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3. More than 90 percent of insurers responding (from the top 100 personal lines companies) indicated that they currently use credit data. The following also were found as a result of that survey:
 - More than 50 percent of these respondents began using it in 1998 or later.
 - Ten percent use it for pricing only; 38 percent for underwriting only, and 52 percent for underwriting and pricing.
 - Forty-six percent use the named insured with the highest score; eight percent use the average score for all listed drivers; and 15 percent use the named insured with the lowest score.
 - Seventy percent order scores for more than 75 percent of new applicants; ten percent order scores for between 50 and 75 percent of new applicants; five percent order scores for between 25 and 50 percent of new applicants; and 15 percent order scores on fewer than 25 percent of applicants.
 - Fourteen percent use credit history on annual renewal; 33 percent during re-underwriting, and 38 percent do not use it at all in the renewal process.

4. Scoring models have evolved through time. Today, they are more complex, hard to duplicate and difficult for consumers and regulators to understand. If not developed properly and maintained, they have the potential to create long-term legal, social and financial problems for insurers.

5. Insurers appear to be focusing their use of credit data and insurance scoring on four strategic goals: (1) more refined risk classifications; (2) customer valuations to drive target marketing; (3) pricing and underwriting proficiency; and (4) increased retention.

To the extent that insurance scoring can predict which insureds are more likely to have a loss, it can minimize subsidies between classes. The objective decision-making embodied in

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the use of insurance scoring makes the evaluation of customers for direct marketing easier and more pointed. The scoring systems have been derived to match actual loss ratio performance to risk characteristics and sort through the data and price more efficiently. The use of these models has allowed companies to compare results for profitable customers and thereby target renewal discounts to retain the more profitable customers.

6. The use of credit data in underwriting and pricing of personal automobile insurance has sparked an intense debate that centers mostly on the following factors relating to statistical correlation between credit data and loss ratio: (1) benefits to consumers, (2) discrimination, and (3) socially acceptable criteria.

There are at least three studies that show a statistically significant relationship between credit data and loss ratio performance. These studies show that this correlation can change in time – but this correlation, however strong, cannot establish a causal relationship. The use of credit data has allowed insurers to establish that some insureds, traditionally classified as “standard,” can qualify as “preferred” when evaluated by these models. Studies have shown that even insureds with prior violations or accidents but having good credit behavior can have better loss ratio performance than insureds who have no accidents or violations but who have poor credit.

The debate about the social acceptability of credit has been the subject of at least five studies. Based on these studies, the author notes that the evidence about the relationship of credit to income is mixed, but not conclusive, and may reflect differences by ethnicity and socioeconomic group.

The authors also looked at various credit parameters, ranging from the less severe (payments more than 60 days delinquent) to the more severe (bankruptcy), for which data were available from secondary sources. Based on these parameters, they found:

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- If a key measure of credit quality is having a debt payment that is 60 days or more past due, then it seems reasonable to conclude that the use of credit characteristics has a disparate impact on lower income households.
- There is a significant variance between the mean and median income of bankruptcy filers (at the time of bankruptcy) compared to the state's mean and median income.

With regard to the accuracy of credit data, Conning looked at various major studies compiled regarding the accuracy. These studies included compilations by *Consumer Reports*, *USA Today*, *U.S. News & World Report*, and the Public Interest Research Group. Each of these studies showed high percentages of errors but none of the studies made any attempt to measure the impact of using the data. Additionally, Conning identified the source of errors, including applicants themselves, store personnel, failure of creditors to report data, and an increase in the incidence of identity theft. While the available data leads to the conclusion that the data itself is not completely accurate, the degree of inaccuracy is difficult to determine due to the differences in definitions used by proponents and critics.

7. To minimize risks associated with the use of credit data, insurers must proactively educate three key stakeholders: consumers, regulators and distributors. Consumers are increasingly concerned about how personal information is being used. They are concerned that inaccurate information may be used to deny them insurance. These concerns are disparate and significant when examined by ethnic group. Conning believes that these facts are an issue with which insurers need to be concerned.
8. The convergence of the financial services sectors, although not advancing as rapidly as initially expected following enactment of the Gramm-Leach-Bliley Act, will present insurers with both opportunities and challenges in connection with their use of credit data and insurance data. Opportunities exist in coordinating multi-line underwriting decisions, cross-selling of other financial products and enhanced retention, response, and referral. Challenges

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will arise in assessing the value of the models to enhance the competitive position of insurers as they get more complex. They will also make it harder for insurers to know their competitive position. The hiring of staff skilled in developing and enhancing these models will become more difficult. Additionally, the perception of these models as "black boxes" will lead to increased pressure to open them to the regulators and consumers, while seeking to maintain the intellectual property and confidentiality in order to sustain a competitive edge.

Review and Discussion of Major Points and Conclusions

The authors reviewed existing literature and discussion about the use of credit scores, and attempted to summarize its findings. They did not conduct original research and therefore it is difficult to critique their individual findings. In our opinion, the authors' findings are reasonable and provide a good overview of the issues.

Summary Review of Paper

The Conning study has the following strengths and weaknesses.

Strengths

- The authors are unbiased observers and have reviewed the arguments offered by each side and attempted to evaluate the validity of the claims.
- The authors appear to have conducted a thorough analysis of the available literature and interviewed insurers and agents about the use of credit.
- The Conning study concludes that the use of credit information has merit because it appears to have a correlation to loss ratio performance and does not appear to overlap other

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variables used by insurers. However, it is unable to eliminate the possibility that scoring models do not have a disparate impact related to income level.

Weaknesses

- Research is all secondary with regard to the technical questions about relationship to loss ratio and potential disparate impacts based on income or ethnic group. The authors are drawing their conclusions based on a review of studies and analyses produced by others. As a result, they cannot evaluate the methods by which the data was compiled.
- The Conning study neither discusses the methods used to develop the models nor gives a thorough presentation of how companies are actually using the models.
- The study does not distinguish between score-based or rule-based models in application. The rule-based model gives a set of conditions that result in either a credit or surcharge for each condition that is present or absent. A score-based model will provide an aggregate score resulting from all of the risk parameters but does not permit the recipient of the score to understand which items were the drivers of the score.
- The study does not discuss the possible differences between univariate and multivariate models.
- The authors do not investigate whether or not the initial segregation of risks in model development such as preferred, standard, or non-standard categories, perhaps produces disparate impact.

Predictiveness of Credit History for Insurance Loss-Ratio Relativities

Fair, Isaac; 1999

Study's Major Points and Conclusions

1. The accuracy of credit data should not be a matter of concern.

If credit data were widely inaccurate, scores also would be inaccurate. The fact that insurance scores are so predictive of insurance loss performance testifies to the overall accuracy of the credit information.

Several studies are referenced that show very low error rates for credit data. In fact there are much lower error rates than motor vehicle reports (MVRs), which are readily accepted and routinely used for auto insurance.

2. The Fair Credit Reporting Act (FCRA) permits the use of consumer credit reports for underwriting insurance. It gives consumers certain protections, including notification requirements, free access to their credit reports, and in the case of an adverse action based on a consumer report, correction procedures.
3. Specific credit variables and model scores are highly effective at predicting insurance loss ratio relativities.

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The Fair, Isaac study gives examples of five specific credit variables and how they are related to personal property and automobile insurance loss ratios. The credit information further separates insurance policies by loss ratio above and beyond the separation that is provided by the other rating variables that are commonly used. The actual model scores also are very effective at predicting loss ratio relativities. Fair, Isaac commissioned Tillinghast-Towers Perrin to validate the relationship. (1996 paper, appended to NAIC white paper.) The general statistical techniques are well known but the exact models are proprietary.

4. Statistical models do not determine causality. Statistical techniques demonstrate statistical relationships, but do not determine causal relationships. But in other fields, such as medicine, the discoveries of statistical relationships have been considered valuable and useful, even without the establishment of causal relationships. One can speculate that those who manage their credit risk well also may manage their insurance risk well.
5. The Fair, Isaac scoring models are not unfairly discriminatory. In compliance with the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA), the Fair, Isaac scoring models avoid the use of many factors, including: income, location, nationality, net worth, race, color, religion, and disability.

A study by the American Insurance Association concluded that using insurance scores does not discriminate against low-income groups, and that insurance scores are not significantly correlated with income.

6. The use of Insurance Bureau scores (scores based on Fair, Isaac models) enables insurers to improve the speed, objectivity, and consistency of their underwriting.

Insurance Bureau scores are used by many insurers in the United States and Canada. Insurance Bureau scores are widely available, so they enable insurers of all sizes to use credit

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information with efficiency, objectivity and consistency. Because they are objective, their use can eliminate subjective human judgment.

Scores can be used for the following multiple purposes:

- Underwriting evaluation for various insurance programs;
 - Sales management (for example, by monitoring the average scores by agent); and
 - Management information (for example, monitoring changes in average scores).
7. Credit scores, unlike Insurance Bureau scores, were developed to predict credit risk and are not appropriate for the purpose of predicting insurance risk.

Review and Discussion of Major Points and Conclusions

1. The accuracy of credit data should not be a matter of concern.

This conclusion is based on studies by Arthur Andersen (for the Associated Credit Bureaus), TransUnion (a credit report company), and a comparison with the accuracy of motor vehicle records (MVRs), which was evaluated in a study by the Insurance Research Council.

There are many ways to evaluate the accuracy of credit data and these studies are just a few. It is unclear in the TransUnion study, for example, how many important credit report inaccuracies might have gone undisputed.

Further, the error rates measured by the credit data studies and the MVR study are not directly comparable. Fair, Isaac states "In view of the error rate of MVRs, the credit report error rate should not be an issue," but this seems to be too strong a conclusion.

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2. FCRA permits the use of consumer credit reports for underwriting insurance, and gives consumers certain protections, including notification requirements, free access to their credit reports, and in the case of an adverse action based on a consumer report, correction procedures. Evaluation of the legal ramifications of the FCRA is outside the scope of this review.
3. Specific credit variables and model scores are effective at predicting insurance loss ratio relativities. The Fair, Issac study provides many results (statistical relationships), showing that both individual credit characteristics and insurance scores are closely related to loss ratios. However, little or no in-depth data analysis is directly included in the paper, and therefore it is not possible to comment on the validity of these results. For example, Fair, Issac's conclusions regarding loss ratios are based on the implicit assumption that all other elements of the rating structure are correct, meaning that all groups of consumers would have identical loss ratios if it were not for their different credit scores. To the extent that there are overcharges and undercharges in the rating plans (due to factors other than credit rating), this could distort the indicated credit score differentials. There is also a potential for distortion due to the fact that not all companies use the same rating plan or have the same overall loss ratio. These possibilities would have been explored more carefully in a more in-depth study.
4. Statistical models do not determine causality. This is an appropriate conclusion. It should not be necessary to demonstrate causality. Actuarial Standard of Practice No. 12 states that causality cannot be required for risk classification systems. It is sometimes impossible or impractical to prove cause-and-effect relationships. Risk classes should be neither obscure nor irrelevant, but they need not exhibit a cause-and-effect relationship.
5. The Fair, Isaac scoring models are not unfairly discriminatory. The Risk Classification Subcommittee accepts Fair, Isaac's statement that its models do not use certain factors

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including income, location, nationality, net worth, race, religion, and disability. There is no way for the subcommittee to verify this statement without reviewing Fair, Isaac's models. However, this statement cannot be generalized to other models that are in use. Also, the paper does not address the question of whether or not any of the credit variables used, or the overall insurance score, might be a surrogate or a proxy for any prohibited factor or factors. Our subcommittee has not reviewed the study by the American Insurance Association that is cited by Fair, Isaac.

6. The use of Insurance Bureau scores (scores based on Fair, Isaac models) enables insurers to improve the speed, objectivity, and consistency of their underwriting. The Insurance Bureau scores most likely enable insurers to improve their underwriting in this way, but no evidence is presented to indicate that insurers use the Insurance Bureau scores in an objective and consistent manner.
7. Credit scores, unlike Insurance Bureau scores, were developed to predict credit risk and are not appropriate for the purpose of predicting insurance risk. Although this was not a major point in the Fair, Isaac study, the distinction between credit (lending) scores and insurance scores is important. The study does not present any information about the relationship between credit scores and insurance scores.

Summary Review of Paper

This study, by a prominent provider of insurance scoring models, is a response to issues that have been raised by insurance regulators and others in regard to the use of credit history for insurance underwriting. It provides a comprehensive review of these issues, but does not provide any in-depth analysis or discussions of the underlying insurance scoring models. It has the following strengths and weaknesses:

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Strengths

- The study provides a good practical description of how and why insurance companies use insurance scores.
- The study discusses issues of concern, such as causality, data accuracy, FCRA, discrimination, and the difference between insurance and credit scores.
- It provides understandable results showing how loss ratios are related to credit variables and insurance scores.

Weaknesses:

- The study provides little description of the underlying data analysis.
- It does not provide any multivariate analysis, to determine if credit history might be essentially replacing another variable.

Use of Credit Reports in Underwriting

Virginia Bureau of Insurance (1999)

Study's Major Points and Conclusions

1. Approximately 50 percent of auto insurers and 60 percent of homeowners insurers responding to the Virginia Bureau of Insurance survey use some form of credit scoring with new business underwriting, representing 36 percent and 49 percent of the respective market shares in Virginia.
2. Of the insurers using credit history, roughly 30 percent may decline new business solely on credit history, and one percent may non-renew solely on credit history.
3. There is a statistical correlation between credit score and policy loss performance.
4. Credit scoring is an ineffective tool for "redlining" because income and race alone are not reliable predictors of credit score.
5. The level of consumer complaints involving the use of credit reports is very low (less than one percent of all complaints). However, the Virginia Bureau of Insurance is concerned that the number of complaints, new business declinations, and non-renewals will increase as more insurers use credit reports.
6. Almost two-thirds of agents (63 percent) responding to a bureau survey were in favor of a law prohibiting insurers from refusing to issue or renew policies due to adverse credit reports.

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7. None of the credit variables used in the Fair, Isaac models appear to be unfairly discriminatory.

Review and Discussion of Major Points and Conclusions

1. Approximately 50 percent of auto insurers and 60 percent of homeowners insurers responding to the Virginia Bureau of Insurance survey use some form of credit scoring with new business underwriting, representing 36 percent and 49 percent of the respective market shares in Virginia. This conclusion was based on a survey of the following:

- A) Top 100 Virginia market share auto insurers (89 percent of the market responded).
- B) Top 100 Virginia market share homeowners insurers (82 percent of the market responded).

The conclusion is probably a reasonable estimate of what the market is doing. However, there may be a bias in responding. For example, companies using credit scoring as a potentially sole criterion for the acceptance or rejection of a potential policyholder may have tended to decline to respond. Also, since the actual survey is not part of the published paper, it is not possible to assess how to fully assess the responses. Also, it is difficult to project the findings forward in time to 2002, because companies have had more opportunity to respond to the marketplace and to decide how best to use credit history.

2. Of the insurers using credit history, roughly 30 percent may decline new business solely on credit history, and one percent may non-renew solely on credit history. (See comments regarding item 1)

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3. There is a statistical correlation between credit score and policy loss performance. This conclusion was based on company filings in which there was a proposal to use credit score as a factor in rating. The study includes no actual data, so it is not possible to comment on the quality of the supporting evidence. The fact that there were at least 50 survey respondents using credit history, who apparently submitted filings with appropriate support for the use of credit history, indicates that there is a correlation. The inclusion of some summarization of data seen by the bureau of insurance would have strengthened this study.
4. Credit scoring is an ineffective tool for "redlining" because income and race alone are not reliable predictors of credit score. This conclusion is based on the following:
 - A) TransUnion data apparently consisted of credit scores aggregated by Virginia ZIP codes and;
 - B) 1989 Census data by ZIP code apparently included average household income and racial mix.

The data is reviewed on an aggregate basis, by ZIP codes, and there is no attempt to match the credit scores of individual consumers with their income and race. As with item 3 the paper does not include any of the supporting data, so it is not possible to comment directly on the conclusion. The level of consumer complaints involving the use of credit reports is very low (less than one percent of all complaints). However, the Virginia Bureau of Insurance is concerned that the number of complaints, new business declinations, and non-renewals will increase as more insurers use credit reports. This conclusion is based on telephone and written complaints received by the Bureau's Property and Casualty Consumer Services Section during a five-month period, March to August of 1999.

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The implication is that the insurance buying public does not perceive a problem. Less than one percent of complaints seems low, but as the bureau indicates in the study, there is insufficient information to conclude whether or not this level will be maintained.

Furthermore, even if the level of complaint increases significantly, it will be difficult to assess what it means because using credit reports will, by design, adversely affect a significant number of consumers.

5. Nearly two-thirds of agents (63 percent) responding to a bureau survey were in favor of a law prohibiting insurers from refusing to issue or renew policies due to adverse credit reports.

This conclusion is based on a survey of 1,129 agents.

It is not clear that the 63 percent is representative of agents in total. Because of this there may be a greater tendency for the strongly opinioned to respond to the survey. For example, since it is not stated in the paper exactly how the survey was conducted, it is not known to what degree there was follow-up with the non-responding agents.

6. None of the credit variables used in the Fair, Isaac models appears to be unfairly discriminatory. The basis for this conclusion is not clear. There was at least one interview with representatives of Fair, Isaac, and the study seems to contain the suggestion that the Bureau was allowed to see the actual list of credit variables used by Fair, Isaac.

It is not possible to verify this conclusion, because its basis is unclear. Further, the conclusion appears to apply only to Fair, Isaac models and there is no information regarding the variables used in other insurance scoring models.

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Summary Review of Study

The Virginia Bureau of Insurance (1999) draws some significant conclusions about the use of credit history in the underwriting of auto and homeowners insurance in Virginia. These conclusions are based upon data from rate filings and TransUnion, and several surveys implying reliability and thoroughness.

Because the paper includes only a limited amount of the data, however, it is difficult for readers to assess the validity of the conclusions. The inclusion of some summarized data displaying the correlation between credit score and loss performance, and data supporting the ZIP code analysis, would have strengthened the study.

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Recommendations Regarding a Study by the NAIC

Causality

The NAIC asked that the subcommittee provide advice for how the NAIC could conduct a study to determine causality between credit history and risk of loss. The Risk Classification Subcommittee does not recommend that the NAIC conduct a study to determine if there is a *causal* relationship between credit history and future insurance claims experience, because in our opinion it would not be possible to prove a *causal* relationship. The NAIC could conduct a study to evaluate the strength of any *statistical* relationships between credit history and insurance claims experience. In the subcommittee's opinion, any finding of *causality* in any context or field of study is a statement of a *theory* or *conjecture* based on the observation that there is a strong statistical relationship between the "cause" and the "effect."

If the NAIC chooses to develop opinions about the relationships that may exist between credit histories and driving record, we recommend that the NAIC consider that both credit history and insurance claims experience may be manifestations of one or more other personal characteristics. For example, the frequency of a person becoming momentarily inattentive might be highly correlated with both credit history and with driving record. Alternatively, perhaps one or more characteristics, such as aggressiveness, the willingness to take risks, or the ability to make quick judgments, are correlated with both credit history and with driving record. As far as we know, no one has identified which relevant personal characteristics might be correlated with both credit history and driving record, but it is not necessary to identify those characteristics to measure their impact. In our opinion, these personal characteristics would be difficult to identify and to directly measure otherwise, insurance companies likely would be using them in their risk classification systems.

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An effective risk classification system is one that effectively differentiates between groups of policyholders who will have different levels of loss experience in the future. Each criterion in the risk classification system should contribute to the ability to differentiate among different levels of future loss experience. The contribution of each criterion can be measured statistically. Although the NAIC did not ask the subcommittee to review the validity of using credit history as a rating tool for personal lines of insurance, the subcommittee's opinion is that credit history can be used to effectively differentiate between groups of policyholders. This opinion is based on review of the Monaghan paper and on our general knowledge of rate filings that have been submitted in many states.

