Testimony of Brent E. Adams
Senate Insurance Committee, Subject-Matter Hearing
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Good afternoon Mr. Chairman and members of the Committee. My name is Brent Adams, and I am the Vice President of Policy of Woodstock Institute and the former Secretary of the Department of Financial and Professional Regulation. For those unfamiliar with the Woodstock Institute, we are a nonprofit research and policy organization focused on financial justice and opportunity.

Credit scoring in the auto insurance industry is part of a broader trend to use credit scores to try to predict consumers’ future behavior – often in contexts totally unrelated to the extension of credit. I want to spend just a few minutes discussing some of the negative consequences of this trend. A credit score was originally intended to reflect only the likelihood that you would repay a debt. That’s it. Allowing the use of credit-based scoring in other areas, like in the setting of auto insurance rates, can become a trap whereby people with poor credit histories, who are disproportionately persons of color, become permanently saddled with low credit scores and with the array of disadvantages that come with that status.

The industry’s data about the correlation between its internal credit scoring system and the rate of auto accidents is irrelevant to the issue I am attempting to highlight today. Regardless of their algorithm, as I will explain, the wide-spread use of credit scoring perpetuates structural racial inequality. Charging a perfect driver who happens to have a low credit score more for auto insurance than a worse driver with a good credit score is only an example of a broader problem.

So how does a low credit score become a trap? First, consider that failing to pay a debt can scar your credit report for several years. As reported by the Washington Post last year, late payments and delinquent accounts that are sent to collections, such as defaulted credit cards or a foreclosure, can stay on your credit report for up to seven years. Bankruptcy filings can stay on there for up to 10 years. John Ulzheimer, president of consumer education at CreditSesame.com, a credit management Web site, stated, “In the world of consumer credit scoring, if you mess up, it’s a seven to 10 year penalty.” (https://www.washingtonpost.com/news/get-
Second, consider the fact that having bad credit makes it more difficult to access the tools that could be used to improve or establish your credit. Persons with low-credit scores have trouble obtaining access to traditional credit and may be forced to turn to payday loans or other costly alternative products. Persons with lower credit scores are also more susceptible to other types of fees – late payment penalties, overdraft fees, and insufficient fund fees. Utility companies use credit scores to determine security deposit requirements, and some employers rely on credit information to screen potential employees. And, as the insurance industry acknowledges, persons with lower credit scores are also faced with inflated insurance rates. In other words, **having a low credit score can become expensive**, leaving a consumer with less income, which makes them less able to pay off their debts, which, in turn, makes them less able to improve their credit score.

Turning now to who is most likely to wind up in this trap. Our research shows that lower credit scores are disproportionately found in communities of color. Woodstock published a report in September 2010 (*Bridging the Gap: Credit Score and Economic Opportunity in Illinois Communities of Color*) that found that individuals living in communities of color were far more likely to have lower, “non-prime” credit scores while individuals in predominantly white communities were much more likely to have higher, “prime” credit scores. Scores less than 620 are widely considered to be “non-prime.” Statewide, 20 percent of individuals had credit scores less than 620. In zip codes where the population was more than 80 percent African-American, however, over 54 percent of individuals had credit scores less than 620. By contrast, in zip codes with a minority population of less than 10 percent, only 17 percent had credit scores less than 620.

On the other side of the spectrum, individuals in predominantly white zip codes were far more likely to have very strong credit. Credit scores greater than 700 are considered very strong. In communities that are predominantly African-American only 25 percent had credit scores greater than 700 while in predominantly white communities, 67 percent had credit scores greater than 700.

Similar patterns exist when looking at zip codes in majority Latino communities. In predominantly Latino communities, over 30 percent of individuals had a credit score of less than 620 and only 47 percent had credit scores greater than 700.
This research conclusively demonstrates that decision-making processes, like the setting of auto-insurance rates, that are based on credit scoring have a disproportionately negative impact on African-American and Latino communities. The widespread use of credit scores amounts to an economic trap – a trap that disproportionately ensnares African-Americans and Latinos. I would like to thank Senator Collins and the co-sponsors of SB 2208 for their leadership on this issue. Banning the use of credit scoring in setting auto insurance rates is one step that could help address this systemic, structural inequality. Thank you for your time and attention.