OCTOBER 2, 2007

Contacts:
Birny Birnbaum, Center for Economic Justice: 512-784-7663
Allen Fishbein or Travis Plunkett, Consumer Federation of America: 202-387-6121
Chi Chi Wu, National Consumer Law Center: 617-542-8010
Norma Garcia, Consumers Union: 415- 431-6747
Eric Rodriguez, National Council of La Raza: 202-785-1670
Lisa Rice, National Fair Housing Alliance: 202-277-4437

STATEMENT BY NATIONAL CIVIL RIGHTS AND CONSUMER ORGANIZATIONS

REGARDING TODAY'S CONGRESSIONAL HEARING ON THE FAIRNESS OF CREDIT-BASED INSURANCE SCORES

HELD BY THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS FINANCIAL SERVICES COMMITTEE U.S. HOUSE OF REPRESENTATIVES

Unknown to most consumers, insurers' use of consumer credit information has spread to almost all insurers and is one of the most important factors in determining how much a consumer pays for auto or homeowners insurance. Insurance companies use credit scores – three digit numbers generated using a consumer's credit report – in insurance underwriting and rate setting. This practice creates wide racial disparities as previous studies have found. Nevertheless, much of the insurance industry relies on credit scoring because it is allegedly predictive in forecasting which consumers will have higher loss ratios. Yet the industry has not been able to provide credible explanation as to why there is a correlation between credit scores and loss ratios.

For these reasons, we echo the call of many organizations and public officials for a prohibition on insurance scoring and insurers' use of consumer credit information for underwriting and ratings purposes.

Before the introduction of the credit scoring systems, the insurance industry had used other unsupported standards and stereotypes with a racial proxy effect. After the major companies were sued for fair housing violations and were forced to eliminate these practices, the industry introduced a new practice – credit-based insurance scoring – that consumer and civil rights groups see as re-introducing unfair racial and ethnic impacts into the pricing of insurance.

Previous studies by the Missouri and Texas Departments of Insurance have found that insurance scoring discriminates against low income and minority consumers because of the racial and economic disparities inherent in scoring. The Missouri study concluded that a consumer's race was the single most predictive factor determining a consumer's insurance score and, consequently, the consumer's insurance premium.

We were pleased that Congress, through the inclusion of Section 215 of the Fair and Accurate Credit Transactions Act of 2003, directed the Federal Trade Commission in conjunction with the Federal Reserve Board to study the impact of credit scoring on the availability and affordability of credit and insurance and to determine whether credit scoring was truly related to insurance losses or simply a proxy for race, income or other factors. The FTC conducted the insurance scoring component of this research.

Unfortunately, we find that the FTC study is fatally flawed in key areas and is not responsive to the Congressional mandate contained in the FACT Act. Most critically, instead of requiring the submission of comprehensive policy data by a large number of insurers, the FTC allowed the insurance industry to self-select the data for analysis. Thus the industry was unnecessarily afforded an opportunity to control the outcome of the study.

Even so, the FTC study found that insurance scores were worse on average for African Americans and Latino consumers, although this finding is downplayed in the report. The study also confirms that despite the growing reliance on credit-based insurance scores, there was no evidence to prove a causal connection between a consumer's score and auto insurance losses. Without the need to demonstrate such a connection, insurers could use any consumer characteristic, such as hair color, to price insurance products.

The FTC report acknowledges that the alleged correlation between risk and credit-based insurance scores might be explained by other factors. Instead of pursuing these other factors, the FTC employed subjective and pejorative racial stereotypes to try to support the alleged link between credit-based insurance scores and legitimate risk. Thus the FTC report mimics the insurance industry blaming-the-victim rationalization of claiming credit history is related to responsibility and risk management. A look at the actual scoring models shows that socio-economic factors have more impact on the score than loan payment history and that an insurance credit score has little to do with personal responsibility and everything to do with economic and racial status.

In short, there is ample evidence to justify banning credit-based insurance scores. Moreover, given the biased and flawed nature of the FTC study on scoring for auto insurance, the undersigned organization encourages Congress to consider assigning responsibility to conduct the homeowners scoring study to another agency, such as the U.S. General Accountability Office, which could then work in conjunction with state insurance regulators who have the necessary authority to obtain the desired data set from the insurance industry.

###

Center for Economic Justice is a Texas-based non-profit organization that advocates on behalf of low income and minority consumers on insurance, credit and utility issues

Consumer Federation of America is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education. www.consumerfed.org

National Consumer Law Center is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC recently released *Credit Scoring and Insurance: Costing Consumers Billions and Perpetuating the Economic Racial Divide,* available at www.consumerlaw.org.

National Council of La Raza is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve opportunities for the nation's Hispanics. As the largest national Latino civil rights and advocacy organization, NCLR serves all Hispanic nationality-groups in all regions of the country through a network of more than 300 affiliate community-based organizations.

National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights groups, and individuals from 37 states and the District of Columbia. Headquartered in Washington, DC and founded in 1988, NFHA, through comprehensive education, advocacy and enforcement programs, provides equal access to housing for millions of people.

Consumers Union of U.S., Inc. Consumers Union (CU) is an expert, independent, nonprofit organization, whose mission is to work for a fair, just, and safe marketplace for all consumers. CU publishes *Consumer Reports* and **ConsumerReports.org** in addition to two newsletters, *Consumer Reports on Health* and *Consumer Reports Money Adviser* with combined subscriptions of more than 7 million. Consumers Union also has more than 500,000 online activists who help work to change legislation and the marketplace in favor of the consumer interest and several public education Web sites. Since its founding in 1936, Consumers Union has never taken any advertising or freebies of any kind. The organization generates more than $160 million in revenue and a staff of more than 500 work at either CU's 50 state-of-the-art labs in Yonkers, NY; its 327-acre auto test facility in East Haddam, CT.; or the three advocacy offices in Washington DC, Austin, TX, and San Francisco, CA.