Causality is not a requirement for any element in a risk classification system. For example, drivers with past accidents and driving violations have been shown to have higher rates of accidents in the future, and therefore driving record is a useful and commonly accepted element of risk classification systems for automobile insurance. However, histories of past accidents and violations do not *cause* driver to have more accidents. The rating practice that does exist is based on the fact that, as a group, drivers who have been accident-prone in the past are likely to be accident-prone in the future.

Impact of Credit-Related Insurance Rating for Policyholders without a Credit History

In regard to the protected classes as defined by the NAIC (race, religion, and ethnicity), the subcommittee understands that the NAIC may have concern that certain groups traditionally avoid the use of credit, and that credit-related insurance rating and underwriting practices might therefore tend to cause affordability and availability problems for these groups because of the lack of credit history. To the extent that the NAIC has this concern, we recommend that the NAIC conduct a survey of insurance companies to determine how insurance rates and underwriting decisions are affected by a lack of credit history. Although some rating plans may

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adversely affect a consumer who does not have credit history, there are a number of rating plans that treat such consumers as "average" or "preferred" for eligibility and rating.

Absence of Conclusions regarding Disproportionate Impact of Insurance Rating based upon Credit-Related Factors

None of the four papers that the subcommittee reviewed contained the necessary information for us to evaluate whether credit-related insurance scoring results in a disproportionate impact for protected classes or for low-income policyholders. The Monaghan paper provides the most detailed analysis of the use of credit history, but the Monaghan paper is based on insurance data and insurance databases do not include information about race, religion, ethnicity, or income.

Only the Virginia study attempted any treatment of this subject. The results of that study included an indication that income and race are not reliable predictors of credit scores, but that study relied on aggregate data by ZIP codes rather than a rigorous analysis that matches the credit history and demographics of individuals.

Designing a Study to Evaluate Whether the Use of Credit History Disproportionately Affects Protected Classes or Low-income Groups

The Risk Classification Subcommittee looks forward to providing assistance and commentary should the NAIC decide to undertake a study. The subcommittee role, however, will be limited to providing advice and guidance. The subcommittee would not undertake development of the actual study specifications, and it would not perform the analysis of the data.

The subcommittee considers this report to be the first step in providing such assistance, and provides this report with the understanding that there will be opportunities to provide additional assistance and commentary as the NAIC develops its plans.

Defining Study Objectives

We recommend that the NAIC define its objectives for any study that it intends to undertake, so that any

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potential study can be designed to meet its objectives as efficiently and effectively as possible. This includes, among other things, the following:

- Defining what is meant by "disproportionate impact";
- Defining the magnitude that any disproportionate impact would need to reach in order to merit regulatory concern, if any;
- Deciding what further information, if any, would be needed if it is determined that there is a disproportionate impact; and
- Deciding how the protected classes and low-income consumers would be subdivided for analytical purposes.

Following is some discussion of each of these points:

We interpret "disproportionate impact" to mean that a rating tool results in higher or lower rates, on average, for a protected class, controlling for other distributional differences. We would expect that many rating tools would have disproportionate impact, because protected classes (and all other classes) are likely to have different demographics than the general population. For example, if any protected class has a younger average age than the general population, the use of age as a rating variable would have a disproportionate impact on that class (resulting in higher rates, on average). As another example, to the extent that lower-income families are less likely to own expensive cars, charging lower premiums for less expensive cars will have a disproportionate impact on low-income drivers (resulting in lower premiums, on average.)

Disproportionate impact is different from *disparate* impact. Disparate impact is a concept that has been widely discussed in the context of federal civil rights legislation. This is outside of our area of expertise, but we understand, for example, that a hiring practice is said to result in disparate impact if it results in substantial disproportionate impact and there is not a business necessity for the practice. Thus, disparate impact is determined using a two-step process, and the determination of disproportionate impact against members of a protected class is only the first step of that two-step process.

While designing a regulatory study, a primary consideration should be the potential usefulness of its results. This requires that there be some determination, prior to the study, of the magnitude of disproportionate impact that would trigger regulatory concern. The decision regarding the magnitude would then influence the size of the population that would need to be sampled in order to generate statistically significant findings.

In designing a regulatory study, it will be important to decide what further information, if any, would be needed if it is determined that there is a disproportionate impact of a magnitude sufficient to trigger regulatory concern. For example, a study that only estimates *disproportionate* impact will not necessarily tell whether there is *disparate* impact and it likely will not provide sufficient information for regulators to determine whether the disproportionate impact is in line with a disproportionate level of insurance losses for

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the affected protected class. If the NAIC found a material disproportionate impact on a given protected class, and wanted to find out if that disproportionate impact was consistent with insurance loss experience for that class, then the study would need to include the collection of insurance experience in addition to the credit and demographic information. When designing a regulatory study, it will be important to decide what categories of protected classes and low-income groups will be examined for disproportionate impact. The NAIC should identify which racial categories it will evaluate. The 2000 Census form identified the following five races:

- White;
- Black;
- American Indian or Alaska Native;
- Asian; and
- Pacific Islander;

(The Census form also permitted the write-in of other races.)

The NAIC should identify which religions it will evaluate. Depending on how religious groups are defined, there could be many hundreds of different religions. For example, each "major" religion consists of many sects or denominations. The NAIC will need to define exactly which groups are important to the study. The NAIC should identify which ethnic backgrounds it will evaluate. Depending on how ethnicity is defined, there could be dozens or hundreds of ethnicities. The NAIC will need to define exactly which ethnic groups are important to the study.

The NAIC should define the low-income group(s) that it will evaluate. For example, the NAIC might decide to use the "poverty thresholds" used by the U.S. Census Bureau, which are defined based on the number of people in the family unit and the number of related children under the age of 18. Alternatively, the NAIC might decide to use a simpler measure, such as total family income regardless of family size and number of children.

Other Considerations

Depending on the objectives and design of the study, the NAIC may need to conduct the study for a *very substantial* population. Consider an example. Suppose that a protected class constitutes ten percent of an entire population. It follows that an unbiased sample of 5,000 would be expected to have about 500 members of the protected class. Depending on the standards of materiality and the degree of confidence selected, this might be an adequate sampling to determine whether or not an insurance rating system has a disproportionate impact on the protected class. But a sampling of the same size would be woefully inadequate to determine whether the degree of disproportionate impact was in line with loss experience, even if several years of insurance experience were available.

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The data for this study would need to meet several standards, one that is objective and one that is subjective. Clearly, there would need to be a sufficiently large body of data so that indications of *material* disproportionate impact would be statistically reliable. If a disproportionate impact of five percent was considered to be material, then a larger body of data would be necessary to identify that difference than if a materiality standard of 25 percent was selected. The more difficult standard with which to comply, because it would be somewhat subjective would be keeping data unbiased. With a perfectly unbiased sample, statistical variation would be the only reason to expect that the results obtained from a sample population would be different from that of the entire population. Unfortunately, it may be very difficult and expensive to obtain data that will be sufficiently unbiased to satisfy decision-makers.

At this time, the Risk Classification Subcommittee is unaware of any proprietary or open public databases that contain the necessary protected class data to ascertain the existence of disproportionate impact. Unless suitable databases can be found and utilized, an NAIC study to estimate disproportionate impact would need to develop its own data.

Depending on the objectives of the study, and the availability of proprietary or open public databases, the NAIC may decide to conduct a study based on aggregated consumer data rather than on data that is at the level of individual consumers. In this case, we would recommend that the NAIC consider reviewing consumer data at the level of "ZIP + 4" rather than by ZIP code. The ZIP + 4 level of detail is more refined than the ZIP code level of detail, and therefore is likely to be more homogeneous in terms of its population.

In addition to costs, the major hurdle would be to obtain the necessary credit and protected class information in a way that the study will not draw erroneous conclusions based on a biased sampling. Any procedure that relies upon individual consumers to reveal or release credit or protected class information is likely to encounter a lack of cooperation. The question that would then arise is whether or not the conclusions drawn from data on those consumers who did cooperate could be extended to the entire population.

Recommended Best Practices for Reviewing Rating Plans Based on Credit History

The subcommittee recommends that regulators should review rating plans that use elements of credit history using the same basic standards that apply for the review of any other rating factor or rating plan. The differences that regulators are likely to encounter are that:

- It appears more likely that insurance companies will request “trade secret” status for their models. The subcommittee recommends that such requests should be treated in accordance with the regulator’s standard procedures for dealing with requests for confidentiality for rate filings.
- The justification underlying the initial filing of an insurance rating plan using multiple elements of credit history is likely to be more complex than most rate filings that regulators will receive.

Consistent with practices with other newly filed rating plans, the regulator should expect a complete description of the rating model and how the model was developed, and justification for the selected criteria used in the model and for the rating factors that result from the model. If this is not provided with the original filing of the model, then the regulator wishing to analyze the model should ask for the explanations. As with other rate filings, small companies may sometimes submit filings based on rating plans of competitors, justifying their plan to use credit history by citing the plans used by one or more larger insurance companies. Regulators should treat such filings in accordance with their customary procedures for dealing with filings from small insurers with limited data.

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There are three main areas of additional concern when reviewing a rate filing containing a credit scoring model that regulators may wish to consider. The first concern is the potential complexity of the model itself and the relationships between the factors used in the model and the other factors used in the pricing process. The second concern is the insurer's use of the model results and whether the proposed model rating values are reasonably related to loss experience. The third concern is how the introduction of a credit scoring model or proposed changes to the model values affect the values of the other rating factors.

The first concern is the complexity of the model and the relationships between the various factors used in the pricing process. A filing of a rating model using credit history should contain the model or any changes to the previously filed model. While the actual model formulae vary widely by insurer and may be relatively simple or quite complex, a common feature of rating models using credit history is that they base their results on a number of different factors included in a risk's credit history. The use of multiple model factors necessitates not only a review of the individual factors and their influence on the model's results but also a review of the factors in combination. The reason for this is that some of the factors contained in these models may be interrelated.

An analysis of a single model factor will show whether that factor has relevance and will provide a weight to the factor. A model that uses the weights from individual factor analyses could yield too much influence on the premium structure, if the factors are interrelated. The weight given a factor is dependent on the relationship of this factor to the other factors in the model. The insurer should provide sufficient documentation as to the methods used to adjust the model when there are interrelationships among model factors.

The second concern is the reasonableness of the rating values associated with the credit scoring formula and the range of model results associated with each rating value. The proposed rating

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values should match or not exceed the indications from loss experience, with reasonable allowances for smoothing of results. The insurer should also provide sufficient loss experience to determine the reasonableness of the model ranges associated with each rating value and the relationship between the rating values and loss experience.

The third concern relates to the possible correlation of rating models using credit history with other rating factors used by the insurer. Such correlations could exist with any rating factor. For example, there is an indicated correlation with age, as credit tends to improve with age. As a result, some insurers only apply credit based models to persons over a specific age or adjust the model weight depending on age. These are only two of the possible solutions for handling correlation between different rating variables. There is also the possibility that these models may have differing effects upon policyholders in different rating territories. It may be useful to obtain the average impact of the proposed model on individual driver classifications and by territory. The regulator may wish to request statistical information on the correlations between the credit based model and the insurer's other rating variables, and how all the variables have been adjusted to handle correlations between rating variables, whether credit based or not. When a rating model using credit history is implemented, it should be done in such a fashion that each current rating classification has been considered in relation to the model.

In summary, the Risk Classification Subcommittee does not believe that models using credit history require the application of different regulatory standards than other rating plans using other traditional policyholder characteristics. The main differences in the treatment of such filings will probably arise from the necessity to examine interrelationships among so many rating variables and the complications that these analyses will entail.

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Risk Classification Subcommittee

The Risk Classification Subcommittee of the American Academy of Actuaries was re-established in May 2002 for the purpose of assisting the NAIC's Credit Scoring Working Group.

The subcommittee consists of the following volunteers and staff:

Chairman: Walter Wright, MMC Enterprise Risk Consulting, Inc.

Members: Leo Bakel, State Farm Insurance Companies
James Monaghan, MetLife Auto and Home
Chet Szczepanski, Pennsylvania Insurance Department
Rae Taylor, Oregon Insurance Division
Alan Wickman, Nebraska Department of Insurance
Pat Woods, Insurance Services Office, Inc.

Affiliate Member:

George Dieter, Travelers Insurance Company

American Academy of Actuaries Staff:

Greg Vass, Senior Casualty Policy Analyst

The subcommittee appreciates the opportunity to provide assistance to the Credit Scoring Working Group.

Use of Credit Reports and Credit Scoring By the Insurance Industry (March 2003)

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
Alabama	In early August 2002, the Department of Insurance issued a consumer alert entitled "Credit Scoring: How Does It Affect You?" The alert, which can be accessed at www.aldoi.org/currentrelease.asp?Headline=282 , suggested the department would promulgate a regulation in this area in 2002, but no action has been taken.	The Alabama Department of Insurance has developed a comprehensive draft regulation that will be vetted and considered during a public hearing in May 2003.
Alaska	Several bills were proposed during the 2002 legislative session, including two which would have prevented an insurer or underwriter from "bas[ing] a standard, rate, or rating plan, in whole or in part, directly or indirectly, upon a person's credit rating or credit scoring." While several hearings were held on these and related proposals, nothing was adopted in 2002. The legislature is likely to again consider the issue in 2003, and the Alaska Division of Insurance is expected to conduct an investigation in the interim.	The Alaska Insurance Division issued a report entitled "Insurance Credit Scoring in Alaska" in February 2003, and legislation will be considered this year. The department report can be accessed at: www.dced.state.ak.us/insurance/pub/FINAL_credit_score_report.pdf . Two legislative proposals to ban the use of credit information by the insurance industry are expected to receive a committee hearing before the end of March.
Arizona	In 2002, HB 2386 was adopted by the House and Senate and signed into law on May 22, 2002. The new law, which is now effective, does the following: <ul style="list-style-type: none"> • Defines "adverse underwriting decision" and requires the written disclosure of certain information when such an action is taken. Among other provisions, the disclosure must include the specific reasons for the adverse underwriting decision. • Establishes rules concerning the correction or deletion of certain kinds of "personal information." • Grants consumers the right to request that an insurer reconsider an underwriting decision in certain instances. 	
Arkansas	Among other provisions, Arkansas Code Ann. §23-66-317 provides that: <ul style="list-style-type: none"> • No insurer shall refuse to issue or renew coverage or limit the amount of coverage on a risk based solely upon the insurer's knowledge of the insured's or applicant's consumer report (as defined), unless: <ol style="list-style-type: none"> (1) the report can be shown to identify characteristics that substantially increase the risk of loss at or after policy issuance or renewal; and (2) the insurer or its agent sends a notice of cancellation, refusal to renew, or declination to the insured or applicant which contains a statement which advises that the cancellation, non-renewal, or declination is based on information contained in a consumer report. • If the insurer relies solely upon a credit scoring system or model in reaching its underwriting decision, the insurer must: <ol style="list-style-type: none"> (1) file the credit scoring system with the commissioner; and (2) provide the applicant or insured with a clear, concise explanation of the factors taken into consideration in reaching its decision. • If used for rating, the guidelines on the use of consumer reports or consumer report scoring system or model must be filed with the commissioner. • No insurer may condition the issuance of an insurance policy upon the fact that an applicant or insured does not possess a credit card. 	On March 24, the Arkansas Senate adopted Senate Bill 846, which is nearly identical to the NCOIL model law. The bill was adopted in the Senate without a single dissenting vote.
California	California has no express prohibition against an insurer using credit information. However, Proposition 103 (enacted in 1988) does not authorize the use of credit information as an "optional" auto rating factor. Prop 103 requires that auto insurance rates must be determined by the following factors in decreasing order of importance: (1) The insured's driving safety record; (2) The number of miles driven annually; and (3) The number of years of driving experience. In addition to these three factors, Prop 103 also authorizes the Commissioner, by regulation, to adopt optional factors that have a substantial relationship to the risk of loss. The Commissioner has not adopted credit information as an optional rating factor. Thus, this information cannot be used in determining auto insurance rates.	

