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The Basics

One late payment can doom you

Credit-card companies and insurers are combing your records for any reason to justify a rate increase. Just a single late payment or over-limit charge could ripple through all your unrelated accounts.

By Lucy Lazarony, Bankrate.com

Mind those bills. All of them. A late payment on one account could cost you higher rates and fees on all your accounts -- from your credit cards to your auto insurance. More and more companies are peeking at credit reports regularly to justify raising interest rates or increasing credit limits.

Some of the biggest credit-card companies have started aggressively penalizing customers who show signs of trouble anywhere in their credit reports. If a company likes what it sees in a customer's credit report, a cardholder might be rewarded with a thicker credit line. But one black mark from any creditor could trigger a rate hike.

So if you fall behind on your Sears bill, the interest rate on your Citibank credit card could shoot up.

A justification for hiking rates

"Why should that matter?" asks Howard Strong, author of "What Every Credit Card User Needs to Know." "It doesn't harm them in any way. It's ridiculous. It's just a way to knock up rates."

The lenders say their concerns are justified.

"We're looking at risk factors. If we see someone become delinquent with another creditor, that may be an indicator that they are about to become delinquent with us," says Maria Mendler, a spokeswoman for Citibank.

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"We may need to adjust our credit decisions accordingly."

Credit counselors say many people feel blindsided by the credit-card companies' rate increases -- especially if they haven't been late with any payments.

"I'm hearing about it more and more," says Hal Prather, a branch manager at Consumer Credit Counseling Service in Norcross, Ga. "It's apparent to me that most people don't read the inserts (that come with their statements). I think most people learn about it the hard way."

Mike Kidwell, vice president of the nonprofit debt crisis center Myvesta, adds, "We get calls and e-mails all the time. 'I've never been late on this card. Why is my rate going up?' Or 'I had trouble with one account and my rates went up on another card.'"

"You've got to be aware of limits on credit cards. If other creditors are seeing balances going up and all of a sudden you're late, you're considered a greater risk. Not just with the one creditor that you paid late, but with all your creditors."

The credit/auto connection

Does having bad credit make you a bad driver? Some auto insurers think so. That's why they're using credit data to help determine your insurance rates.

Ninety-two of the 100 largest personal auto insurance companies in the country use credit data in underwriting new business, according to a study by Conning & Co., an insurance research and asset management firm.

It's not as wacky as it sounds. There does appear to be a connection between your credit record and the likelihood of you filing an auto insurance claim.

Drivers at the bottom of the credit heap file 40% more claims than drivers at the top of the credit heap, according to a study by the Insurance Information Institute.

Consequently, having black marks on your credit report could really bump up your auto insurance rates.

"A consumer with bad credit is going to pay 20% to 50% more in auto insurance premiums than a person who has good credit," says Clarence Smith, assistant vice-president at Conning & Co.

Who's watching

Some credit-card companies review customers' credit reports more often than others.

"Some may do it monthly. Some may do it quarterly. Some may do it yearly," says Martie Edmunds Zakas, corporate vice president of communications for Equifax, one of the three major credit bureaus. "Some never do it."

All Capital One card customers are subject to periodic credit checks.

"Of course, we may look at rule-breakers more frequently," said Diana Don, a spokeswoman for Capital One. "If people are constantly late or going over the limit, we don't want to give them that much leverage to overextend themselves."

Most auto insurance companies use credit data when underwriting new customers. Far fewer, just 14% of the nation's largest insurers, use credit data on contract renewals. And some states don't allow this practice at all.

Just how big an effect your credit record has on your auto insurance bill varies -- based on the state you live in and the insurance company you choose.

"Good credit at one company may not be a good insurance score at another company," Smith says. "That's why it's important to shop."

A study by the Casualty Actuarial Society showed that people with prior driving violations or accidents and good credit had much better loss ratios than people with clean driving records and a bad credit history. An auto insurer prices policies based on a customer's potential to file a future claim. Someone with a flawed driving record and clean credit record could actually end up paying less for auto insurance than someone with a spotless driving record and a spotty credit record.

Insurance score secrets

Your auto insurance company doesn't actually peek at your credit report. Instead, it receives an insurance score from a credit bureau based on the information in your credit record.

Fair, Isaac and Co. provides the credit bureaus with the formulas to crunch insurance scores. Some insurance companies have their own scoring models. Like a credit score, an insurance score is based on information found in a consumer's credit file. But the formulas used to arrive at the two

types of scores are quite different.

"An insurance score is going to be less concerned with your propensity to take on new credit and more interested in how long you've been managing credit," says Craig Watts, a spokesman for Fair, Isaac and Co. "Insurance scores focus on issues of stability."

Curious about your insurance score? Good luck finding out. Insurance companies aren't required to tell, and few do. "I don't know anybody who will show you an insurance score," says Gerri Detweiler, author of *The Ultimate Credit Handbook*. "It's still a bit of a mystery to consumers."

Even if you could find out your insurance score, it might not be all that helpful. Yes, it could give you a sense of how a single auto insurer rates your credit record, but that's it.

When it comes to insurance scores, there's no uniform standard. So another insurance company, using another scoring model, could assign you a different insurance score and offer you vastly different rates.

The key thing to realize is your credit record does affect the cost of your auto insurance.

If you're having credit problems, it's best to stick with your current auto insurer until your credit record improves. If you must shop for a new auto policy, ask the insurer if they use credit data in their decision-making process. Not all insurance companies do.

How to protect yourself

Here's how to manage your accounts to reduce your chances of a late payment:

- | Keep a list of all accounts, due dates, balances and credit limits.
- | If an account's due date falls at a time of the month when cash is tight, call the issuer and have the due date changed.
- | Get in the habit of paying bills as soon as they arrive.
- | Monitor all accounts carefully.
- | Check your credit report at least once a year and correct any errors.

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