center, Inc (NFHC) is a private non-profit that provides to the communities we serve, educational, legal, technical assistance and policy research as related to housing and consumer issues. Our client base exceeds fifteen hundred (1,500) just in the area of consumer issues.

NFHC supports AB 194. Outlined below are four reasons that this bill is needed.

It seems like such a simple idea. Good responsible people have good credit. It's so easy to achieve a high credit score so what's the big deal. Proponents of the practice of credit scoring, as a condition of insurance would tell you that there is a correlation between credit score information and the likelihood that someone will incur a loss. This assertion misses the mark. The reality is:

1. No one is willing to say what actually goes into credit scoring used by the insurance industry. Like consumer lending, various models are used. The information is also applied in different ways.
2. The industry is unable to specifically articulate why this is necessary.

Traditional credit scoring is a computer based risk system that analyzes numerous factors to determine the likelihood of repayment. The most well known system is Fair Isaacs. Some lenders even develop their own internal systems. The lending industry has never disclosed the exact components of a credit score.

In Nevada over the last three years, the average credit score has changed by twenty points annually. Today, the average acceptable score is 640. Computer based systems generally issue automatic approvals at this level. In 2001, the average acceptable score was 620. In 2000, it was 600. Currently, there are no prohibitions or guidelines to prevent the increase of the median or average score requirements. It is this moving target that makes the use of credit scores so dangerous in the area of insurance underwriting.

Second, while it is true that insurers benefit from having an underwriting system that protects against risk, the use of credit histories leads to inconsistent results. The cost of

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premiums cannot be contributed directly to driving record or credit scores. The criterion a consumer must meet is thus nebulous and unknowable.

Third, the current practice does not allow for extraordinary personal circumstances, such as illness, divorce, loss of job, etc. In short, circumstances that by definition result in a loss of income also result in an increase in insurance expenses.

Consumers with incorrect entries on their credit history are also adversely impacted by this rule. The average time to correct a consumers' credit history is eight months. This assumes: (1) the consumer has assistance in dealing with the credit bureaus and (2) creditors respond to inquiries regarding erroneous information. While legal protections exist to protect consumers, from inaccurate reporting, enforcement of those rights are time intensive and expensive.

Finally, insurance models are complex and secret. Consumers are not given notice of any specific things that could be changed to improve insurance rates. A prohibition on the uses of credit scoring would make models more transparent to consumers and allow useful information to be provided on how to improve. At a minimum, insurers should be required to inform consumers of any additional amounts assessed due to derogatory credit.

AB 194 is strongly needed. If traditional underwriting criteria is not used to evaluate consumers, many Nevadans will continue to pay higher rates with no opportunity to obtain cheaper coverage.

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## Client Examples

### Client One:

Good driving record. No accidents  
Separated in 2001. One child  
Seventeen tradelines  
Filed bankruptcy in 2002; discharged 12/9/2002  
Vehicle 2000 Toyota (SUV)  
Annual Insurance Payment: \$1,896.00 (before problems in 2001)

### Client Two:

Good driving record  
Single Male  
Trade lines 27; 7 delinquencies of 30 days or more  
Vehicle: 2000 Cadillac Deville  
Annual Insurance Payment: \$894.00

### Client Three:

Good driving record  
Female  
Trade lines 30; 3 delinquencies of 30 days or more. Credit score 686  
Vehicle: 2001 Durango SUV  
Annual Premium: \$1,272

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