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State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>This aspect of Prop 103 only applies to auto insurance, and since there is no express prohibition on the use of credit information, it can be used in other lines such as homeowners insurance. However, the California Department has taken an increasingly hostile attitude to the use of credit information, and some companies have reported the Department has rejected rate filings in part because of how credit information was used.</p>	
Colorado	<p>Pursuant to C.R.S. 12-14.3-103(c)(III) and Division of Insurance Bulletin 11-00, insurers using credit scores or credit reports in the underwriting or rating process are to disclose this fact. Specifically, the consumer must receive written notification, or notification in the same medium as the application for insurance, that a credit report may be requested in connection with his/her application for insurance, and that credit scoring information may be used to determine either the consumer's eligibility for insurance or the premium to be charged.</p> <p>Regulation 5-1-16 became effective July 1, 2002. A copy of the new regulation can be accessed at http://www.dora.state.co.us/insurance/reas/5-1-16.pdf. Among other provisions, the regulation:</p> <ul style="list-style-type: none"> • Prohibits the use of credit history or insurance scoring as the sole basis for refusing to insure applicants, canceling or non-renewing existing insureds, rating policies, placing consumers in tiers, or reducing coverage. • Requires insurers to establish and comply with objective and verifiable guidelines. • Prohibits an insurer from treating credit inquiries not initiated by the consumer and collections accounts that are identified with a medical industry code as negative factors. • Requires that consumers over 65 with no credit history and consumers whose credit information is adversely impacted by a dissolution of marriage or by the credit information of a former spouse be treated as though they had a neutral credit history or insurance score. • Requires an insurer to use a consumer's current credit information whenever credit information is used in the underwriting or rating process. • Requires insurers to disclose certain information about its use of credit information upon the request of the insurance department. • Mandates the disclosure of certain information to consumers concerning the use of consumer reports or insurance scores. • Reaffirms the FCRA obligations that insurers face. • Provides for a policyholder appeal and error correction process. 	<p>House Bill 1273 has been adopted unanimously by both chambers of the Colorado General Assembly. The bill requires insurers to disclose to applicants or policyholders that credit information will be used for underwriting or rating and allows consumers to receive an explanation of the "significant characteristics of the credit information that impact the policyholder's insurance score."</p>
Connecticut	<p>The rules in place in Connecticut come in the form of guidelines issued by the Insurance Department – Guidelines for the Examination of Financial History Measurement Programs for Personal Risk Insurance Underwriting and Rating Plans (March 2, 2001). According to the state, the guidelines are supported by authority granted under Chapters 701 & 705. Among other provisions, the guidelines require the following:</p> <ol style="list-style-type: none"> (1) Such programs that are used to underwrite or rate risks must be filed with the Department. Among other things, the filing must identify the characteristics used in the program from which a measurement is derived. (2) Such programs may be used only for new business and must not penalize an insured for no credit history. (3) Documentation must be submitted to demonstrate the correlation between the measurement program and the expected risk of loss. (4) Financial History Measurement Programs may not use the following characteristics – number of credit inquiries, a consumer's total available line of credit, disputed credit information, and other characteristics. (5) Company rules must provide that a policy may not be declined, canceled, or non-renewed solely due to an adverse credit score or measurement. (6) There are a series of requirements that are initiated in the event of an adverse action. An adverse action includes the consumer who is denied coverage, charged a higher rate, assigned to a higher tier or higher priced company within an insurer group, not given a reduced discount, etc. (7) Companies are required to report after a program has been in place for two years, and they must also comply with department requests for a set of test examples reflecting various financial history characteristics. 	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>The guidelines can be downloaded at http://www.state.ct.us/cid/letterfl.pdf.</p>	
Delaware	<p>Both chambers of the Delaware General Assembly adopted resolutions that address the industry's use of credit information during the 2002 legislative session. The resolutions, House Resolution 85 and Senate Concurrent Resolution 35, were passed by their respective chambers just prior to the legislature's adjournment – and the two resolutions are very similar. They both call on the Department of Insurance to promptly promulgate regulations in this area, and the Senate version asks the department to report its recommendations to the General Assembly by January 15, 2003. The resolutions also note that the Delaware Insurance Commissioner has required that insurers and credit score vendors using credit scoring models meet with the members of the Commissioner's office to fully explain the manner in which such models are being used in either or both the underwriting or rating of insurance policies."</p>	<p>In late 2002, the Delaware Insurance Department released its draft of Proposed Regulation 87, which would regulate insurer use of credit information. The department conducted a series of public hearings across the state in January and received numerous comments on the proposal, but nothing has been finalized to date. Another public hearing has been scheduled for April 22, 2003. More information about the proposed regulation can be accessed at www.state.de.us/inscom/CreditScore.htm.</p>
Florida	<p>Florida's insurance code has a number of general consumer protection provisions that provided the Florida Department with the authority to promulgate a regulation in this area.</p> <p>The regulation (4-125.004, 1996) provides that any insurer that requests or utilizes credit reports in the review of personal lines auto or homeowners insurance applications shall maintain and adhere to written procedures established by the insurer. These procedures must specify the following, among other items:</p> <ul style="list-style-type: none"> (1) the circumstances under which credit reports will or may be requested and the reports will or may be used in underwriting decisions; (2) that the insurer shall notify the applicant in writing prior to such request that a credit report will or may be requested (if the notification is given on the application, it must be initialed by the applicant); and (3) that any applicant affected by an adverse underwriting decision shall be advised of the means by which the applicant can obtain a copy of the credit report. <p>Any insurer that requests or utilizes credit reports in the consideration of personal lines auto or homeowners applications must maintain evidence of its compliance with these written procedures, and this evidence must be available for examination by the Dept. When an insurer under this rule denies an application based on info from a credit report, the insurer must indicate the means by which an applicant may obtain a copy of their credit report and by which the applicant may identify the specific items in the report which resulted in the denial.</p>	<p>Florida Insurance Commissioner Tom Gallagher established a task force in 2001 to examine the use of credit data and scoring models in the insurance industry. This task force has issued a detailed report, which can be accessed at: www.doi.state.fl.us/consumers/crtf/CRTF_Final_Report.pdf.</p>
Georgia	<p>The issue is addressed by Regulation 120-2-65 (1997), which can be accessed online at www.ganet.org/rules/index.cgi?base=120/2/65. The use of credit is prohibited under the regulations for private passenger auto insurance. However, the regulations contain an exception to the general prohibition which allows use of credit in underwriting if the use of credit is actuarially supported or relevant to the risk.</p> <p>There is no explicit requirement that insurers receive the department's approval prior to implementing underwriting guidelines which contain provisions for credit histories. However, a company using such guidelines without specific approval could be subject to penalties if the department determines that the use of credit is not actuarially supported or relevant to the risk.</p> <p>During 2002, Commissioner Oxendine announced he would support legislation to prohibit the use of credit scoring in auto insurance underwriting – see www.inscomm.state.ga.us/ANNOUNCEMENTS/020802.pdf. The commissioner's announcement followed two days of hearings in late 2001. Hearing transcripts and other information can be found at www.inscomm.state.ga.us/CONSUMER/CreditScoringHearings.asp.</p>	<p>On March 24, the Georgia House of Representatives adopted House Bill 215, which is effectively the NCOIL model with several minor revisions. The bill, which would go into effect July 1, passed the House with only four opposition votes.</p>
Hawaii	<p>State law essentially prohibits the use of credit information in the underwriting of auto insurance. Specifically, §431:10C-207 provides: "No insurer shall base any standard or rating plan, in whole or in part, directly or indirectly, upon a person's race, creed, ethnic extraction, age, sex, length of driving experience, credit bureau rating, marital status, or physical handicap."</p> <p>As described in the April 3, 2002 edition of the <i>Honolulu Advertiser</i>, seven auto insurers recently agreed to pay more than \$115,000 in fines for illegally using criteria (including credit histories) barred under state law. The announcement followed a department investigation that began in August 2001. The companies fined represent nearly 2/3 of the auto market, and the fines ranged from \$5500 to \$40,000. Fines against four</p>	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
Idaho	<p>additional companies are still pending resolution, and the department has suggested that it might seek fines for each policy violation if insurers dispute the initial fines.</p> <p>Senate Bill 1408 (2002) was adopted overwhelmingly by the Idaho Legislature and took effect on January 1, 2003. The new law adds the following section to Idaho code.</p> <p>41-1843 INSURANCE RATES AND CREDIT RATING.</p> <p>(1) No insurer regulated pursuant to this title shall charge a higher premium than would otherwise be charged, or cancel, nonrenew or decline to issue a property or casualty policy or coverage based primarily upon an individual's credit rating or credit history.</p> <p>(2) As used in this section, "based primarily" means that the weight given by the insurer to an individual's credit rating or credit history exceeds the weight given by the insurer to all other criteria considered in making the decision to charge a higher premium or to cancel, nonrenew or decline to issue an insurance policy.</p> <p>(3) This section shall apply only to [P&C] insurance, as defined in chapter 5, title 41, Idaho Code, to be used primarily for personal, family or household purposes.</p> <p>The use of the phrase "based primarily" has been a source of controversy and concern, and many in the industry feel the term is subjective and likely to result in unnecessary litigation. The department of insurance has initiated its rulemaking process and is working on developing its rules on implementation of the new law.</p>	
Illinois	<p>Illinois passed a law during the 2001 session – PA 92-480 (HB 2419). Under the law, a company may not refuse to issue or renew a policy of insurance solely on the basis of a credit report for the lines of insurance covered. In addition, if a credit report is used in conjunction with other criteria to refuse to issue or renew a policy of insurance, the insurer shall provide the applicant or policyholder with a notice of the underwriting action taken. For purposes of that provision, compliance with the notification requirements of the FCRA shall constitute compliance with the state requirement.</p> <p>In late February, the Insurance Department released the results from its survey on insurer use of credit information, and those findings can be found online at www.state.il.us/ins/General/insurers_credit_report.pdf. The department has also developed an informational piece for consumers that can be accessed at www.state.il.us/ins/General/how_insurers_use_credit.htm.</p>	<p>On March 19, the Illinois House unanimously approved House Bill 1640, which is nearly identical to the NCOIL model law. It is now under consideration in the Senate.</p>
Indiana	<p>The only mention of the use of credit information in underwriting in the Indiana Code today is in IC 27-1-22-25, which deals only with private passenger automobile insurance. It states that an insurer may not charge a higher rate for a private passenger automobile policy to an individual who has filed for bankruptcy.</p> <p>Please note the law only states that an insurer may not charge a higher rate. It is silent about an insurer rejecting a potential insured based on a bankruptcy. Other than the bankruptcy language, the Indiana code and Indiana Department of Insurance rules are silent on the use of credit information.</p>	<p>Bulletin 111 (see http://www.ai.org/dot/bulletin111.pdf) was issued July 1, 2002.</p>
Iowa	<p>The Iowa Insurance Division recently adopted a rule (191—20.12, effective July 1, 2001) that addresses the use of credit history in underwriting and making of rates for personal and homeowners policies. Among other provisions, the rule, which applies to personal lines insurance, requires the following:</p> <ul style="list-style-type: none"> • An insurer must disclose at the time an application is taken that it may or will gather credit information, and an insurer must notify a consumer when an adverse action is taken, following the requirements of the FCRA §624(b). • An insurer is also prohibited from canceling a policy, refusing to renew a policy, or rejecting an application based solely on information contained in a credit report or credit scores, and an insurer may not take these same actions based on information it knows is inaccurate or incomplete. • An insurer is also required to have specific, written criteria on how credit information is utilized in underwriting and tier placement. The commissioner may also require an insurer to file (1) the characteristics or factors from a credit report that are used as credit criteria or used in determining a credit score; (2) in the case of credit scoring, the algorithm, computer program, model, or other process 	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>that is used in determining a credit score (along with the underlying support, including statistical validation, for the development of the algorithm, computer program, model, or other process that is used in determining a credit score); and (3) any underwriting guidelines relating to the use of the credit criteria or credit scores, along with appropriate supporting material for the use of the guidelines.</p> <ul style="list-style-type: none"> • At the request of the commissioner, an interested party (such as an scoring modeler) shall file or discuss under confidentiality protection with the commissioner the algorithm, computer program, model, or other process that is used in determining a credit score (along with the underlying support, including statistical validation, for the development of the algorithm, computer program, model, or other process that is used in determining a credit score). • Filings made by insurers or interested parties shall be considered confidential records and are protected as trade secrets in accordance with state law. 	
Kansas	<p>With only one dissenting vote, Senate Concurrent Resolution 1623 was adopted by the Kansas Legislature in 2002. The resolution authorized the creation of a private and public sector task force to study "the desirability of regulation of insurance scoring practices for the benefit of Kansas consumers" and to report back to the legislature before the start of the 2003 session.</p>	<p>A substitute version of Senate Bill 144 has been approved by the Kansas Senate. The initial proposal was developed and recommended by the insurance commissioner, and the revised version – which is very similar to the NCOIL model law – was drafted following hearings on the issues. The bill also includes the following provisions:</p> <ul style="list-style-type: none"> • Its provisions also apply to "individually underwritten policies of farm owners." • When an insurer reexamines an insured's credit report or score at the request of that consumer at annual renewal, the insurer may not increase insurance rates because of the current report or score. • Insurers taking adverse actions against consumers "shall provide a procedure whereby a consumer may review an adverse action based on credit information", and insurers and their agents are provided with immunity from any action arising from information provided through this process.
Kentucky	<p>KRS 304.20-040 and KRS 304.20-042, adopted in 1998 and revised in 2000, say insurers cannot decline, refuse to renew, or cancel auto or property and casualty insurance covering personal risks based solely on credit history or lack of credit.</p> <p>HB 564 was introduced in 2002 but not adopted. Under the proposal, "no insurer may base any rates, in whole or in part, upon the use of an insurance risk score unless the method for calculating the insurance risk score is filed in support of a rate filing with the commissioner and the commissioner determines the insurance risk score has a substantial relationship to the risk of loss."</p>	
Louisiana	<p>The insurance code's unfair trade practices provisions address this issue. Specifically, §22:1214(7)(l) states that the following acts are swept within unfair trade practices acts of the state:</p> <p>"With regard to automobile liability insurance, terminating or modifying coverage, or refusing to issue or refusing to renew any policy solely because the applicant or insured filed for bankruptcy. This Subparagraph shall not apply where the refusal to continue to insure is based upon nonpayment of premium."</p> <p>The Louisiana Department of Insurance held a public hearing on the industry's use of credit information on May 1, 2002, and a department report on the issue was expected to be released. The Department was also considering developing a new regulation or issuing a bulletin on the issue by the end of the year.</p>	<p>Legislative action is expected in Louisiana once the legislature convenes in late March.</p>
Maine	<p>The Maine Department of Professional & Financial Regulation has posted "P&C Tier Placement Guidelines" on its website, and these can be viewed at http://www.state.me.us/pfr/ins/tier.htm. The guidelines say the following about using credit reports in the auto insurance context:</p>	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>May be used in conjunction with other underwriting criteria in determining tier placement. Company should be prepared to substantiate the relationship to insurance risk and provide notification information to insureds as required under the Fair Credit Reporting Act, Title 10 MRSA, Chapter 210, §1311-1329. Company, or a vendor on the company's behalf, should file all factors that are considered including any scoring algorithm.</p> <p>The guidelines say the following about using credit reports in the auto context:</p> <p>"May not be used as sole underwriting criteria or as the reason for rejecting a risk. Company must prove the relationship to insurance risk and provide notification information to insureds as required under Fair Credit Reporting Act. Do not allow 'black box' scoring. Company needs to file all factors that are considered and the scoring algorithm. For more details, please see article in the October 1997 Bureau Newsletter."</p>	
Maryland	<p>HB 521/Chapter 580 was adopted overwhelmingly by both chambers of the General Assembly in the closing minutes of the 2002 session and signed into law. A summary of the law follows:</p> <ul style="list-style-type: none"> • In the homeowners context, an insurer may not "refuse to underwrite, cancel, or refuse to renew a risk based, in whole or in part, on the credit history of an applicant or insured; rate a risk based, in whole or in part, on the credit history of an applicant or insured in any manner . . . ; or require a particular payment plan based, in whole or in part, on the credit history of the insured or applicant." • In the auto context, an insurer may not "refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based, in whole or in part, on the credit history of an insured or applicant; or require a particular payment plan based, in whole or in part, on the credit history of the insured or applicant." • An Insurer may use the credit history of an applicant to rate a new auto policy, but there are restrictions. The Insurer may not use "a factor on the credit history of the applicant that occurred more than 5 years prior to the issuance of the new policy" and must advise the applicant that his/her credit history is used. At the request of the applicant, the insurer must also "provide a premium quotation that separately identifies the portion of the premium attributable to the applicant's credit history." • In the rating of a new auto policy, insurers may not use the absence of credit history (or the inability to determine the applicant's credit history) or the number of credit inquiries on a person's history. • Every two years or at the request of the insured, auto insurers must review the credit history of an insured who was adversely impacted by the use of credit history at the initial rating and make the appropriate premium adjustments. Insurers must disclose these review options to applicants at the time of issuance of the policy. • "With respect to private passenger motor vehicle insurance, an Insurer that rates a new policy based, in whole or in part, on the credit history of the applicant may, if actuarially justified, provide a discount of up to 40% or impose a surcharge of up to 40%. • The MD Insurance Commissioner is also directed to conduct a study on whether the use of credit scoring has "an adverse impact on any demographic group defined by race or socio-economic status." These and other findings are required to be submitted to the General Assembly by January 1, 2004. <p>The Maryland Insurance Division issued a bulletin (Bulletin 02-14) that is intended assist Insurers with their compliance obligations under the new law. The July 2002 bulletin, which is essentially a section-by-section Q&A, can be downloaded at www.mdinsurance.state.md.us/documents/BulletinP&C02-14.pdf. The department shortly thereafter issued a supplementary bulletin (Bulletin 02-16), which can be downloaded at www.mdinsurance.state.md.us/documents/BulletinP&C02-16.pdf.</p>	
Massachusetts	<p>Legislation on this subject is expected at some point in the future. In addition, Jullanne Bowler, the commissioner of insurance, addressed the use of credit information in a April 8, 2002 interview that appeared in BestWire. She said: "Credit scoring is prohibited in Massachusetts, in all lines of business. It's tied into our fair trade practices act. All the insurance companies have that information on the checklists when they submit for rate or form approval so they know up front they can't use it."</p>	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
Michigan	<p>The Michigan Office of Financial and Insurance Services held a series of six public hearings on the use of credit information between June 4 and July 18, 2002, and the Commissioner issued a report on his findings in December 2002. The issuance of the report was followed in February by the development of a new bulletin – Bulletin No. 2003-01-INS – concerning the use of credit information. For copies of the testimony provided at the hearings, a copy of the Commissioner's report, and other information, see www.michigan.gov/cis/0,1607.7-154-10555_12902_15784--,00.html.</p> <p>In July 2002, then-State Attorney General and current Governor Jennifer Granholm issued a Consumer Alert entitled "Home and Auto Insurance – Get the Credit You Deserve!" That alert can be found at www.ag.state.mi.us/co/alerts/c_alerts/consumer_alert67.htm. The then-Attorney General also issued a press release related to the consumer alert in which she was quoted as saying: "Though not illegal, the practice of 'insurance credit scoring' should certainly give every consumer pause, especially in light of the fact that Consumer Reports has found that 70 percent of credit reports have an error and 29 percent have a major error. How fair is it to penalize consumers for a score that could very well be erroneous?" See www.ag.state.mi.us/press_release/pr10332.htm. She has also stated that she would support efforts to ban credit scoring, something she called "a terrible practice."</p>	<p>On February 14, 2003, outgoing Commissioner Frank Fitzgerald issued Order No. 03-005-M and Bulletin No. 2003-01-INS, which require insurers using credit information to take certain compliance actions. The key requirements are outlined below:</p> <ul style="list-style-type: none"> • Companies must file the specific credit classification factors used to calculate insurance scores and any credit-related formulas used to apply discounts with the department by July 1, 2003, and they must also file an actuarial certification justifying the discount levels and tiers being used. [The bulletin also makes clear that rating materials filed with the agency are accessible to inspection by the public.] • Insurers using insurance scoring discounts must recalculate and then apply an insured's score at least once annually, and carriers must recalculate these scores and apply the appropriate discounts whenever a person successfully disputes information contained in one's credit history. • Insurers using credit scoring must inform auto and homeowners policyholders and applicants that credit information is used and disclose the tier in which the person is placed. <p>The report issued by the department in December also included several recommendations for legislative action. Although no formal legislative action has taken place to date, the House Insurance and Financial Services Committee has established a subcommittee to study the issue.</p>
Minnesota	<p>Minn. Stat. §72A.499, subdivision 1, addresses insurer obligations when adverse underwriting decisions are made. These provisions are listed below:</p> <p>"Subdivision 1. Notice and information. (a) In the event of an adverse underwriting decision, the insurer or insurance agent responsible for the decision shall provide in writing to the applicant, policyholder, or individual proposed for coverage:</p> <p>(1) the specific reason or reasons for the adverse underwriting decision, a summary of the person's rights under sections 72A.497 and 72A.498, and that upon request the person may receive the specific items of personal information that support those reasons and the specific sources of the information; or</p> <p>(2) the specific reason or reasons for the adverse underwriting decision, the specific items of personal and privileged information that support those reasons, the names and addresses of the sources that supplied the specific items of information specified, and a summary of the rights established under sections 72A.497 and 72A.498.</p> <p>(b) In addition to the requirements of paragraph (a), if the adverse underwriting decision is either solely or partially based upon a report of creditworthiness, credit standing, or credit capacity that an insurer receives from a consumer reporting agency, the insurer or insurance agent responsible for the decision shall provide in writing the primary reason or reasons for the credit score or other credit based information used by the insurer in the insurer's adverse underwriting decision."</p> <p>The MN Department of Commerce's viewpoint on the relevant issues can be found in a consumer tip sheet that has been posted at www.commerce.state.mn.us/pages/ConsumerTips/ConTip-CreditScore.htm.</p>	<p>SF2363, which is now in effect, unanimously passed the Minnesota Legislature and was signed into law in 2002. In summary, the law provides the following:</p> <p>(a.) An insurer may not reject, cancel or non-renew an auto or homeowners policy in whole or in part on the basis of credit information without consideration of other underwriting factors.</p> <p>(b) If credit information or scoring is used in underwriting, the insurer must disclose that credit information will be obtained and used as part of the insurance underwriting process.</p> <p>(c) Insurance inquiries and non-consumer initiated inquiries may not be used as part of the scoring process.</p> <p>(d) If a credit information or score relating to a consumer is adversely impacted or cannot be generated because of the lack of a credit history, the insurer must exclude the use of credit as a factor in underwriting.</p> <p>(e) Insurers must provide reasonable credit exemptions based upon prior credit histories for persons whose credit information is unduly influenced by extraordinary life events, such as a catastrophic injury or the death of a spouse.</p> <p>(f) A scoring methodology may not be used by an insurer if the methodology incorporates the gender, race, nationality, or religion of an insured or applicant.</p> <p>(g) Insurers who employ a credit scoring or insurance scoring system in underwriting must have on file with the commissioner</p>

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
		(1) the insurer's scoring methodology, and (2) information that supports the insurer's use of a credit score or insurance score. Information provided by an insurer to the commissioner under these provisions is trade secret information.
Mississippi		
Missouri	<p>The Missouri Department of Insurance recently posted an FAQ on industry use of credit information to its website, and this can be found online at www.insurance.state.mo.us/consumer/faq/creditScoring.htm.</p> <p>Missouri Governor Bob Holden called for credit-related legislation in early 2002 and made the issue part of his legislative package. A substitute compromise bill –House Bill 1502 – was ultimately adopted in place of the two proposals originally put forth. Among other provisions, the law does the following:</p> <ul style="list-style-type: none"> • Prohibits insurers from taking adverse actions against consumers based on a credit report or insurance credit score without consideration of another noncredit related underwriting factor. • Requires that insurers disclose at time of application or on the application itself that credit reports or insurance scores are utilized. • Prohibits an insurer from taking an adverse action based on information in a credit report that is the subject of a written dispute until such dispute has reached a final determination in accordance with the FCRA. • Imposes certain disclosure requirements on insurers that take adverse actions based on a credit report or insurance score and provides those subject to an adverse action with the ability to request a reevaluation. • Permits insurers to obtain a current credit report or insurance score at the time of renewal underwriting, but prohibit adverse actions based on scores or credit reports that are more than three years old. • Prohibits the number of consumer insurance inquiries from being utilized as a negative factor in scoring formulas. • Prevents entities that create, compile, or provide insurance scores from selling or otherwise providing certain types of information – including the estimated expiration date of insurance policies – in certain instances. See §12. <p>The law applies to all contracts entered into on or after July 1, 2003.</p>	
Montana	<p>There is a statute and bulletin in place. Among other provisions, state law (see §33-18-210(11)) provides that:</p> <p>"An insurer writing automobile or homeowner insurance may not refuse to insure, refuse to continue to insure, charge higher rates, or limit the scope or amount of coverage or benefits available to an individual based solely on the insurer's knowledge of the individual's credit history unless (i) the insurer possesses substantial documentation that credit history is significantly correlated with the types of risks insured or to be insured; (ii) the insurer sends written communication to the individual disclosing that the insurance coverage was declined, not renewed, or limited in scope or amount of coverage or benefits because of credit information relating to the applicant or the insured; and (iii) upon subsequent request of the individual, mailed within 10 days of receipt of the denial, nonrenewal, or limitation, the insurer provides the individual with a copy of the credit report at issue or the name and address of a third party from whom the individual may obtain a copy of the credit report, within 10 days of receipt of the request."</p> <p>The department issued an "advisory bulletin" on September 7, 2001, that addresses Montana law concerning adverse actions. See http://www.state.mt.us/sao/Other/csmemorandum.htm.</p>	Two separate bills are moving through the Montana Legislature. The first, Senate Bill 349, is based on the NCOIL model law and was adopted 47-3 by the Senate on February 28. The second, House Bill 184, is supported by the Insurance commissioner and was approved 87-11 by the House on February 12.
Nebraska	There is no written law, regulation, bulletin, or other provision in place regulating/restricting use of information in underwriting. The Department's "public position" is that credit history cannot be used as sole underwriting criterion – but consumer complaints have not been very successful.	The unicameral legislature is currently considering LB 487, and the proposal passed the Banking, Commerce, and Insurance Committee on February 26. The bill is nearly identical to the NCOIL model law.

