CONSUMER ACTION NEWS

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Insurance Issue

Insurance poll highlights downsides to filing a claim

Widespread misunderstanding of rental car insurance also found

More than two-thirds of respondents had their homeowner's insurance premiums increased after they filed a claim, according to an online insurance poll conducted by Consumer Action from Sept. 17 through Oct. 9. One in five said that the insurance company did not renew the policy after a claim was filed.

The poll of 800-plus people was designed to learn about what types of coverage is carried by households and to gauge consumer knowledge on the particulars of various types of insurance. Overall, the survey found that consumers appear to recognize the benefits of being insured and the value of paying premiums to ensure this protection.

The poll also displayed that consumers have a good knowledge of the ins-and-outs of insurance. However, widespread confusion exists about what is covered by credit card rental car insurance.

The survey was taken by 828 people. Of those, 96.5% (799) have auto policies, 75.1% (622) have homeowner's insurance, 64.9% (537) have life insurance and 9.2% (76) have renter's coverage.

Auto insurance

The U.S. is a nation of drivers, so it was no surprise that 799 out of the 828 respondents had auto insurance. Of the 576 people who had filed an auto insurance claim, a whopping 92% said that their premium had been increased following the claim. More than 10% said that their policy was not renewed following a claim.

Most people (41%) insured two cars in their households, while 31% insured one.

The majority paid between $1,001 and $1,500 per year for auto coverage, while 26% paid less than $1,000.

Consumer knowledge

Respondents were very well informed about most insurance issues in the survey, however credit card rental car insurance emerged as a widely misunderstood topic.

Many credit cards provide "collision

See "Insurance poll," page 3

Consumer Action debuts new insurance education web site

By Linda Sherry

Consumer Action's new Insurance Education web site is a free online clearinghouse for educational materials about the multitude of consumer insurance products and the need for adequate insurance coverage.

The site can be reached from Consumer Action's web site, or directly at www.insurance-education.org.

Despite the efforts of many nonprofit organizations and government agencies, there is still a critical need for insurance education across many populations—students, young working adults, low-income people, immigrants, the uneducated and older Americans.

"Financially literate consumers are more confident about their money management skills and thereby make more successful personal financial choices," said Executive Director Ken McEldowney. "Our new insurance web site is yet another valuable resource we offer to help promote financial literacy."

The site will feature Consumer Action's award-winning multilingual educational projects targeting consumers with low financial literacy levels and limited English-speaking ability. The Insurance Education Project is also providing training materials and curricula to community-based organizations (CBOs) nationwide.

Consumer Action's Insurance Education Project focuses on these broad areas:

• Understanding insurance services (including homeowner's insurance, auto insurance, health insurance and life insurance) and ways to get the best deals on insurance premiums.

• The importance of anticipating,

See "Web site," page 2

What's inside?

Consumer Action honors excellence in consumer advocacy

By Michelle de Mooy

Consumer Action celebrated 37 years of advocacy and service on June 21 at The Atrium restaurant in San Francisco. The annual gala raised more than $40,000 and the guests included activists, consumer reporters, staff members, longtime and new supporters, and award recipients.

At the event every year, Consumer Action presents its Consumer Excellence Award in three categories: Community, Advocacy, and Media. The awards pay tribute to community-based activists or organizations, media outlets, and lawmakers who have demonstrated a strong commitment to fighting on behalf of important consumer issues.

Awardees

The 2008 Consumer Excellence Award for Outstanding Advocacy was awarded to the California Reinvestment Committee for its tireless advocacy on behalf of low-income and minority communities. The CRC seeks to increase access to banking and other financial services for these communities.

Consumer Action Deputy Director of National Priorities Ruth Susswein presented an award for Outstanding Community Service to Pam Dixon, founder and Executive Director of the World Privacy Forum. One of the nation's foremost privacy advocates, Dixon has written numerous ground-breaking reports on privacy and has been responsible for the enactment of California legislation protecting consumer medical privacy.

This year's Outstanding Consumer Journalism award went to Herb Weisbaum, otherwise known as "The ConsumerMan." Weisbaum, ConsumerMan on MSNBC and a consumer reporter for KOMO in Seattle, WA, has covered consumer issues for almost 30 years.

See "Annual event," page 7

Executive Director Ken McEldowney welcomed guests to Consumer Action's 37th Anniversary Party, held in San Francisco in June. (Staff photo)

Consumer Action

www.consumer-action.org

Consumer Action is a non-profit 501(c)(3) advocacy and education organization founded in 1971. We publish surveys and distribute multilingual educational materials in printed form and on the Internet.