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>However, the 2001 Legislature passed LB 444, which instituted two relatively simple disclosure requirements that apply to private passenger auto insurance. The applicable section of the law states:</p> <p>"On and after July 1, 2002, no private passenger automobile liability policy shall be delivered, issued for delivery, or renewed with respect to any motor vehicle licensed in this state unless accompanied by a disclosure showing . . . if any credit-based rating was used to determine the rate charged."</p> <p>As described by the department, this disclosure requirement covers only those situations where an individual insurer has two or more rate levels available to a policyholder and credit scoring or some other use of credit history is a factor used in determining which rate applies. In these situations, the insurer must make a clear affirmative statement to the policyholder that it has used credit history or credit scoring as a factor in determining the rate being charged. Please note that it will not suffice to merely include a blanket statement that credit scoring might have affected the rate – the disclosure should be an affirmative statement made only when credit scoring or credit history is used by the individual insurer in its pricing calculations.</p>	
Nevada	<p>In 2002, the Nevada Division of Insurance convened a meeting with a group of industry representatives, consumer advocates, and credit agencies to discuss the use of credit scores in setting insurance rates. The division is concerned about whether the practice unfairly discriminates against certain segments of the population, and they are investigating the issue.</p>	
New Hampshire	<p>On March 4, 2002, New Hampshire adopted a new regulation in this area (INS 3300), which is effective September 1. A copy of the new regulation can be accessed online at http://www.state.nh.us/insurance/Regs/ins3300adopted%203-4-02.pdf. A summary of the regulation follows:</p> <ul style="list-style-type: none"> • The regulation applies to auto and homeowners insurers that use insurance scores (as that term is defined) for underwriting and rating purposes. Insurers must develop written standards for the use of such scores, and these scores may not be based on race, sex, religion, national origin, place of residence, blindness, physical disabilities, or other articulated factors. • Insurers must submit their underwriting models and rates with the department "for approval." The characteristics, factors, and criteria associated used in the underwriting or rating must be filed. In addition, insurers must also separately submit their insurance scoring models, and such models must be approved prior to their use. As part of this latter filing, insurers must include statistical validation supporting the use of insurance scores in the rating process. • Insurers that use an insurance score at the time of original application must provide a notice of this fact to the consumer, and a similar notice must be provided if such scores are used upon renewal. The notice must be provided by the same method that the application is submitted. • The regulation defines "adverse action" and sets out a set of rules for when such actions are taken by an insurer. In these instances, insurers must notify the consumer, provide the contact information of the consumer reporting agency that furnished the information to the insurer, and provide notice of the consumer's rights. If requested, insurers must also provide consumers with the two primary reasons why the consumer was assigned the insurance score. 	
New Jersey New Mexico	<p>A March 4, 2002 Insurance Chronicle story reported on Superintendent Serna and the insurance division's position on the use of credit information, and the article suggested the division has some concerns with the correlation between risk and credit history and the impact of using credit histories in New Mexico. Bulletin No. 2002-001, located at http://www.nmprc.state.nm.us/insbul22001.pdf, also states that all insurers using credit scoring in any phase of their underwriting or ratemaking process must submit all portions of their programs related to credit scoring to the Insurance Division.</p>	<p>The Superintendent established a task force in 2002 to examine the issue, conduct public hearings, and develop policy recommendations. The task force provided its recommendations to the Superintendent in late 2002, but no new regulations have yet been promulgated as a result of the group's actions. Superintendent Serna remains concerned about the implications that the use of credit scoring may have on minorities, and he has asked the University of New Mexico to conduct a study of the issue (expected to be completed by the Summer of 2003).</p> <p>Two bills to ban the use of credit information by the insurance industry were introduced in 2003, but both failed to pass before the close of the legislative session.</p>

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
New York	The NY Department has some in-house guidelines regarding the use of credit information. It is an informal Department opinion, which also covers the use of credit information for moving consumers among tiers in multi-tier plans. It is allowable to use credit history as one of the underwriting criteria, but not the sole criteria.	
North Carolina		Legislation in this area could be introduced and considered during the 2003 session.
North Dakota	<p>A story in the February 24, 2002 edition of the <u>Argus Leader</u> reported that "Commissioner Jim Poolman . . . wants to find out how widespread the practice of credit scoring is and what problems it might be creating." The article reported that the commissioner was particularly interested on the impact on farmers who suffer periodic financial problems, people with no credit history, and individuals who use cash for purchases.</p> <p>Commissioner Poolman scheduled a public hearing to "solicit opinions on the use of credit information in pricing and underwriting of insurance." The hearing, held on April 2, 2002, was attended by numerous legislators and several company representatives. The Commissioner and the legislature are now expected to consider whether regulation or legislation is needed.</p>	The North Dakota House and Senate both overwhelmingly passed House Bill 1260, which is nearly identical to the NCOIL model law. The most recent action on the bill, the Senate's passage, took place on March 24, 2003.
Ohio	<p>House Bill 519 was introduced in February 2002, which would:</p> <ul style="list-style-type: none"> • Prohibit an insurer from refusing to "write or renew motor vehicle insurance solely on the basis of an applicant's or insured's credit score or credit report." • Prohibit an insurer from considering "a credit score or credit report in underwriting motor vehicle insurance unless the credit score was determined or the credit report issued within the prior year." • Require that insurers annually obtain new credit scores and credit reports for each of its motor vehicle insurance insureds and utilize that information in determining its insureds' premiums. ["If spouses are covered under the same policy of motor vehicle insurance, an insurer shall obtain credit scores or credit reports on both spouses, and the better credit score or credit report shall be used in determining the premium for the policy."] • Require that insurers notify an applicant in writing prior to the issuance of a policy if credit information is considered to determine rates. • Prohibit an insurer from increasing an applicant's or insured's premium as a result of a request for information on the insurer's use of credit scores and credit reports." • Require that a person's lack of credit history be treated as a neutral factor. • Compel the Department of Insurance to study and issue a report on the use of credit information by the insurance industry. 	
Oklahoma	<p>In a June 30, 2000 bulletin, Commissioner Fisher informed the industry that the OK Board for P&C Rates had recently established guidelines to be used "for credit reports/scores in underwriting and rate determinations for insurance in the State of Oklahoma.</p> <p>The Commissioner also made clear that "agents and consumers [should] not bear the expense of obtaining credit reports/scores." He also expressed concern with the liability exposure for agents when companies use a consumer's credit information, and he urged companies to "limit the information that goes to the agent as to eliminate any sort of liability the agent might incur."</p> <p>The Commissioner also said: "If you choose to apply credit reports/scores to your current book of business, please allow an additional 90 days notice to the standard renewal offer. This should give consumers time to verify the accuracy of their information."</p> <p>The formal procedures address these issues in greater detail, and some of the key provisions summarized below:</p> <ul style="list-style-type: none"> • Insurers are required to notify insureds of "any adverse action taken as a result of the insured's credit history or credit score, which includes an increase in premium due to a change in tier or company placement." 	In late February, the Oklahoma House passed House Bill 1751 by a vote of 99-1, and the proposal has been forwarded to the Senate for its consideration. The proposal is very similar to the model law that was adopted by NCOIL in November 2002.

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<ul style="list-style-type: none"> • Insurers are prohibited from refusing to "insure, cancel, or nonrenew based solely on an insured's credit history or credit score." • Insurers are prohibited from penalizing an insured for having no credit history. • The procedures contain a correction of premiums provisions that requires a refund of back to the last 12 months of coverage. • An insurer is required to have "specific written criteria on how credit information affects underwriting and rate determinations," and certain information must be filed with the Board if requested. <p>The Oklahoma Department of Insurance website also discusses the rules in place in Oklahoma – http://www.oid.state.ok.us/AskCarrollFisher/110101CreditRatesAuto.htm.</p> <p>In September 2001, the Oklahoma Board for P&C Rates revised its earlier guidelines, and in November 2001, the Insurance commissioner issued Bulletin No. PC 2001-07 detailing the new rules. The new bulletin can be downloaded online at http://www.oid.state.ok.us/080301P&CRevised/112601P&CBulletinPC2001-07.pdf. The revised rules loosen the "rechecking" requirements and provide insurers with an alternative for satisfying the filing requirements.</p>	
Oregon	<p>The Oregon Insurance Division adopted a rule addressing insurer use of credit information in December 2002, and the new regulations are to take effect beginning June 1, 2003. The rules primarily impose new requirements concerning the disclosures that must be made to consumers in the event that credit information is to be used and after an adverse action is taken. A copy of the new rule can be accessed at www.cbs.state.or.us/external/ins/docs/rules/recent_adopt/id25-2002_rule.pdf.</p> <p>Joel Arlo, Oregon's Insurance Administrator, is also Co-Chairman of the NAIC's Credit Scoring Working Group – along with Washington State Commissioner Mike Kreidler</p>	Several bills have been introduced during the 2003 legislative session, but none has been the subject of any formal committee consideration or vote.
Pennsylvania	Senate Bill 1456 (2002) was introduced late during that legislative session. The proposal says that an insurer "shall not deny, cancel or refuse to renew personal insurance due in whole or in part to an insured's credit history." However, the bill permits the use of credit histories in combination "with other objective criteria," but the maximum premium differential based on credit history shall be no more than 20%.	
Rhode Island	<p>Under Rhode Island law (§§6-13.1-20 – 6-13.1-23): A credit report in connection with a consumer's application for credit, employment, or insurance cannot be requested unless a consumer is first informed that a credit report may be requested in connection with such application. Whenever credit or insurance for personal, family, or household purposes involving a consumer is denied or the charge for such credit or insurance is increased either wholly or partly because of information contained in a credit report from a credit bureau, the user of the credit report shall advise the consumer against whom such adverse action has been taken and supply the name and address of the credit bureau making the report. Any consumer who requests disclosure of his or her credit file from a credit bureau shall be entitled to have mailed to the consumer a copy of the information in the files of the credit bureau that pertains to the consumer at the time of the consumer's request for disclosure within four working days of such request. The credit bureau may impose a reasonable charge for said report. The law provides for a disputed credit report resolution, setting time limits during which the credit bureau must reinvestigate the current status of the information provided and allow the consumer to file brief statements setting forth the nature of the dispute. Whenever a statement of dispute is filed, any subsequent consumer report containing the information in question must clearly note that it is disputed by the consumer. Following any deletion or correction of information which is found to be inaccurate, the credit bureau must furnish a copy of the corrected credit report to the consumer at no charge and at the request of the consumer, furnish a copy of the corrected report to any persons specifically designated by the consumer.</p> <p>The legislature recently adopted HB 8027, which becomes effective at the start of 2003, and the proposal has become effective without the governor's signature. The legislative intent section of the new law states that "[s]tudies of the issue have revealed a strong body of evidence which clearly and convincingly shows that a credit score is a strong predictor of future loss," but it also says that "a series of safeguards" and "reasonable requirements" are necessary.</p>	Senate Bill 137 and House Bill 5362 have been introduced in the Rhode Island General Assembly, and both bills would incorporate Sections 5(H) and 11 of the NCOIL model law to the reform statute adopted in 2002.

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>In addition to other provisions, the new law only permits an insurer to use insurance scoring for rating and underwriting of homeowners' or auto insurance if:</p> <ul style="list-style-type: none"> • The insurer "demonstrates the predictive nature of their insurance score to the insurance division." • If requested by an existing customer, an insurer must "obtain an updated insurance score for the consumer." If the score has improved, the insurer must provide whatever rating decrease is appropriate, but the insurer's ability to increase rates based solely on the revised score is limited. • An insurer "shall not decline insurance for a new customer based solely on an insurance score, or absence of insurance score" – and an insurer shall not cancel, nonrenew, or increase rates based solely on the worsening of a consumer's score except under limited circumstances. <p>The new law also provides a definition for "insurance score" and mandates that "agents shall be held harmless by insurers for all acts, efforts and disclosures in obtaining an insurance score on the insurer's behalf." Again, the law takes effect January 1, 2003.</p>	
South Carolina	<p>SC Code §38-73-740 (Act 181 of 1993) provides: "All information, including investigative and credit reports used in determining the classification or premium rates of any person applying for automobile insurance, must be kept on file by the insurer for at least 3 years from the date the application was made. Upon request of the applicant, the applicant, the contents of the file must be made available for inspection by the applicant and copies of the documents must be furnished [to] the applicant if he pays for the cost of reproducing copies."</p> <p>Bulletin 98-2 (issued 8/1998) included the following Q&A:</p> <p>(9) Can any insurer utilize credit reports or credit scores in determining the rate level tier within which to place an applicant or renewing insured? Yes. State law <i>currently</i> recognizes the use of credit reports and credit scores in the premium calculation process within §38-73-740. However, if a credit report or credit score is utilized to determine a risk's classification or premium rate, then the credit report or credit score must be retained by the insurer for 3 years from the date the application and, upon request and upon the payment of reasonable copying costs, must be provided to the applicant or renewing insured by the insurer or, through the insurer, by the 3rd party scoring vendor. It is important to note that §38-73-740 imposes a requirement upon insurers not upon 3rd party scoring vendors.</p> <p>[. . .] If an insurer places an insured in a higher than the lowest rate level tier available for that underwriting insurer or available within the group of which that underwriting insurer is a member as a result of a credit report or credit score and if the credit report or credit score is detailed as the §38-77-126 disclosure reason for the higher rate level tier, then the insured must be given notice of the credit report's or the credit score's availability pursuant to §38-73-740.</p> <p>In 2002, the legislature adjourned without any bill being adopted, but the Department of Insurance addressed the issue by issuing Bulletin Number 2002-04 on May 24, 2002. That bulletin, which is effective on January 1, 2003, can be accessed at http://www.state.sc.us/dol/Bulletin2002-04.pdf.</p>	
South Dakota	<p>A department hearing on the issue was held March 26, 2002. Almost two dozen companies and the relevant trade associations were in attendance, and it is expected the debate will lead to some form of action in the coming months. A second meeting on the issue was held in mid-May 2002. The department is weighing its options at this point, and it is expected that they will either develop and issue a regulation or prepare a legislative proposal for 2003. The department is thought to have the authority to issue a regulation or bulletin in this area, so the first option is perhaps the more likely scenario.</p>	
Tennessee	<p>The Tennessee Insurance Department's Review Requirements Checklist states that credit scoring plans must be filed with the department for certain lines of insurance. For personal auto, farm, dwelling fire, and homeowners insurance, the checklist states that (1) justification for using credit scoring must be provided; (2) the credit scoring system cannot be the sole basis for determining rates/tiers; (3) the credit scoring program must specify the credit reporting company(ies) used, the characteristics used, the points assigned to the various credit characteristics, and the formula used to obtain the final point, and (4) the point ranges for</p>	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	determining the applicable rates/tiers must be filed. The checklist can be accessed at http://www.state.tn.us/commerce/fsomkt.pdf .	
Texas	Texas does not have a law that regulates the use of credit information for underwriting purposes. However, the Texas Insurance Code does prohibit discriminatory practices.	<p>Numerous bills addressing the issue have been introduced, but little formal action has taken place as of this date.</p> <p>In addition, a study released from the Bureau of Business Research at the University of Texas found a "statistically significant" relationship between a person's credit history and tendency to incur losses on an auto insurance policy. The study was commissioned by Lt. Governor William Ratliff in June 2002 to examine the relationship between credit scores and incurred losses. The study determined, in general, that "lower credit scores were associated with larger incurred losses." The study can be found at: www.utexas.edu/depts/bbr/bbr_creditstudy.pdf.</p>
Utah	During the 2002 session, the legislature passed and the governor signed HB110. The new law, which applies only to "motor vehicle related insurance," prohibits the use of "credit information" in most instances. However, credit information is expressly permitted if used to (1) "determine[er] initial underwriting" "if risk related factors other than credit information are considered" and (2) provide insureds with "a reduction in rates" or "any other discount similar to [a] reduction of rates . . ."	
Vermont		
Virginia	<p>On June 17, 2002, Commissioner Gross issued Administrative Letter 2002-6, which requires scoring models to be filed with the Bureau of Insurance. Specifically, the letter states the following:</p> <p>"It has recently come to the attention of the State Corporation Commission Bureau of Insurance that it is possible to change the mathematical components/formulae of a credit scoring model used for calculating rate levels, thereby changing the final rate charged to an insured. Section 38.2-1906 of the Code of Virginia requires that all rates and supplementary rate information be filed prior to their use.</p> <p>Effective immediately, any insurer that intends to use credit scoring models in rating or tiering must file the models prior to their use. Insurers currently using credit scoring models in rating or tiering must file their models no later than September 1, 2002.</p> <p>The models will be considered part of the rate filing and will be open to public inspection according to § 38.2-1907."</p>	<p>Senate Bill 1284 (Chapter 553) was signed into law by Governor Warner on March 24. The new law is similar to the NCOIL model law and other state statutes, and some of the elements of the proposal are highlighted below:</p> <ul style="list-style-type: none"> • The bill applies to motor vehicle insurance and policies written to insure owner-occupied buildings or the personal property of a tenant's residential property risk. • The proposal includes initial notification, adverse action, and re-check, and error correction requirements similar to those in the NCOIL model law. • The bill prohibits the use of the following factors for underwriting, tier placement, or rating purposes – information identified as disputed by the consumer reporting agency, insurance or non-consumer initiated inquiries, collection accounts with a medical industry code, certain lender inquiries made within 30 days on one another, and a person's total available line of credit. • "An insurer may, upon request, provide reasonable exceptions for an individual whose credit information is directly and adversely impacted by a catastrophic event, as determined by the insurer, including, but not limited to, catastrophic illness or injury or the death of a spouse or member of the same household. The insurer may require reasonable documentation of the event prior to granting an exception." • These provisions would apply to all new policies not later than January 1, 2004, and to all renewal policies not later than April 1, 2004.
Washington	<p>House Bill 2544 (2002) was enacted last year, and some of the statute's major provisions are outlined below.</p> <ul style="list-style-type: none"> • Insurers taking adverse actions (as defined under the act) "based in whole or in part on credit history or 	

State	Existing Rules and Previous Action	Recent Legislative or Regulatory Activity
	<p>Insurance score shall provide written notice" to those affected. Such notice "must state the significant factors ... that resulted in the adverse action."</p> <ul style="list-style-type: none"> • Insurers are prohibited from canceling or nonrenewing personal insurance based in whole or in part on credit history or insurance score. • Insurers "may use credit history to deny personal insurance coverage only in combination with other substantive underwriting factors." • Insurers are prohibited from denying personal insurance or setting rates based on one's absence of credit history, the number of credit inquiries, and a series of other factors (based in part on guidelines developed last year in Connecticut). • Insurers must file insurance scoring models with the commissioner, and this information will be kept confidential. • The commissioner is required to prepare a report on the use of credit history for the legislature. <p>On September 6, the Office of the Insurance Commissioner (OIC) issued its rules related to enforcement of the new law. A copy of these rules, which contain a Q&A, can be found online at www.insurance.wa.gov/tableofcontents/newrules/2001-11103.pdf.</p>	
West Virginia	<p>West Virginia's statutes provide that no insurer may decline to issue or terminate a policy of insurance if the declination is based solely on adverse credit reports or scores. The citations are §33-6B-3 (j) (1990) for auto insurance and 33-17A-6(h) (1990) for property insurance.</p> <p>The Insurance Commission released Informational Letter No. 142 in July 2002. The letter permits the use of credit-related information, lifts the moratorium that had been in place, and outlines the rules that must be followed when credit information is utilized. See www.state.wv.us/insurance/Info%20142.htm.</p>	
Wisconsin	<p>In June 1997, the Office of the Commissioner of Insurance (OCI) issued a bulletin entitled "The Use of Credit Reports in Underwriting Personal Auto and Homeowner's Policies." This bulletin can be viewed online at http://oci.wi.gov/bulletin/61697bul.htm.</p> <p>The bulletin says "Insurers should not use credit information, whether they use credit reports or scoring mechanisms, as the sole reason to refuse an application, cancel a new insurance policy in its first 60 days of coverage, or nonrenew an existing policy." The bulletin also suggests that insurers could face violations of the unfair marketing practices statute if they do not implement the following procedures:</p> <ol style="list-style-type: none"> (1) Develop written criteria (including quantifiable underwriting standards) on how credit information affects the underwriting decision. (2) Disclose to applicants and insureds the items which resulted in the underwriting decision. (3) Consider information from applicants and insureds concerning the accuracy of a credit report. (4) Disclose to consumers that it may/will gather credit information and outline the circumstances when a credit report will be used. [The bulletin cites other procedures also.] <p>In 2001, the OCI surveyed auto and homeowner's insurers in the state to determine how they utilize credit information in the underwriting and rating process. The results from this inquiry can be found online at http://oci.wi.gov/creduse.pdf.</p>	
Wyoming		<p>Senate File 81 (2003) has been approved by both the Wyoming Legislature and was signed into law on March 3. The new law provides the insurance commissioner with rulemaking authority to issue regulations concerning the use of credit scoring in the underwriting of personal lines insurance policies. The law requires that the regulations prohibit the use of credit information as the sole basis to underwrite and require that consumers receive an initial disclosure that credit information will be used.</p>

Facts About Hawaii's Auto Insurance System

- ◆ Hawaii has a no-fault auto insurance system. The system allows a person to sue or be sued for the recovery of property damage. However, a person can sue or be sued for bodily injury damage only if
 - medical bills equal or exceed \$5,000;
 - the injury results in a permanent loss of function or serious disfigurement; or
 - the injury results in death.

- ◆ Any bodily injury settlement or award is reduced by no less than \$5,000.
- ◆ Medical costs related to injuries resulting from auto accidents are subject to Hawaii's workers compensation medical fee schedule.
- ◆ The no-fault medical coverage restricts chiropractic visits to a total of 30.
- ◆ The Hawaii Insurance Code prohibits an auto insurer from basing rates on age, sex, marital status, length of driving experience or "credit bureau rating." The issue in a case now before the Hawaii Supreme Court is whether this prohibition also applies to an auto insurer's decision to accept or reject an application for auto insurance. *
- ◆ An auto insurer is required to make aftermarket parts available for car repair. If the insured or claimant chooses to use an original equipment manufactured (OEM) part, the insured or claimant must pay the difference between the aftermarket part and the OEM part.

* Note that Hawaii's provision on credit bureau rating only relates to auto insurance. Hawaii law does not restrict the use of credit information by homeowners insurers.

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Order of the Day,
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Conference**Legislative Information****House****Senate****Felix Study****Archives****Links****Feedback****Site Map****Hawaii State Legislature****Hawaii Revised Statutes Search Results**New Search

Documents 1 to 3 of 3

1. [hrs 0431-0010c-0207.htm](#)

Abstract: 431:10C-207 Discriminatory practices prohibited. No insurer shall base any standard or rating plan, in whole or in part, directly or indirectly, upon a person's race, creed, ethnic extraction, age, sex, length of driving experience, credit bureau rating, marital status, or physical handicap. [L 1987, c 347, pt of §2]

http://www.capitol.hawaii.gov/hrscurrent/vol09_ch0431-0435e/hrs431/hrs_0431-0010c-0207.htm
size 841 bytes

2. [HRS 0435- ANNOTATIONS](#)

Abstract: HRS 0435- ANNOTATIONS Cross References For present provisions, see chapter 431, article 10B. INSURANCE LAW REVISION CORRESPONDING SECTION REFERENCE TABLE 1987) HRS section HRS section 1985 Replacement Acts 347, 348, 349 1986 Supplement 1987 Session Laws 294-1 431:10C-102 294-2 431:10C-103 294-3 43

http://www.capitol.hawaii.gov/hrscurrent/vol09_ch0431-0435e/hrs435/hrs_0435-anno.htm
size 27414 bytes

3. [TITLE 24](#)

Abstract: TITLE 24. INSURANCE Chapter 431 Insurance Code 431A Readability of Insurance Contracts-Repealed 431D Insurance Company Insolvency-Repealed 431F Hawaii Life and Disability Insurance Guaranty Association Act—Repealed 431H Insurance Information Protection Act-Repealed 431J Captive Insurance Companies-R

http://www.capitol.hawaii.gov/hrscurrent/vol09_ch0431-0435e/hrs431/hrs_0431-.htm
size 75995 bytes

Page 1 of 1

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§431:10C-207 Discriminatory practices prohibited. No insurer shall base any standard or rating plan, in whole or in part, directly or indirectly, upon a person's race, creed, ethnic extraction, age, sex, length of driving experience, credit bureau rating, marital status, or physical handicap. [L 1987, c 347, pt of §2]

[Previous](#)

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ANSWERS

to Your Questions About Insurance Bureau Scores

[1] WHAT IS AN INSURANCE BUREAU SCORE?

An Insurance Bureau Score is a snapshot of a consumer's insurance risk picture at a particular point in time based on credit report information. Insurers use Insurance Bureau Scores along with motor vehicle records, loss reports or application information to evaluate new and renewal auto and homeowner insurance policies. It helps them decide, "If we accept this applicant or renew this policy, will we likely be exposed to more losses than our collected premiums will allow us to handle?"

Insurance Bureau Scores are based solely on information in consumer credit reports. The scores are dynamic, changing as new information is added to a consumer's credit report. Insurers will typically ask for a current score when they receive a new application for insurance so they have the most recent information available.

[2] WHERE DO INSURANCE BUREAU SCORES COME FROM?

Insurance Bureau Scores are based on information from consumer credit reports that insurers get from the three major credit reporting agencies: Equifax, Experian (formerly known as TRW) and TransUnion. Information used in scoring includes:

- ▶ Outstanding debt
- ▶ Length of credit history
- ▶ Late payments, collections, bankruptcies
- ▶ New applications for credit
- ▶ Types of credit in use

[3] WHAT'S NOT INCLUDED IN AN INSURANCE BUREAU SCORE?

Insurance Bureau Scores do not use the following information:

- ▶ Ethnic group
- ▶ Religion
- ▶ Gender
- ▶ Familial Status
- ▶ Handicap
- ▶ Nationality
- ▶ Age
- ▶ Marital Status
- ▶ Income
- ▶ Address

[4] WHY DO INSURANCE COMPANIES USE INSURANCE BUREAU SCORES?

Insurance companies use scores to help them issue new and renewal insurance policies. Insurance Bureau Scores provide an objective, accurate and consistent tool that insurers use with other applicant information to better anticipate claims, while streamlining the decision process so they can issue policies more efficiently. By better anticipating claims, insurers can better control risk, enabling them to offer insurance coverage to more consumers at a fairer cost.

[5] HOW DO YOU KNOW IT WORKS?

Independent tests by insurance companies and a major consulting firm compared Insurance Bureau Scores against the claims history of policyholders. The tests demonstrated that the scores do predict the likelihood of claims.

[6] HOW CAN I FIND OUT MY SCORE?

While you can get copies of your credit reports from credit reporting agencies, only insurance companies can get Insurance Bureau Scores. However, your insurance company or its agent can tell you the main reasons behind your score.

Keep in mind that your score is one of many pieces of information an underwriter uses to review a policy. Factors like motor vehicle reports and application information also impact an insurer's decision. Also, remember that the score changes as new information is added to your credit report.

Your score will improve over time through a pattern of responsible credit use.

An Insurance Bureau Score is a snapshot of your insurance risk picture at a particular point in time based on credit report information.

Review your credit reports once a year and report any errors to the credit reporting agencies.

Insurance Bureau Scores provide underwriters an objective, accurate and consistent tool that, used with other underwriting information, helps them issue new and renewal insurance policies.

ANSWERS to Your Questions About Insurance Bureau Scores

[7] HOW CAN I IMPROVE MY SCORE?

An Insurance Bureau Score is a snapshot of your insurance risk picture based on information in your credit report that reflects your credit payment patterns over time, with more emphasis on recent information. To improve a score, you should:

- ▶ Pay bills on time. Delinquent payments and collections can have a major negative impact on a score.
- ▶ Keep balances low on unsecured revolving debt like credit cards. High outstanding debt can affect a score.
- ▶ Apply for and open new credit accounts only as needed.

You can increase your score over time by using credit responsibly. It's also a good idea to periodically obtain a copy of your credit reports from the three major credit reporting agencies to check for any inaccuracies.

[8] WHAT IF I AM TURNED DOWN FOR INSURANCE?

If consumer credit information played a role in an insurer's decision to decline your insurance policy, the federal Fair Credit Reporting Act (FCRA) requires that the insurer tell you, and give you the name of the credit reporting agency that provided the information. In these situations, you are entitled by law to receive a free copy of your credit report to review, in order to help you understand how to better manage your credit or to challenge any errors that might appear on your report.

[9] WHAT IF THE INFORMATION IN MY CREDIT REPORT IS WRONG?

If you find errors in your credit report, you should report the errors to the credit reporting agency. By law, the credit reporting agency must investigate and respond to your request within 30 days. If you are in the process of applying for an insurance policy, you should immediately notify your insurance company about any incorrect information in your report. Small errors may have little or no effect on the score. If there are significant errors, the insurance company may choose to disregard the score and rely more on other underwriting information to make a decision on your application.

Make sure the information in your credit report is correct by reviewing your credit report from each credit reporting agency at least once a year. Call these numbers to order a copy (*a fee may be required*):

Equifax: 800 685 1111

TransUnion: 800 888 4213

Experian (formerly TRW): 888 397 3742



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SCORING FACTS AND FALLACIES

FALLACY: With scoring, computers are making the underwriting decisions.

FACT: Computers don't make underwriting decisions, people do. While a computer does calculate an Insurance Bureau Score, the score is only one of several pieces of information that underwriters use to help make a decision on new and renewal policies. Some insurance companies use scores to help them decide when to ask for more information from the applicant.

FALLACY: A poor score will haunt me forever.

FACT: Just the opposite is true. An Insurance Bureau Score is a snapshot of your insurance risk picture at a particular point in time. Your score changes as new information is added to your credit reporting agency file. Over time, your score changes gradually as you change the way you handle your credit responsibilities. Because recent credit information is more predictive than older information, past credit problems will impact your score less as time passes. Insurance companies typically request a current score when you submit a new application so they have the most recent information available.

FALLACY: Insurance Bureau Scores are unfair to minorities.

FACT: Insurance Bureau Scores do not consider ethnic group, religion, gender, marital status, nationality, age, income or address. Only credit-related information is included.

Insurance Bureau Scores have proven to be an accurate and consistent measure of insurance risk for all people who have some credit history. In other words, at a given score both non-minority and minority applicants present an equal level of insurance risk, or the likelihood of future insurance claims.

FALLACY: Scoring is an invasion of my privacy.

FACT: Insurance companies have used consumer credit information to assist in their underwriting decisions since the FCRA was enacted in 1970. An Insurance Bureau Score is simply a number that provides an objective and consistent summary of that credit information. In fact, by using scores, some insurance companies don't need to ask for as much information on their application forms.

FALLACY: My Insurance Bureau Score will be hurt if I contact several insurance companies who each access my credit report.

FACT: Insurance company requests or "inquiries" are not considered by Insurance Bureau Scores and will not affect your score.



Eddie Co

TransUnionSM

The TransUnion Credit Report Training Guide



Credit Report

1 GCI duncan,elizabeth*2 9932,woodbine,chicago,il,60693*3 555,e,jackson,st,cleveland,oh,44123*5 002-02-2222**

2A <FOR> <SUB NAME> TRANSUNION CREDIT REPORT
(I) D248 ABC DEPT STORE 06 CH <INFILE> 4/74 <DATE> 5/15/01 <TIME> 09:36CT

<SUBJECT> <SSN> <BJRTD DATE>
DUNCAN, ELIZABETH 001-01-0418 2/50
<ALSO KNOWN AS> <TELEPHONE>
COOK, ELIZABETH (555) 555-5555

<CURRENT ADDRESS> <DATE RPTD>
9932 WOODBINE, #9B, CHICAGO, IL. 60693 1/00
<FORMER ADDRESS>
10 N. CAMINO, OAKLAND, CA. 94583 4/96

<CURRENT EMPLOYER AND ADDRESS> <POSITION> <VERF> <RPTD> <HIRE>
ABC HOTELS CONCIERGE 3/01 5/01 3/97
8638 GRAND, ANYTOWN, IL.

SPECIAL MESSAGES

3A ***TRANS-ALERT: INPUT SSN DOES NOT MATCH FILE SSN***
3B ***HAWK-ALERT: INPUT SSN NOT ISSUED BY SOCIAL SECURITY ADMINISTRATION
FILE SSN ISSUED: 1936 - 1950; ST: NH***
CONSUMER STATEMENT: SEE END RPT

GEO CODE REPORT

CURRENT INPUT ADDRESS
9932 WOODBINE, CHICAGO, IL 60693
LATITUDE: 012.456789 STATE: 01 CENSUS TRACT: 1254 CENSUS TRACT SUFFIX 07
LONGITUDE: 234.678901 COUNTY: 125 CENSUS BLOCK: 2 MSA: 1254

FUTURE INPUT ADDRESS
9942 WOODBINE, 10A, CHICAGO IL 60693-6070
LATITUDE: 014.654789 STATE: 01 CENSUS TRACT: 3254 CENSUS TRACT SUFFIX 78
LONGITUDE: 234.123901 COUNTY: 137 CENSUS BLOCK: 2 MSA: 2157

MODEL PROFILE

TRANSKRISK NA: SCORE +550: 24, 23, 19, 07

CREDIT SUMMARY

38 PR-2 39 COL-1 40 NEG-1 41 HSTNEG-1-7 42 TRD-3 43 SRV-1 44 INST-1 45 MTG-0 46 OPEN-0 47 DR-3
48 HIGH CRED 49 CRED LIM 50 BALANCE 51 PAST DUE 52 MONTHLY PAY AVAILABLE
REVOLVING: \$500 \$1000 \$100 \$ 200 2500
INSTALLMENT: \$16.9K \$ \$12.4K \$1974 \$52
24 TOTALS: \$16.5K \$1000 \$12.5K \$1974 \$52

PUBLIC RECORDS

SOURCE	DATE	LIAB	ECOA	ASSETS	PAYD	MARKET
2 4932059	10/00R	\$12K	C	\$0		ATTORNEY 99B38521 D. WINSLOW
CHAPTER 7 BANKRUPTCY			CHICAGO, IL			
315027011	1/00R	\$2128	1		6/00	IRM987654 WILLIAMS
PAID CIVIL JUDGMENT						

COLLECTIONS

SUBNAME	SUBCODE	ECOA	OPENED	CLOSED	\$PLACED	CREDITOR	MOP
ACCOUNT#			VERIFIED		BALANCE	REMARKS	
ADVANCED COL	Y 999C004	1	5/07	5/07	\$2500	ABC BANK	09F
12345			4/01A		\$1000	MAKING PAYMENTS	

TRADES

SUBNAME	SUBCODE	OPENED	HIGHCRED	TERMS	MANAGED	PAYPAT	1-12	MOP
ACCOUNT#		VERIFIED	CRED LIM	PAST DUE	AMT-MOP	PAYPAT	13-24	
ECOA	COLLATRL/LOANTYPE	CLSD/PD	BALANCE	REMARKS		NO	30/60/90	
ABC RF	B 6661001	7/99	\$16.0K	60M282	1/01	445543011111		105
9876543210		5/01V		\$1974	31974 05	11111111		
1 AUTOMOBILE			\$12.4K	*CONTACT	SUBSCRIBER	20V	1/ 1/ 5	
ABC RETAILER	D 3847002	3/99	\$500	NINPO		111111111111		R01
212345678		5/01A	\$1000			111111111111		
C /CREDITCARD			\$100			24	0/ 0/ 0	

INQUIRIES

DATE	SUBCODE	SUBNAME	DATE	SUBCODE	SUBNAME
5/15/01	DCH248	ABC DEPT STORE	3/7/01	BPH9999	TEST BANK

CONSUMER STATEMENT

NOTE THIS CONSUMER HAS BEEN A VICTIM OF FRAUD. CALL CONSUMER DIRECTLY AT 555-555-5555 BEFORE ISSUING CREDIT.

END OF CREDIT REPORT - SERVICED BY:
TRANSUNION, PO BOX 1000, CHESTER, PA. 19022

TransUnion Credit Report Fields

1 Inquiry Information

Subscriber inquiry information is displayed at the top of the report.

1A On every TransUnion Credit Report the inquiring subscriber's TransUnion-assigned code, name, market area where the file resides within the TransUnion system, date the file was created, and inquiry date and time (Central Standard Time) of the inquiry are displayed.

2 Demographic Information

Helps verify consumer identification by providing:

- Consumer's name, plus any known aliases.
- Current address and date reported.
- Up to two previous addresses, date reported on first previous address.
- If available, telephone number, and most current and one previous employer (including addresses, position and date employment was verified, reported and/or hired).

2A Social security number (SSN) if available.

2B Date of birth if available.

2C Phone append.

Special Messages

Highlights specific credit file conditions that may include:

- Mismatched information as indicated by TRANS-ALERT[®] or HAWK[™].
- Presence of consumer statement.
- No subject found.

3A A TRANS-ALERT message (optional) appears when the input address, SSN or surname does not match what is on file; or when a minimum of four inquiries have been made against the file within the last 60 days.