Consumer Action provides nonlegal advice and referrals on consumer problems. Chinese, English and Spanish are spoken. Call or write:

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The right rental car coverage can smooth your ride

By Ruth Susswein

You're coasting into the airport with plenty of time left before your flight. All that's left to do is return the rental car and gather your luggage. Then you're rear-ended by another rental car customer and there's some real damage to the back bumper and taillight. You rented the car with your credit card and it has collision damage waiver (CDW) insurance. Not to worry, you're covered—right?

It depends. Typically, your personal auto insurance policy kicks in first and your credit card coverage is secondary, according to the Insurance Information Institute. What's more, if you cause an accident or damage someone's car, health or property, the credit card CDW coverage does **not** apply.

When booking your trip, check out your coverage. Ask if your personal policy covers you while you are driving a rental car? Learn how much collision and liability coverage you have under your personal policy and what the deductible is. Only then can you feel comfortable signing the waiver form and declining the extra cost for rental car insurance.

Call your credit card issuer to learn the coverage your card provides. Ask if additional drivers who are not cardholders are covered. Find out if the card will cover rental car companies' "loss of use" charges. American Express, for instance, offers CDW coverage on all cards but allows you to upgrade the coverage for a fee.

You must pay for the rental car with the credit card to be eligible for coverage.

Limitations

Credit card rental car insurance is not personal liability coverage. It will pay for damage to the car, such as a hit-and-run scrape or a windshield broken by a pebble. It will pay for a stolen rental car. But it will not protect you from liability if you cause an accident or property damage while driving the rented car. Your personal policy is what covers you.

Some credit card CDW insurance does not provide coverage when you rent a car in another country. Some policies limit coverage to one month which can be a problem for long term travel. Many credit card policies exclude coverage for specialty cars, sports cars, even SUVs.

Even if your CDW coverage applies, it may not cover down time or "loss of use" while the car is being repaired and cannot be rented. This cost may be covered if you buy insurance through the rental car company. Lastly, it's worth knowing if any of your policies cover towing charges in case of a break-down or accident. ■

Everything covered? If not, ask for a 'rider'

By Linda Sherry

The insurance industry refers to additional coverage for something specifically not covered in a primary policy as a "rider." In most cases, when a rider is added to a basic insurance policy, the policyholder is required to pay extra for the additional benefit. If your insurance company allows it, riders can be added to most forms of insurance, including auto, homeowner's and life insurance policies.

Typically, riders are separate coverage attached to the standard policy. "Endorsements" are similar but they usually amend the actual policy language.

Insurance companies can also use riders (and endorsements) to place limits on a policy or restrict coverage. For example:

• Health care plans may use a rider to exempt coverage of pre-existing conditions.

• Homeowner's policies may not pay for wind damage above a certain dollar amount specified in a rider.

Gaps in coverage

In homeowner's insurance, coverage of expensive luxury items is usually limited or exempted. To address this gap in coverage, riders are added to insure specific artworks, electronics, jewelry, collectables and other rare or costly items not covered in the basic policy. Typically, the premiums to cover luxury or collectable items are based on each $100 or $1,000 of their value, for example 25¢-$1.50 per year per $100 of its value. Items covered by a rider should not count against your overall coverage for the contents of your home.

Depending on the insurer, you may be able to add riders to your homeowner's policy for guaranteed replacement cost, inflation protection, building code upgrades required by law and sewer and drain backups. For instance, if you own an old house, your insurance may not cover the cost to rebuild it to meet new building codes, which may be significantly more expensive than rebuilding your home as it was. A code coverage rider would cover the additional cost of building to meet current ordinances.

Recreational vehicles

Many homeowners' policies don't cover boats and recreational vehicles stored in your garage or driveway. It's possible to add a rider to your policy to cover these vehicles.

Second home coverage

Some insurance companies offer second (vacation) home coverage as a rider to your primary residence homeowner's insurance policy. You might save money by purchasing a rider as opposed to a separate, stand-alone insurance policy for a second home.

Auto insurance riders

Auto insurers have some common options for supplemental coverage. Rental reimbursement coverage pays you for renting a car if your own vehicle is damaged or stolen. Towing and labor coverage is offered to pay the costs associated with a break down, such as a flat tire that leaves you stranded on the road side.