3B HAWK messages (optional) appear if address, SSN or phone number have been used in suspected fraudulent activity; or if the information is inappropriate on an application, such as a commercial or institutional address; or if the SSN has not been issued by the Social Security Administration or is that of a deceased person as reported by the Social Security Administration. For more information about HAWK, request a HAWK product brochure and/or a HAWK message guide from your sales representative.

4 TransUnion's Geo Code[™] is a geographical coding product designed to assist financial institutions for compliance with federal regulations. These regulations require banks to monitor where and to whom they grant loans. This add-on product allows the subscriber to retrieve a variety of critical data based on the input of a street address. For more information about TransUnion's Geo Code, request a product brochure from your TransUnion sales representative.

Model Profile

Displays empirically-derived scores to predict a consumer's future credit performance. Other scores available estimate income, project recovery dollars and predict insurance risk.

5 ***TRANSRISK NA*** TransRisk New Account is a risk model that predicts the likelihood of a consumer becoming 90 days or more delinquent within 24 months.

6 Risk score factors are displayed numerically or in text. Up to four factors are disclosed and are displayed in order based on their relative impact on the final score. For more information, request a factor sheet from your sales representative.

7 ***ALERT*** appears after model profile heading when Manner of Payment (MOP) is 7 or greater, a negative public record or a collection is present on the file.

Credit Summary

Provides a "snapshot" of all activity on the consumer's credit report.

- Available as an option covering either total file history or 12-month file history.
- "Total File History" or "12-Month History" is in the upper right hand corner of the credit summary depending on the option chosen.

From left to right, headers in the first row read as follows:

- 8 Total number of public records.
- 9 Total number of collection accounts transferred to a third party collection agency. These accounts are identified with a Kind of Business (KOB) code of "Y".
- 10 Total number of negative accounts (derogatory) with a current Manner of Payment (MOP) of 2 or greater.

11 HSTNEG: There are two separate pieces of

information in this field. Both relate to historical negative information on a tradeline. Historical negative information is defined as any Manner of Payment (MOP) of 2 or greater, occurring in any month. The first half of this field describes the number of tradelines which have historical negative information, and the second half describes the number of occurrences.

In this example, the HSTNEG field is 1-7. The only tradeline with any delinquency information is the first trade. The payment pattern is 445543211111111111. To calculate HSTNEG, simply count the number of positions with a value greater than one. In this example, there are seven occurrences (values 4, 4, 5, 5, 4, 3, and 2). This calculation does not include the current manner of payment.

12 Total number of trades. TRD value is the sum of RVL, INST, MTG and OPN values.

13 Total number of revolving and/or check credit accounts (account types "R" and "C").

14 Total number of installment accounts (account type "I").

15 Total number of mortgage accounts (account type "M").

16 Total number of open accounts (account type "O").

17 Total number of inquiries.

From left to right, headers on the second row read as follows:

18 Highest amount ever owed on an account.

19 Maximum credit amount approved by credit grantor.

20 Balance owed as of the date verified.

21 Amount past due as of the date verified or closed.

22 From the "TERMS" field on the account; subscriber-reported monthly payment.

23 Percent of credit available for revolving, check credit and open accounts. Field is calculated by subtracting balance from credit limit divided by credit limit.

24 Totals for second row headers are included for: Revolving and Installment Accounts (Mortgage, Open, and Accounts closed with a balance are not shown on sample report).

*Note: Fields with dollar amounts will display K=Thousands, M=Millions.

25 Public Records

Public record information is maintained on a consumer's file in compliance with the Fair Credit Reporting Act (FCRA). This information is obtained from county, state and federal courts and includes civil judgments, state tax liens, federal tax liens, and bankruptcies.

The length of time each record is held on TransUnion's database varies by the type of record. The following typical retention periods may vary in some cases by state:

- Civil judgements—seven years
- Unpaid tax liens—indefinite
- Paid tax liens—seven years from date paid
- Chapter 7, 11, or 12 bankruptcies—ten years
- Chapter 13 bankruptcy filings—ten years
- Chapter 13 bankruptcy dismissal or discharges—seven years
- Bankruptcies voluntarily dismissed—seven years

26 Collections

Identifies consumer accounts that have been transferred to a professional debt-collecting firm

Collection information includes the name of the collection agency providing information, consumer's account number with the collection agency, collector's Kind of Business (KOB) designators and TransUnion-assigned reporting subscriber number (all collection agency subcodes begin with a "Y"). Also included are the ECOA designator (see the "codes page" for more details), date the amount was charged off by the original creditor, date the information was verified along with an indicator code (see the "codes page" for more details), date the item was turned over to a collection agency (shown as date opened). Also included are original dollar amount of collection, the balance owed as of date verified or closed, name of the original creditor, and an explanation of current account status as reported by the collection agency.

Trades

Provides an on-going historical and current record of the consumer's buying and payment activities.

- Trades are available sorted by most derogatory followed by date verified or vice-versa.

- Payment pattern is available displaying either 12 or 24 months.

Trade information includes the following:

27 Abbreviated name of credit grantor with whom consumer has an account.

28 Consumer's account number with the credit grantor (may be masked or scrambled).

29 ECOA is a code representing the ownership designation on the account (see the "codes page" for more details).

30 Credit grantor's Kind of Business (KOB) designator and TransUnion-assigned reporting subscriber number (see the "codes page" for more details).

31 Collateral for an installment loan or type of loan.

32 Date the account was opened.

33 Date of last update on the account (see the "codes page" for more details).

34 Date of account status (see the "codes page" for more details).

35 Highest amount ever owed by the consumer on that account.

36 Maximum amount of credit approved by credit grantor.

37 Balance owed as of date verified or closed.

38 Number of payments, payment frequency, and dollar amount agreed upon.

39 Amount past due as of date verified or closed.

40 Explanation of dispute or account credit condition, as reported by the credit grantor.

41 Date on which the maximum level of delinquency for that account occurred.

42 Dollar amount of consumer's maximum delinquency and the Manner of Payment (MOP) rating at the time.

43 PAYPAT: The subject's payment pattern, which is his/her actual rating, or Manner of Payment (MOP), over a period of time. Depending on which option a customer chooses, either 24 months or 12 months of information will be shown. The default setting is 24 months.

The first position on the left of the first row corresponds to the account status of the previously reported month. This will not correspond to the Manner of Payment (MOP) field, which represents the most recently reported account status, usually the current month. Each subsequent field to the right corresponds to one month further back in time.

In the first example, the first half of the PAYPAT field is 445543211111. The first position indicates the information reported one month ago (MOP=4):

One month ago—MOP = 4

Two months ago—MOP = 4

Three months ago—MOP = 5

Four months ago—MOP = 5 Etc.

45 30/60/90 DAY COUNTER: The four parts of this field summarize any delinquency on the account. The first column represents the number of months being summarized. The second, third, and fourth columns equal the number of times the subject has been 30, 60, or 90 days delinquent, respectively.

In the first example, this field equals 20V 1/ 1/5. This means that 20 months' data was reviewed. The subject was 30 days past due one time, 60 days past due one time, and 90 or more days past due five times.

46 Type of account (R, I, M, O, C) and Manner of Payment (MOP) code at which the account is currently reported (see the "codes page" for more details).

47 Inquiries

Displays which companies have viewed the consumer's credit file over the last two years. Includes date the inquiry occurred, inquiring subscriber's TransUnion-assigned account number and name.

- Available in a one or two column display.
- If two columns, inquiries are displayed either left to right or top to bottom, by date.

48 Consumer Statement

Contains consumer's explanation, in his/her own words, of facts or conditions affecting his/her credit file.

49 "Report Serviced By"

Identifies the TransUnion bureau owning or servicing the credit report. This information should be used to direct consumers to the appropriate location in the event of an adverse action.

Fields Not Displayed in Sample Report
Miscellaneous Statements may appear at the end of the report to provide relevant information that does not meet criteria for inclusion in other sections.

LOOKSM decodes all tradelines, collections, public records and inquiries, thereby automatically placing subscribers' names, addresses and telephone numbers at your fingertips. For more information about LOOK, request a LOOK/LOOKUP product sheet from your sales representative.

TransUnion Credit Report Codes

ECOA (Equal Credit Opportunity Act)

Inquiry and Account Designators

- A Authorized user of shared account
- C Joint contractual liability
- I Individual account for sole use of customer
- M Account for which subject is liable, but co-signer has liability if the maker defaults
- P Participant in shared account which cannot be distinguished as C or A
- S Account for which subject is co-signer and becomes liable if maker defaults
- T Relationship with account terminated
- U Undesignated
- X Deceased

Type of Account

- O Open Account (30, 60 or 90 days)
- R Revolving or Option
- I Installment
- M Mortgage
- C Check credit (line of credit)

Date Indicators

- A Automated
- C Closed
- D Declined
- F Repossessed/Written Off/Collection
- I Indirect
- M Manually Frozen
- N No Record
- P Paid Out
- R Reported
- S Slow Answering
- T Temporarily Frozen
- V Verified
- X No Reply

MOP Current Manner of Payment

- 00 Not rated, too new to rate, or approved but not used
- 01 Pays as agreed
- 02 30-59 days past the due date
- 03 60-89 days past the due date
- 04 90-119 days past the due date
- 05 120 days or more past the due date
- 07 Paying or paid under Wage Earner Plan or similar arrangement
- 08 Repossession
- 8A Voluntary repossession
- 8D Legal repossession
- 8P Paying or paid account with MOP 08
- 3R Repossession; redeemed
- 09 Charged off to bad debt
- 9B Collection account
- 9P Paying or paid account with MOP 09 or 9B
- UC Unclassified
- UR Unrated

KOB Kind of Business Classifications

- A Automotive
- B Banks and S&L
- C Clothing
- D Department, Variety and Other Retail
- E Employment
- F Finance, Personal
- G Groceries
- H Home Furnishings
- I Insurance
- J Jewelry, Cameras and Computers
- K Contractors
- L Lumber, Building Material, Hardware
- M Medical and Related Health
- N Credit Card and Travel/Entertainment Companies
- O Oil Companies
- P Personal Services Other Than Medical
- Q Finance Companies, Other Than Personal Finance Companies
- R Real Estate and Public Accommodations
- S Sporting Goods
- T Farm and Garden Supplies
- U Utilities and Fuel
- V Government
- W Wholesale
- X Advertising
- Y Collection
- Z Miscellaneous



TransUnion

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555 West Adams Street
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www.transunion.com

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CR001 12/01

TransUnion ASSIST[®] 2.0 Scoring Factors

Positive Characteristics

Code		Code	
001	Favorable amount owed on accounts (+)	023	Favorable time since most recent installment loan established (+)
002	No recent delinquency (+)	024	Favorable number of accounts with large high credit amounts (+)
003	Presence of revolving credit accounts (+)	025	Proportion of loan balances to installment loan amounts is favorable (+)
004	Favorable number of accounts with outstanding balances (+)	026	Favorable number of real estate accounts (+)
005	Favorable number of finance accounts (+)	027	Favorable number of new or existing finance company accounts (+)
006	Favorable number of recent credit checks (+)	028	No delinquency ever on installment loans (+)
007	Favorable number of new accounts (+)	029	Favorable percentage of open revolving accounts to all other accounts (+)
008	Proportion of revolving balances to revolving credit limits is favorable (+)	030	Favorable number of accounts (+)
009	Favorable amount owed on revolving accounts (+)	031	No delinquency on open revolving accounts (+)
010	Favorable length of revolving credit history (+)	032	Favorable length of time since most recent finance company account opened (+)
011	No past delinquency or favorable length of time since last delinquency (+)	033	Favorable number of accounts (+)
012	Favorable length of credit history (+)	034	Favorable time since most recent retail account opened or none present (+)
013	No current or past delinquencies (+)	035	No finance company accounts or no recently active finance company accounts (+)
015	Minimal or no past due balances (+)	036	Favorable number of recently active accounts (+)
017	Absence of collection accounts (+)	037	Favorable number of revolving or open accounts (+)
018	Favorable number of revolving accounts with balances (+)	038	Favorable number of adverse public records (+)
019	Favorable time since last credit check (+)	039	Favorable number of accounts currently paid as agreed (+)
020	Favorable time since most recent account established (+)	040	Favorable time since last collection (+)
021	Favorable number of installment loan accounts (+)	041	Favorable time since last adverse public record (+)
022	Favorable number of installment loan accounts with outstanding balances (+)		

Negative Characteristics

Code		Code	
051	Excessive or unknown amount owed on accounts (-)	073	Insufficient time since most recent installment loan established (-)
052	Recent delinquency (-)	074	Too many accounts with high credit amounts (-)
053	Absence of revolving credit accounts (-)	075	Proportion of loan balances to installment loan amounts is too high (-)
054	Too many accounts with balances (-)	076	Unfavorable number of real estate accounts (-)
055	Too many finance company accounts (-)	077	Too many new or existing finance company accounts (-)
056	Too many recent credit checks (-)	078	Prior installment loan delinquency or no installment loans present (-)
057	Too many new accounts (-)	079	Unfavorable percentage of open revolving accounts to all other accounts (-)
058	Proportion of revolving balances to revolving credit limits is too high or there are no revolving credit accounts (-)	080	Presence of delinquency, public record or collection (-)
059	Excessive amount owed on revolving accounts (-)	081	Delinquency on open revolving accounts (-)
060	Insufficient length of revolving credit history (-)	082	Finance company account opened recently (-)
061	Delinquency date too recent (or date unknown) (-)	083	Unfavorable number of accounts (-)
062	Insufficient length of credit history (-)	084	Unfavorable length of time since most recent retail account opened (-)
063	Delinquency (-)	085	Too many recent active finance company accounts (-)
065	Past due balances (-)	086	Unfavorable number of recently active accounts (-)
067	Presence of collection accounts (-)	087	Unfavorable number of revolving or open accounts (-)
068	Too many revolving accounts with balances (-)	088	Unfavorable number of adverse public records (-)
069	Date of last credit check too recent or unknown (-)	089	Unfavorable number of accounts currently paid as agreed (-)
070	Insufficient time since most recent account established (-)	090	Recent collection (-)
071	Unfavorable number of installment loan accounts (-)	091	Recent adverse public record (-)
072	Too many installment loan accounts with outstanding balances (-)		

ASSIST[®] ALERT message occurs when a credit file contains one or more of the following: previous bankruptcy, derogatory public record, collection activity or an MOP of 7 or higher.

ASSIST NOT SCORED: DECEASED message occurs when the subject's Social Security number matches the Social Security Administration's deceased Social Security number file.

ASSIST NOT SCORED: INSUFFICIENT CREDIT message occurs when a credit file does not contain a tradeline reported for at least six months and a tradeline within the last six months.



TransUnion

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55 West Adams
Chicago, Illinois 60661
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FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSIST 2.0)

Reason Code	Current Text	Expanded Reason Text
51	Current outstanding balances on accounts (-)	<p>The score measures how much you owe on the accounts that are listed on your credit bureau report. For revolving accounts (such as credit cards and bankcards), the total outstanding balance on your last statement is generally the amount that will show in your credit bureau report. Even if you pay off your credit cards in full every month, your credit bureau report may show the last billing statement balance on those accounts. Research reveals that consumers owing larger amounts on their credit accounts have greater insurance loss risk than those who owe less. You can improve your insurance bureau score by paying off your debts. Consolidating or moving your debt around from one account to another will not, however, raise your score, since the same amount is still owed. The best advice is to pay off your debts as quickly as you can.</p>
52	Recent delinquency (-)	<p>Analysis of consumer credit histories shows that consumers with previous late payments are much more likely to have greater insurance loss risk in the future. The insurance bureau score evaluates not only the presence of previous late payments, but also how recently the missed payments occurred. In general, the more recently a payment was missed, the greater the risk, and the lower the score. There is no "quick" fix to raise your score if the late payment on your credit bureau report is valid. Note that closing an account on which you had previously missed a payment does not make the late payment disappear from your credit bureau report. In order to improve your credit score over time, you need to pay your bills on time. The longer you pay your bills on time, the better the score. If you have late payments, get caught up on back payments and stay current. As time passes the importance of these previous late payments will gradually lessen and the score will increase – as long as you make your payments on time on all of your credit obligations, and use your available credit responsibly.</p>
54	Too many accounts with balances (-)	<p>Analysis finds that carrying balances on too many credit accounts at once is a predictor of future insurance loss risk. Even if you pay off your credit card balances in full every month, your credit bureau report may show the last billing statement balance on those accounts. In order to improve your insurance bureau score, pay down the balances on your credit obligations. For revolving accounts, once they are paid down keep your balances low. Note that consolidating your debt by transferring balances from many accounts onto fewer accounts will not necessarily raise your score, because the same total amount is still owed.</p>

FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSIST 2.0)

Reason Code	Current Text	Expanded Reason Text
55	Too many consumer finance company accounts (-)	Research shows that consumers with consumer finance company loans appearing on their credit report represent higher insurance loss risk than those with no consumer finance company loans. (Note that after a consumer finance company account is closed, it will not disappear from the credit report immediately. Research shows that the presence of consumer finance company accounts on the credit report, whether open or closed, is still predictive of future insurance loss risk; thus they will still be considered by the score.) The best way to improve your insurance bureau score is by managing all of your accounts responsibly, not missing any payments, and not opening new credit accounts you don't need.
56	Too many recent credit checks (-)	This reason appears when your credit bureau report contains a large number of inquiries posted as a result of your applications for credit. Research shows that consumers who are seeking several new credit accounts have greater insurance loss risk than consumers who are not seeking credit. There are different types of inquiries that reside on your credit bureau report. The score only considers those inquiries that were posted as a result of your applications for credit. Other types of inquiries, such as promotional inquiries (where a lender has pre-approved you for a credit offer), account review inquiries (where a lender requests a report to review an existing account), consumer disclosure inquiries (where you have requested a copy of your own report) and insurance inquiries are not considered by the score. The scores can identify "rate shopping" in the mortgage- and auto-lending environment, so that one credit search involving multiple inquiries is usually only counted as a single inquiry. Typically, the presence of inquiries on your credit file has only a small impact on insurance bureau scores, carrying much less importance than late payments, the amount you owe, and the length of time you have used credit. As time passes the age of your most recent inquiry will increase, and your score will rise as a result, provided you do not apply for additional credit in the meantime. Typically inquiries are purged from the credit bureau files after two years. A common misperception is that every single inquiry will drop your score a certain number of points. This is not true. The impact of inquiries on your score will vary – depending on your overall credit profile. Inquiries will usually have a larger impact on the score for consumers with limited credit history and on consumers with previous late payments. The most prudent action to raise your score over time is by applying for credit only when you need it.
57	Too many new accounts (-)	Analysis finds that opening several credit accounts in a short period of time represents increased insurance loss risk in the future - especially for consumers who do not have a long credit history. Therefore, only apply for needed credit and wait before you apply for more. The best way to improve your insurance bureau score is by responsibly managing all of your accounts, including newly opened accounts, and not missing any payments.

FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSIST 2.0)

Reason Code	Current Text	Expanded Reason Text
58	Proportion of revolving balances to revolving credit limits is too high or there are no revolving credit accounts (-)	Analysis of consumer credit behavior finds that owing a substantial balance on revolving accounts (such as credit cards and bankcards) relative to the amount of revolving credit available to you represents increased insurance loss risk. In fact, the level of revolving debt is one of the most important factors in the insurance bureau score. The score evaluates your total balances in relation to your total available credit on revolving accounts, as well as on individual revolving accounts. For a given amount of revolving credit available, a greater amount owed indicates a greater risk, and lowers the score. (For credit cards, the total outstanding balance on your last statement is generally the amount that will show in your credit bureau report. Even if you pay off your credit cards in full every month, your credit bureau report may show the last billing statement balance on those accounts.) Paying down your revolving account balances is a good sign that you are able and willing to manage and repay your debt, and this will increase your score. On the other hand, shifting balances among revolving accounts, opening up new revolving accounts, and closing down other revolving accounts will not necessarily improve your score, and could possibly decrease your score. This reason can also appear when no revolving accounts appear on the credit bureau report, or all such accounts are closed, or are no longer being reported by the lender.
59	Excessive amount owed on revolving accounts (-)	The score measures how much you owe on the revolving accounts (such as credit cards and bankcards) that are listed on your credit bureau report. For credit cards, the total outstanding balance on your last statement is generally the amount that will show in your credit bureau report. Even if you pay off your credit cards in full every month, your credit bureau report may show the last statement balance on those accounts. Research has shown that consumers owing larger amounts on their revolving credit accounts have greater future insurance loss risk than those who owe less. You can improve your insurance bureau score by paying off your debts. Consolidating or moving your debt around from one account to another will not, however, raise your score, since the same amount is still owed. The best advice is to pay off your debts as quickly as you can.
61	Delinquency date too recent (or date unknown) (-)	Analysis of consumer credit histories shows that consumers with previous late payments are much more likely to have higher insurance loss risk in the future. The insurance bureau score evaluates not only the presence of previous late payments, but also how recently the missed payments occurred. In general, the more recently a payment was missed, the greater the risk, and the lower the score. There is no "quick" fix to raise your score if the late payment on your credit bureau report is valid. (Credit account delinquencies stay on your report for up to seven years. Note that closing an account on which you had previously missed a payment does not make the late payment disappear from your credit bureau report.) In order to improve your insurance bureau score over time, you need to pay your bills on time. The longer you pay your bills on time, the better the score. If you have late payments, get caught up on back payments and stay current. As time passes the importance of these previous late payments will gradually lessen and the score will increase – as long as you make your payments on time on all of your credit obligations, and use your available credit responsibly. In rare cases, evidence of a past missed payment on a credit account is present on the credit report, but the date of the late payment cannot be determined exactly. An "undateable" credit account delinquency on a credit report still represents greater risk than never having missed a payment at all, and thus it will still affect the score.

FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSIST 2.0)

Reason Code	Current Text	Expanded Reason Text
62	Insufficient length of credit history (-)	This reason is based on the age of the accounts on your credit bureau report (the age of the oldest account, the average age of accounts, or both). Research shows that consumers with longer credit histories have lower insurance loss risk than those with shorter credit histories. Also, consumers who frequently open new accounts have greater insurance loss risk than those who do not. Therefore, only apply for needed credit and wait before you apply for more. All other factors being equal, your score is likely to improve as your credit history ages.
63	Delinquency (-)	Research reveals that consumers with previous late payments are much more likely to have higher insurance loss risk in the future. The score evaluates not only the presence of previous late payments, but also how late the payments were. For example, a payment that was 90 days late correlates with greater risk than a payment that was 60 days late, if they occurred around the same time. There is no "quick" fix to raise your score if the late payment on your credit bureau report is valid. In order to improve your insurance bureau score over time, you need to pay your bills on time. The longer you pay your bills on time, the better the score. If you have late payments, get caught up on back payments and stay current. As time passes the importance of these previous late payments will gradually lessen and the score will increase – as long as you make your payments on time on all of your credit obligations, and use your available credit responsibly.
65	Past due balances (-)	This reason appears when there is evidence of recently missed payments on your credit bureau report. If one of your accounts is being reported in delinquent status, the amount past due on the account is indicated on your credit bureau report. Research demonstrates that the greater the past due amount, the higher the insurance loss risk. In order to improve your insurance bureau score you need to pay your bills on time. If you have missed payments, get caught up on back payments and stay current. The longer you pay your bills on time, the better your score. Closing an account on which a past due amount is still owed does not make it disappear from your credit bureau report.
67	Presence of collection account (-)	This reason appears whenever there is a collection agency reference on your credit bureau report. Studies reveal that consumers with collection agency references are much more likely to represent greater insurance loss risk in the future. There is no "quick" fix to improve the score if the collection item on your credit bureau report is valid. However, as these become older, their impact on the score will gradually decrease and eventually they will have no impact on the score. Note that satisfying or paying off the collection item will not remove this information from your credit bureau report. The fact that it occurred is still predictive of future insurance loss risk, and thus it will still be considered by the score.

FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSIST 2.0)

Reason Code	Current Text	Expanded Reason Text
68	Too many revolving accounts with balances (-)	Research shows that carrying balances on too many revolving accounts (such as credit cards and bankcards) at once is a predictor of future insurance loss. Even if you pay off your balance in full every month, your credit bureau report may show the last billing statement balance on those accounts. In order to improve your insurance bureau score, pay down those revolving account balances. And once they are paid down, keep your balances lower on credit cards and other revolving debt. Note that consolidating your debt by transferring balances from many accounts into fewer accounts will not necessarily improve your score, because the same total amount is still owed. Paying off your debt is the best way to raise your score.
69	Date of last credit check too recent or unknown (-)	This reason appears when your credit bureau report contains recent inquiries posted as a result of your applications for credit. Research shows that consumers who are seeking several new credit accounts have greater insurance loss risk than consumers who are not seeking credit. Inquiries are the only information lenders have that indicates a consumer is actively seeking credit. There are different types of inquiries that reside on your credit bureau report. The score only considers those inquiries that were posted as a result of your applications for credit. Other types of inquiries, such as promotional inquiries (where a lender has pre-approved you for a credit offer), account review inquiries (where a lender requests a report to review an existing account), consumer disclosure inquiries (where you have requested a copy of your own report) and insurance inquiries are not considered by the score. The scores can identify "rate shopping" in the mortgage- and auto-lending environment, so that one credit search involving multiple inquiries is usually only counted as a single inquiry. Typically, the presence of inquiries on your credit file has only a small impact on insurance bureau scores, carrying much less importance than late payments, the amount you owe, and the length of time you have used credit. As time passes the age of your most recent inquiry will increase, and your score will rise as a result, provided you do not apply for additional credit in the meantime. Typically inquiries are purged from the credit bureau files after two years. A common misperception is that every single inquiry will drop your score a certain number of points. This is not true. The impact of inquiries on your score will vary – depending on your overall credit profile. Inquiries will usually have a larger impact on the score for consumers with limited credit history and on consumers with previous late payments. The most prudent action to raise your score over time is by applying for credit only when you need it.
70	Insufficient time since most recent account established (-)	Research shows that consumers who have recently opened new credit accounts have greater insurance loss risk than those who have not. As with many other elements of the insurance bureau score, this component of the score will improve with time. To improve your score, avoid opening new credit accounts unless necessary. It is possible that opening additional new accounts may lower your score.

FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSIST 2.0)

Reason Code	Current Text	Expanded Reason Text
71	Unfavorable number of installment loan accounts (-)	Your credit bureau report shows more installment loan accounts than other consumers with credit histories of similar length. Research has shown that consumers with a relatively large number of installment loan accounts appearing on their credit bureau report represent higher insurance loss risk than consumers with fewer installment loans. Therefore, avoid applying for installment loans that you don't need and pay down the balances on your existing installment loan obligations. (Note that closing your existing installment loans or paying them off in full will not necessarily make them disappear from your credit bureau report immediately.)
75	Proportion of loan balances to installment loan amounts is too high (-)	Simply having installment loans and owing money on them does not indicate higher insurance loss risk. To the contrary, paying down installment loans is a good sign that you are able and willing to manage and repay debt, and evidence of successful repayment weighs favorably on your insurance bureau score. The insurance bureau score examines many aspects of your current installment loan and revolving balances. One measurement is to compare the total outstanding installment balances against the total original loan amounts. Generally, the closer the loans are to being fully paid off, the better the score. Compared to other measurements of indebtedness, however, this has limited influence on the insurance bureau score. Your best strategy to improve your score is to pay down your installment loan or loans as quickly as possible.
82	Finance company account opened recently (-)	Research shows that consumers who have recently opened new consumer finance company accounts have greater insurance loss risk than those who have not. As with many other elements of the insurance bureau score, this component of the score will improve with time. To improve your score, avoid opening new credit accounts unless necessary.
87	Unfavorable number of revolving or open accounts (-)	This reason appears when your credit report shows more bankcard accounts (such as Visa, MasterCard, Discover, American Express, Diners Club, etc.) than other consumers with credit histories of similar length. Research has shown that consumers with a relatively large number of bankcard accounts appearing on their credit bureau report represent higher insurance loss risk than consumers with fewer bankcard accounts. Therefore, avoid applying for credit you don't need, or don't intend to use. This reason may also appear when no bankcard accounts appear on your credit report, or all such accounts are closed, or are no longer being reported by the lender. Opening a bankcard account might be a long-term strategy to improve your score. However, new account openings and the associated inquiries may lower your score in the short term. Over time you will build a history which demonstrates your ability to manage different types of credit.

FAIR, ISAAC INSURANCE BUREAU SCORES - EXPANDED SCORE REASON TEXT
(For Trans Union ASSiST 2.0)

Reason Code	Current Text	Expanded Reason Text
88	Unfavorable number of adverse public records (-)	This reason appears whenever there is a derogatory public record on your credit bureau report. While it may vary from state to state, in general derogatory public records include bankruptcies, foreclosures, suits, liens and judgments. Studies reveal that consumers with derogatory public records are much more likely to represent higher insurance loss risk in the future. There is no "quick" fix to improve the score if the derogatory public record on your credit bureau report is valid. However, as these become older, their impact on the score will gradually decrease and eventually they will have no impact on the score. Note that satisfying or paying off the derogatory public record will not remove this information from your credit bureau report. The fact that it occurred is still predictive of future insurance loss risk, and thus it will still be considered by the score.
89	Unfavorable number of accounts currently paid as agreed (-)	There are two possible reasons why this reason may appear on your credit report. The first possibility is if one or more of your accounts is presently being reported in delinquent status, or your report shows evidence of missed payments in the past. If you have missed payments, get caught up on back payments and stay current. The longer you pay your bills on time, the better your score. Second, if no missed payments appear on your credit report, and this reason appears, then your score would be improved by adding more successful repayment history to your record. Research shows that consumers with a moderate number of successfully paid accounts appearing on their credit bureau report have lower future insurance loss risk than consumers with just a few such accounts on file.
90	Recent collection (-)	For consumers with collection agency references on their credit bureau reports, a strong predictor of future insurance loss is the recency of the item. All other factors being equal, your insurance bureau score will improve with time as your collection item becomes older. There is no "quick" fix to raise your score if the collection item on your credit bureau report is valid. Your best course of action to improve your credit rating is to get caught up on back payments and stay current on all of your credit obligations. The longer you pay your bills on time, the better your score. Note that satisfying or paying off a collection item does not make it disappear from your credit report. Research shows that the fact that it occurred is still predictive of future insurance loss, and thus it will still be considered by the score.
91	Recent adverse public records (-)	For consumers with derogatory public records on their credit bureau reports, a strong predictor of future insurance loss is the recency of the item. While it may vary from state to state, in general derogatory public records include bankruptcies, foreclosures, suits, liens and judgments. All other factors being equal, your insurance bureau score will improve with time as your derogatory public record becomes older. There is no "quick" fix to raise your score if the derogatory item on your credit bureau report is valid. Your best course of action to improve your credit rating is to get caught up on back payments and stay current on all of your credit obligations. The longer you pay your bills on time, the better your score. Note that satisfying or paying off a derogatory public record does not make it disappear from your credit report. Research shows that the fact that it occurred is still predictive of future insurance loss, and thus it will still be considered by the score.



A Discussion On the Use of Credit Information and Scoring for Insurance

By
Eddy Lo



Topics

1. Introduction and Objectives
2. Fair, Isaac and Company, Inc.
3. Fair Credit Reporting Act
4. Predictiveness
5. Fairness
6. Accuracy
7. Inquiries
8. Current Operations

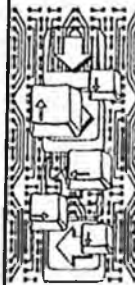


Topics

9. Statistical Correlation
10. Scoring Definitions
11. Scorecard Examples
12. Results
13. Usage of Insurance Bureau Scores
14. Summary
15. Questions & Answers



Introduction and Objectives



- Provide facts on the use of insurance bureau scores
- Answer questions on insurance bureau scores



Fair, Isaac & Company, Inc.



- Founded in 1956, by
 - William R. Fair
 - Earl J. Isaac
- Starting out
 - Better credit decisions by statistics than traditional judgmental methods
- Now
 - Better Decisions Through Data



Fair, Isaac & Company, Inc.



- Industries served
 - Insurance, Finance Services, Government, E-Business, Telecommunications
- Global experience
 - Offices and representations on 6 continents



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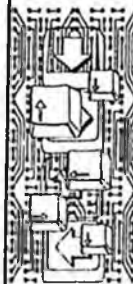


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Fair Credit Reporting Act (FCRA)

- Original statute in 1970
- Major amendments in 1996; effective September 30, 1997
- Requires "consumer reporting agencies" to adopt procedures governing accuracy, relevancy, access to and utilization of "consumer reports"
- Allows consumers access to their files and a complaint procedure



Fair Credit Reporting Act (cont'd)

- Requires users of consumer reports to use only the permissible purpose(s) and use only certified (permissible) purpose(s); and to FCRA adverse action notices
- Imposes accuracy-oriented obligations on furnishers of information



Fair Credit Reporting Act (cont')

- Permissible purposes
 - Court order or written instructions of consumer
 - Use in connection with a credit transaction involving the consumer; credit extensions/review of accounts/collections
 - Use for underwriting insurance
 - Employment



Fair Credit Reporting Act

- Permissible purposes (cont'd)
 - Use by person with other legitimate business need for information in connection with a business transaction initiated by the consumer, or to review account to determine whether the consumer continues to meet the terms the account



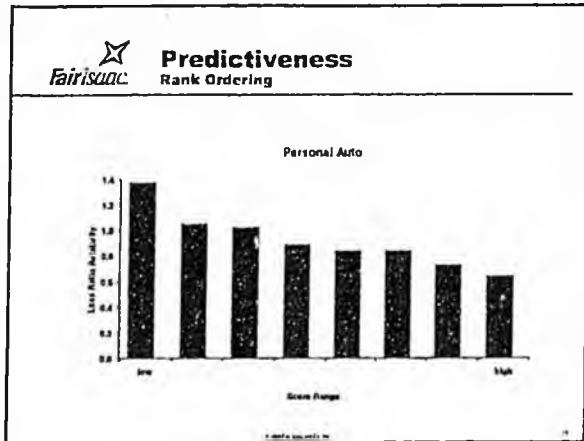
Fair Credit Reporting Act

- Permissible purposes (cont'd)
 - Prescreening: Use for "transaction not initiated by consumer" for "firm offer of credit or insurance", permit conditioning the offer on verification of information in credit report or application to ensure that consumer still meets the prescreen criteria at time of acceptance; may also condition offer on information in application meeting pre-established criteria, or on the furnishing of required collateral as disclosed in the offer



Predictiveness Rank Ordering





- Fair Isaac** **Predictiveness**
- Low scores correlate with high loss ratio relativities
 - High scores correlate with low loss ratio relativities
 - Validated by
 - Insurers
 - Tillinghast

- Fair Isaac** **Fairness**
- Data Elements Used
 - Balances
 - Collections
 - Delinquencies
 - Inquiries
 - Limits
 - Payment Dates
 - Payment Due Dates
 - Public Records
 - Trade Line Open and Close Dates
 - Trade Line Types


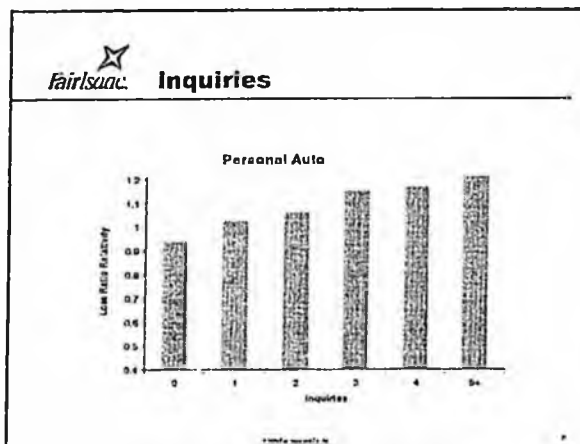
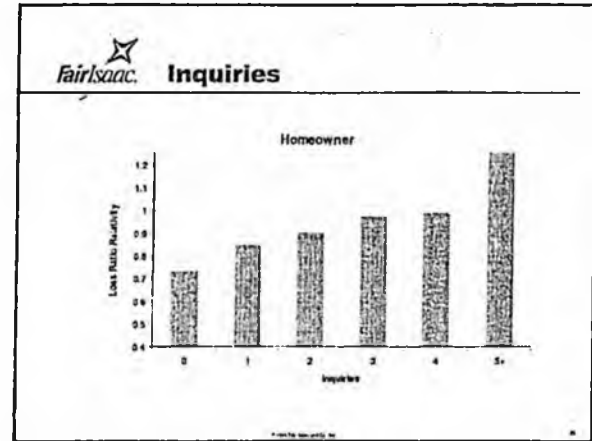
- Fair Isaac** **Fairness (cont'd)**
- Data Elements Not Used
 - Age
 - Disability
 - Gender
 - Health Status
 - Income
 - Location
 - Marital Status

- Fair Isaac** **Fairness**
- Data Elements Not Used (cont'd)
 - Nationality
 - Net Worth
 - Occupation
 - Race
 - Religion
 - Sexual Orientation
 - Zip Codes

- Fair Isaac** **Fairness (cont'd)**
- Income Study by an Insurer
 - Flat relationship between income levels and scores
 - Virginia Bureau of Insurance
 - 'Use of Credit Reports in Underwriting', 1999 report
 - To the Senate Commerce and Labor Committee of the the General Assembly of Virginia
 - "... Nothing in this analysis leads the Bureau to the conclusion that income or race alone is a reliable predictor of credit scores thus making the use of credit scoring an ineffective tool for redlining. ..."