A "gap insurance" rider will pay the difference between the cash value of your car and the remainder of your auto loan if your car is totaled in an accident. *(See story on page 4.)*

Inventory your possessions

To make sure that you have the best coverage possible, create an inventory of your possessions that you can store in a safe place such as a bank safe deposit box. List items such as furniture, clothing, personal items, jewelry and other collectable items. If you have receipts for any of the items, place them with the inventory. You can also take photos or videotape of your items. The list, receipts and photos will be important if you need to file a claim.

Call your insurance providers and discuss the various items on your list to make sure they are adequately protected. The cost of full coverage via a rider may be less than you believe. ■

Web site

Continued from page 1

planning for, and saving for emergencies—such as job loss, disasters, illness or disability.

• Ways that individuals can identify and avoid becoming victims of fraudulent activities—such as insurance fraud and scams.

Insurance-Education.org is the newest member of the Consumer Action family of free web sites. From the main site (www.consumer-action.org), visitors can use the pull down menu on the right titled "Select a Project or Program" to access all the sites: Insurance-Education.org, Manage-Money.org, Housing-Information.org and the Consumer Services Guide (www.consumerservicesguide.org). Another web site centering on privacy is under development.

Insurance-Education.org features news, publications, new books, frequently asked questions and more. Please check it out and email our Editor with any comments or suggestions. The email address is editor@consumer-action.org.

The project has been funded by Consumer Action's Insurance Education Project.

Consumer Action will raise funds to expand the Project in order to:

• Create coalitions of key stakeholders.

• Hold forums in which community and consumer groups can network with financial services industry associations and corporations to air problems and concerns and to create partnerships.

• Train Consumer Action's network of more than 10,000 community-based organizations nationwide. Consumer Action has built this pipeline as an efficient and effective way to promote personal financial literacy. These organizations, regarded with trust in their communities, help us distribute educational materials to hard-to-reach populations.

• Partner with corporations, nonprofit consumer advocacy, and community-based organizations to create and distribute free materials and conduct outreach and training activities.

• Provide community partners with stipends and other support to allow them to fully participate in our insurance education agenda.

• Bring together stakeholders to further develop and coordinate existing insurance education programs.

• Increase awareness of success stories, best practices and key incentives for teaching personal finance topics.

• Ensure the availability of in-language materials and outreach in Spanish, Chinese, Korean, and Vietnamese. Other languages may be added in the future. ■

FDIC insurance now covers up to $250,000 through ’09

By Linda Sherry

The economy is rocky, and well-known banks are failing. Is your money safe?

If your accounts are insured by the Federal Deposit Insurance Corporation (FDIC)—and most checking and savings accounts are—your deposits will be safe. There are limits, however, to the coverage on individual bank accounts. If you know the limits, you can set up your accounts to ensure that all your money is safe.

As of Oct. 3, individual deposits up to $250,000 are fully insured by the FDIC through the end of 2009. This is an increase from old coverage limits of up to $100,000. Retirement accounts were not changed and are covered up to $250,000.

Higher insurance limits

On Oct. 3, Congress passed legislation that would temporarily allow the FDIC to insure up to $250,000 per person in non-retirement bank deposits. The change is effective through Dec. 31, 2009, and there is the chance that Congress may increase coverage levels permanently.

The increased limits on deposit accounts allow bank customers to keep more of their insured deposits at the same institution, instead of distributing money across many banks for maximum coverage. Congress increased the insurance limits in its economic “rescue” or “bail-out” legislation.

To-do list

To make sure all your money is protected, take the following steps.

First, determine if your bank or savings institution is FDIC-insured. Call your bank, or visit a branch and look for the FDIC sign. To verify that your accounts are covered, you can call the FDIC at 877-275-3342 or use its “Bank Find” tool (www.fdic.gov/deposit/index.html).

Second, if you have more than $250,000 at the same institution, you can move the excess funds to one or more additional FDIC-insured institutions. FDIC-insured retirement accounts, such as Individual Retirement Accounts (IRAs), are covered up to $250,000.

Historically, insured deposits at a failed bank are available to customers within just a few days. The agency says that since FDIC coverage started in 1933, no depositor has ever lost a penny of insured deposits.

The brokerage difference

It is important to know the difference between bank deposits and investments. The FDIC does not insure the money you invest in stocks, bonds, mutual funds, etc.—even if you purchased them from an insured bank.

Investors with money in these types of accounts may be insured if the financial institutions fail. Most brokerage and investment accounts have protection from the Securities Investment Protection Corporation (SIPC), which guarantees up to $500,000 per covered account if your brokerage firm goes bankrupt. Your money would not be protected if the fund fails.