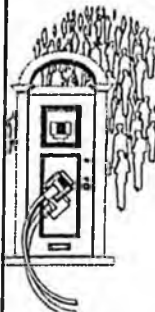
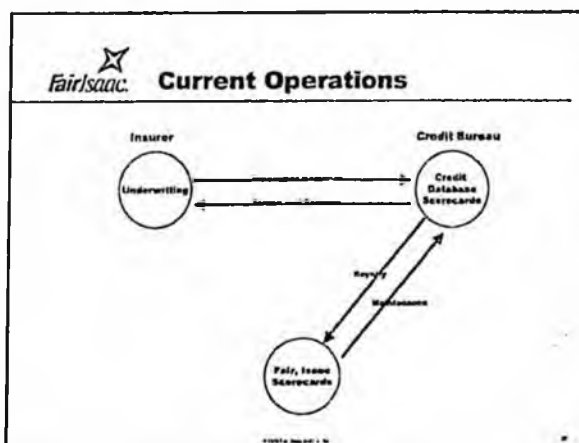
Fair/Isaac Accuracy

- FCRA mandate correction process
- 1992 Study
 - Commissioned by Consumer Data Industry Association
 - Based on 15,202 declines
 - 2% dispute on declines
- MVR accepted by most regulators
- higher error rates


Fair/Isaac Inquiries

- Predictive of loss ratio relativities
- Fair, Isaac includes consumer-initiated inquiries
- Fair, Isaac excludes inquiries for
 - Marketing / prescreening
 - Account reviews
 - Insurance


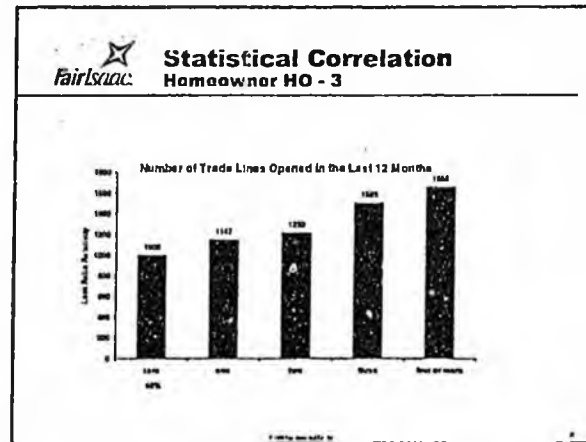
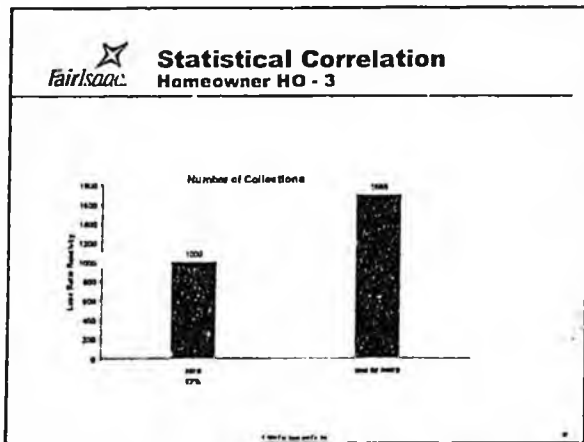
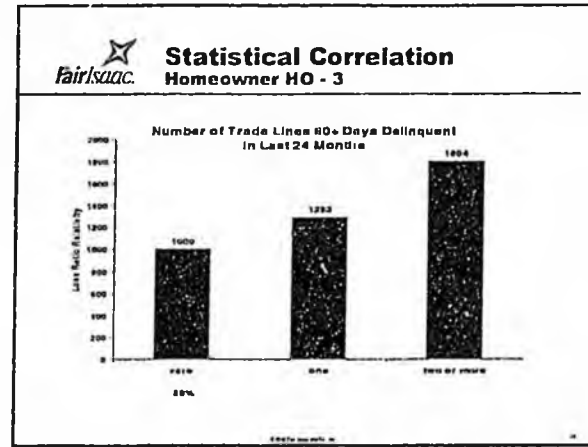
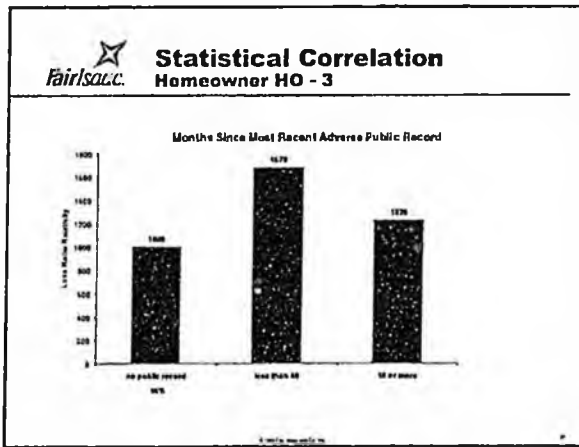
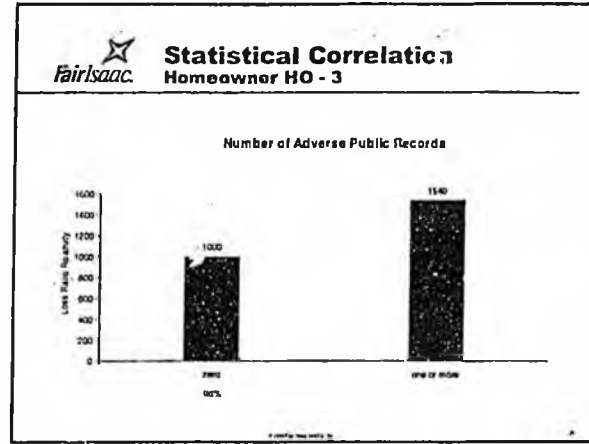
Fair/Isaac Statistical Correlation

- Personal property
 - 230,000 policies with claims
 - 1,000,000 policies without claims
 - 11 archives




FairIsaac **Statistical Correlation (cont'd)**

- Homeowner univariate analyses
 - Number of adverse public records
 - Months since most recent adverse public record
 - Number of trade lines 60+ days delinquent in last 24 months
 - Number of collections
 - Number of trade lines opened in the last 12 months


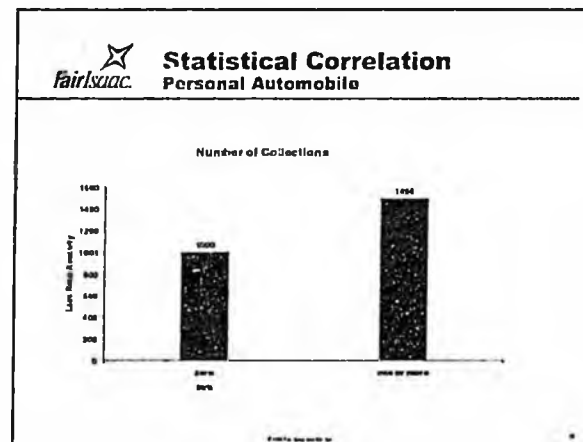
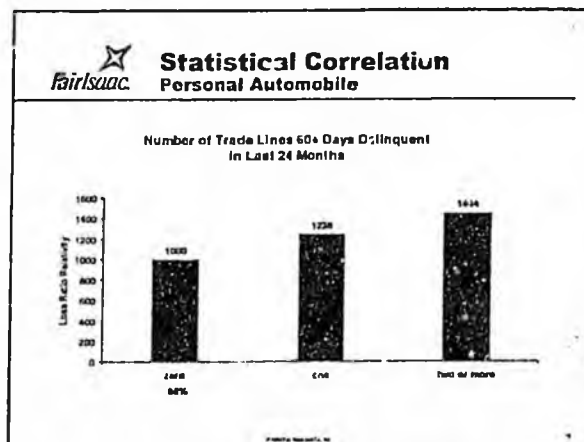
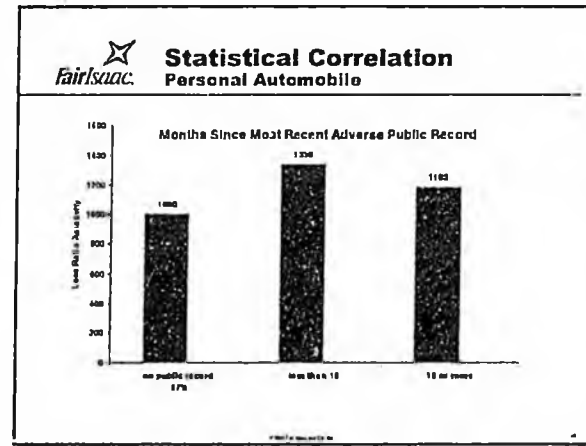
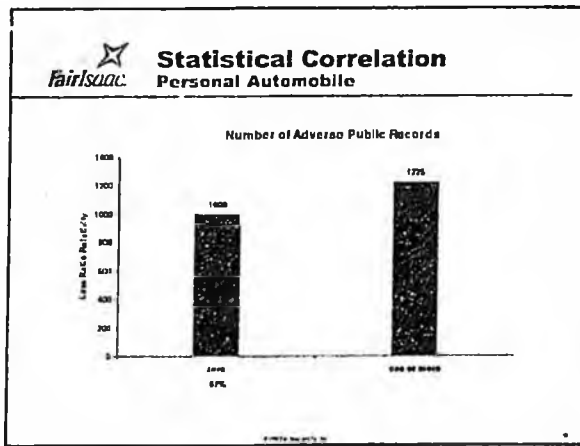
Fair Isaac **Statistical Correlation (cont'd)**

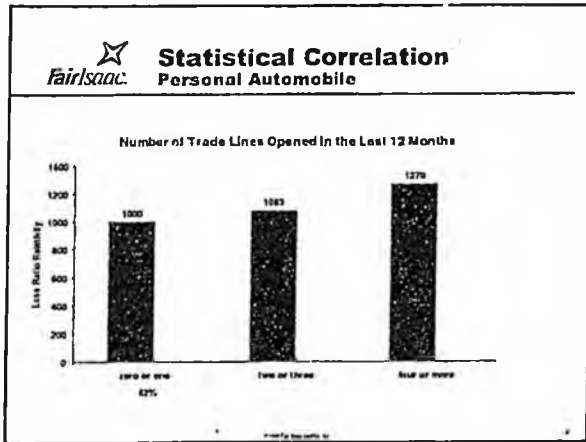
- Personal auto
 - 350,000 policies with claims
 - 1,000,000 policies without claims
 - 6 archives



Fair Isaac **Statistical Correlation (cont'd)**

- Personal auto univariate analyses
 - Number of adverse public records
 - Months since most recent adverse public record
 - Number of trade lines 60+ days delinquent in last 24 months
 - Number of collections
 - Number of trade lines opened in the last 12 months



- Fair Isaac** **Scoring Definitions**
- A score for an insurance risk
 - Is a numeric summary
 - Of the impact on loss ratio relativity
 - Based on a certain set of predictive characteristics of the risk
 - A model/scorecard is an algorithm, a table, or a piece of computer software
 - That will calculate a score
 - Based on a certain set of characteristics
 - Provided for a risk

- Fair Isaac** **Scoring Definitions (cont'd)**
- The 4 reason codes for a score are the 4 reasons that contributed most significantly, positively or negatively, to the calculation of a score

- Fair Isaac** **Scorecard Examples**
- Simple homeowner scorecard
 - Overlapping characteristics
 - weights adjusted

Fair Isaac **Scorecard Examples**
Simple Homeowner Scorecard

Number Adverse Public Records		
zero	one	two or more
30	0	

Months Since Most Recent Adverse Public Record		
no public record	less than 48	48 or more
30	0	10

Fair Isaac **Scorecard Examples**
Simple Homeowner Scorecard

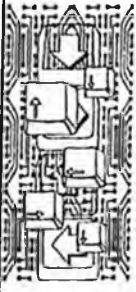
Number of Trade Lines 60+ Days Delinquent in Last 24 Months		
zero	one	two or more
25	10	0

Number of Collections		
zero	one or more	
20	0	

Fair Isaac **Scorecard Examples**
Simple Homeowner Scorecard

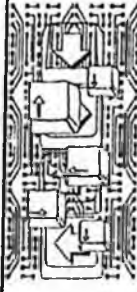
Number of Trade Lines Opened on the Last 12 Months

zero	one	two	three	four or more
20	10	5	3	0



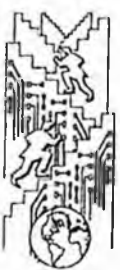
Fair Isaac **Results**

- Insurance Bureau Scores Vs. Loss Ratio Relativities
 - Multivariate analysis - homeowner (HO1, HO2, HO3, HO4, HO6, dwelling fire)
 - Multivariate analysis - personal auto (non-standard, standard minimum limits, standard above minimum limits, preferred minimum limits, preferred above minimum limits)
 - Risk ranking



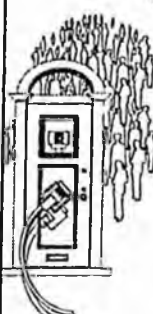
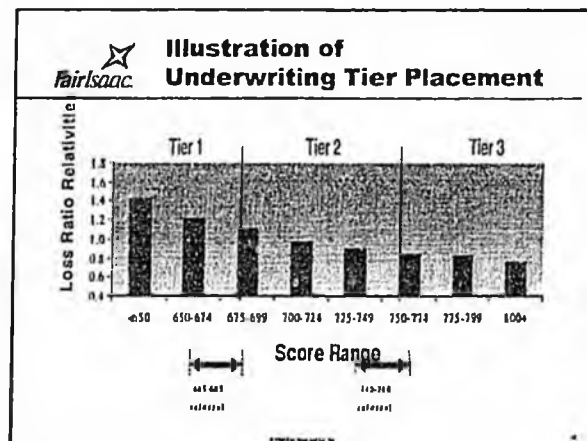
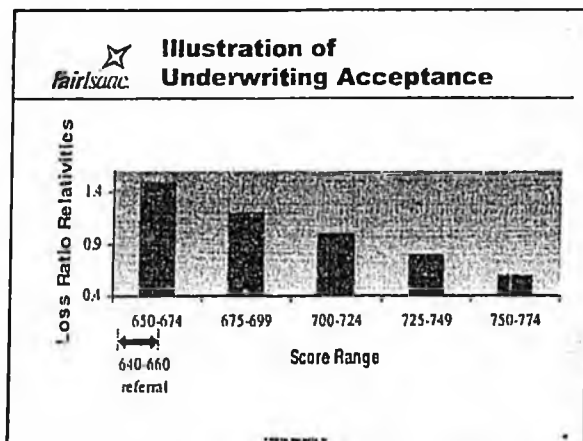
Fair Isaac **Results**


- Insurance Bureau Score Vs. Loss Ratio Relativities (cont'd)
 - Development vs. validation datasets
 - Validation (handouts)
 - Tillinghast study; Conclusion, page 5;
 - "...The data for all companies included in this study except Company 2 indicates at least 99% probability that a relationship exists. The data for Company 2 indicates a 92% probability that there is a relationship. A layman's interpretation of this result could be that it is very likely there is a correlation between Insurance Bureau Scores and loss ratio relativities."




Fair Isaac **Usage of Insurance Bureau Scores**


- Facilitate
 - underwriting applications
 - underwriting investigation
 - tier placement





 **Summary**





- FCRA Makes Insurance Bureau Scores Usable for Insurance Underwriting and Marketing
- Poll says Insurance Bureau Scores are favored
- Tillinghast Study confirms loss ratio relationships and Insurance Bureau Scores relationship
- Credit reports more accurate than Motor Vehicle Reports
 - Credit report accuracy further enhanced by corrections

 **Summary**





- Insurance Bureau Scores summarize credit history succinctly and nothing else
- The relationship between how people maintain their credit and property is simply common sense
 - Good credit managers are good risk managers
 - Credit management reflected in Insurance Bureau Scores

 **Summary**





- Insurance Bureau Scores deliver a fair shake
 - Insurance Bureau Scores do not look at race, creed, gender, marital status, income, age, etc.
 - Insurance Bureau Scores do not worsen discrimination nor add to it
 - Scoring remedies discrimination
 - Insurance Bureau Scores can control discrimination
 - Insurance Bureau Scores do not unfairly discriminate

 **Summary**




- Insurance Bureau Scores help to open up markets
- Scoring leads to precision underwriting
 - Insurance Bureau Scores facilitate consistent underwriting
 - Insurance Bureau Scores don't make decisions, people do
 - Insurance Bureau Scores provide input to refine decisions
 - Insurance Bureau Scores provide more objectivity and accuracy

 **Summary**



- Insurance Bureau Scores help underwriters focus on risks needing attention most
- Insurance Bureau Scores help to reduce premium subsidies/inequity
- Insurance Bureau Scores strengthen insurer solvency
- Fair, Isaac expertise to share

 **Materials**

1. Training Guide – Credit Report
2. Scoring Factors - Reasons and Codes
3. Answers to Your Questions about Insurance Bureau Scores



Questions & Answers

SB

20

Alaska State Legislature

SENATOR
GENE THERRIAULT

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, Alaska 99701
(907) 488-0857
Fax: (907) 488-4271

While in session
State Capitol
Juneau, Alaska
99801-1182
(907) 465-4797
Fax: (907) 465-3884

Senate

Senate Bill 20: An Act extending the termination date of the Board of Marine Pilots; and providing for an effective date."

Sponsor: Senator Gene Therriault 

Under AS 08.03.010 (10) the Board of Marine Pilots (BMP) will terminate on June 30, 2003. A report released by the Legislative Budget and Audit Committee recommended that the Legislature extend the board's termination date to June 30, 2007. House Bill 32 does just that.

The regulation and licensing of qualified marine pilots benefit the public's safety and welfare. The steady increase in tourist passenger ships in recent years has made BMP's role increasingly more important. The board provides reasonable assurance that the individuals licensed to pilot passenger and cargo ships in Alaskan waters are qualified to do so.

SPONSOR STATEMENT

Letters of Support



SouthEast Alaska Pilots' Association

1621 Tongass Avenue, Suite 300 • Ketchikan, Alaska 99901 • 907-225-9696 • fax 907-247-9696 • seapa@kpunet.net

Capt. Dale O. Collins, President
Capt. Ted Kellogg, Vice President

31 January 2003

Senator Gene Therriault
Senator Fred Dyson
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

Dear Senators Therriault and Dyson,

The Southeast Alaska Pilots' Association would like to go on record as supporting SB 20 as written.

Sincerely,

Capt. Dale O. Collins
President

cc. Senator Con Bunde
Senate Labor & Commerce Committee

2003 REAUTHORIZATION OF ALASKA'S BOARD OF MARINE PILOTS

The State of Alaska requires the use of marine pilots with extensive local knowledge in Alaskan waters for foreign vessels, oil tankers and non tanker vessels above a certain size. The goals of this requirement are twofold: 1) protect Alaskan waters and shorelines from oil spills and 2) facilitate waterborne commerce in Alaska's coastal communities.

Marine pilots are required to form associations to provide for the dispatch of pilots and to coordinate the training of new pilots to make sure that they maintain proficiency in their regions. There are three regions in Alaska roughly covering Southeast Alaska, Southcentral Alaska out to Kodiak, and Western Alaska all the way up to the North Slope. Pilots may have their licenses removed by the Board if they are found to be not competent.

Relations between Pilots and industry were contentious in the past and this caused an instability that was unacceptable to the State of Alaska. Because of this fact in 1995 under the leadership of Senator Drue Pearce, an historic compromise was reached on the organization of marine pilotage in Alaska which has worked well over the past ten years.

Alaska's marine pilots are asking this upcoming Alaska Legislature to reauthorize the Board for another 5 years and to maintain the fair balance of forces contained in current law. The elements of this balance are:

- 1) Marine Pilots file a tariff with the Board of Marine Pilots however in most cases, they negotiate special bulk rates with shipping and tourism companies.
- 2) If the shipping industry believes a proposed tariff is too high, they can appeal the increase to the board and have the tariff overturned. In the vast majority of cases, the parties reach a negotiated agreement, but in several appeals to the Board, the shipping industry has been successful in having the tariff overturned, in which case the parties return to negotiations.
- 3) This semi-regulated rate setting is justified because in no case can pilots go on strike and negatively impact Alaska's economy.
- 4) The shipping interests pushed for the provisions in the law which allow for the formation of competing associations within the regions which affords the shipping industry the possibility of seeking competitive bids for services. Since this legislation passed, two groups existed and were later united in Western Alaska, and in Southeast two groups existed to provide competition until this year when they were united.
- 5) Pilots must have extensive knowledge of their regions and pilots cannot transfer between regions until they are fully trained in the specific requirements for operating safely for a specific region.

This arrangement has served Alaska well over the past ten years and we encourage the Legislature to reauthorize the Board and to maintain the fair balance between commercial interests and the protection of Alaska's coastline.

Contact: Paul Fuhs 907-351-0407

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SOUTHWEST ALASKA PILOTS ASSOCIATION

P.O. Box 977
 Homer, Alaska 95603

Tel: (907) 235-8783
 Fax: (907) 235-6119

February 5, 2003

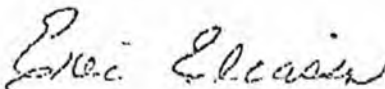
Senator Gene Therriault
 Senate President
 Alaska State Legislature

Dear Senator Therriault,

I am writing to indicate the support of the Southwest Alaska Pilots Association (SWAPA) for your bill, SB20. We appreciate you introducing this legislation.

Our preference would be for passage of the bill just as you have written it with a simple extension of the Board of Marine Pilots. I have attached an explanation of the history and issues surrounding marine pilotage in Alaska and would ask you to enter it into the record of the bill deliberations. The bottom line is that the compromise which was reached between industry, pilots, the administration and the legislature is working and should not be changed.

Thank you for your leadership on this issue.



Eric Eliassen
 President

PROPOSED NEW LANGUAGE
FOR SB-20

AS 08.62.190

(8) warships of foreign nations sailing in Alaskan waters at the invitation of the United States and having one or more United States Naval officers aboard the foreign warship to act as liaison officers

* Give to Wilkins office for suggested language for amendment for Senate Finance. ✓ gave to Tim right after meeting.