Multiple deposit accounts

Coverage limits for multiple accounts can be tricky to understand. Because of this, the FDIC offers an online calculator (www.fdic.gov/edie) to help you manage your accounts so that the largest amount possible will be insured.

The FDIC provides separate insurance coverage for deposit accounts held in different categories of ownership. You may qualify for more than $250,000 in coverage at one insured bank if you own deposit accounts in different ownership categories such as single accounts, certain retirement accounts, joint accounts and revocable trust accounts. (See “James and Sarah: Fully Insured.”)

Single accounts are held in one person’s name. All of your single accounts at the same insured bank are added together and insured up to $250,000. For example, if you have a checking account and a CD at the same insured bank, the total is insured up to $250,000.

To fully protect sums of more than $250,000 you can set up separate single accounts at other FDIC-insured institutions. Couples are insured up $500,000 in a joint-ownership account.

To insure more than $250,000 at one FDIC-insured bank, you can open various types of accounts. For instance, a couple could obtain up to $1.5 million in FDIC coverage at one bank by opening two individual accounts, a joint account and two payable-on-death trust accounts that name the other as beneficiary. Each person’s share of a joint account is considered equal (50-50) unless otherwise stated in the bank’s records.

Retirement Accounts

Certain individual retirement accounts held at an FDIC-insured bank are covered separately. All deposits owned by one person in retirement plans at the same insured bank are added together and the total is insured up to $250,000. For example, if an individual has an IRA and a self-directed Keogh account at the same bank, the deposits in both accounts would be added together and insured up to $250,000. However, if you have $250,000 in an IRA and $250,000 in a Keogh, consider moving one of the accounts to another FDIC insured institutions.

Joint Accounts

These are deposit accounts owned by two or more people. If both owners have equal rights to withdraw money from a joint account, each person’s share of all joint accounts at the same insured bank are added together and the total is insured up to $250,000.

If a couple has a joint checking account and a joint savings account at the same insured bank, each co-owner’s shares of the two accounts are added together and insured up to $250,000, providing up to $500,000 in coverage for the couple’s joint accounts.

Trust accounts

Deposits held in either payable-on-death accounts or living trust accounts have complicated coverage rules. For example, in a living trust set up by parents to benefit their children, FDIC coverage is structured per individual beneficiary, not per account.

To obtain detailed information about FDIC insurance rules for trust accounts, gather recent account statements and contact the FDIC.

FDIC representatives can be reached at 877-275-3342 (877-ASK-FDIC) from 8 a.m.-8 p.m. (Eastern Time) weekdays. You can e-mail the FDIC online (www2.fdic.gov/starsmail). ■

James and Sarah: Fully insured

James and Sarah Smith, a fictional couple created for this example, have two single accounts, a joint account, and two trust accounts with each other as named beneficiaries. The accounts are held at the same FDIC-insured institution. Before Congress acted on Oct. 3 to temporarily increase the insurance amounts through 2009, James and Sarah would have been covered up to $600,000 on these accounts. Now they are fully insured for all their holdings at $1.5 million.

Single Ownership Accounts	**Balance**	**Insured**
James	$250,000	$250,000
Sarah	$250,000	$250,000
Joint Ownership Accounts	**Balance**	**Insured**
($500,000 total)		
James 50% ownership	$250,000	$250,000
Sarah 50% ownership	$250,000	$250,000
Living Trust Accounts	**Balance**	**Insured**
James’s Trust	$250,000	$250,000
Sarah (as beneficiary)		
Sarah’s Trust	$250,000	$250,000
James (as beneficiary)		
Total	**All Balances**	**Insured**
	$1,500,000	$1,500,000

Source: FDIC “EDIE the Estimator” calculator (www.fdic.gov/edie)

Bank insurance tips

- Coverage of your account at an FDIC-insured bank happens automatically, at no cost to you.
- Maintain as many separate accounts at different FDIC-insured banks as you need to in order to insure all your money.
- Call the FDIC at 877-275-3342 to obtain information and guidance about your coverage.
- Hold your money in different ownership categories—single, joint and retirement accounts—to ensure coverage of more than $250,000 at a single bank.
- Use the FDIC Electronic Deposit Insurance Estimator (EDIE) at www.fdic.gov/deposit/deposits.
- You must be told when a financial product offered by your bank is not covered by FDIC insurance.

Insurance poll

Continued from page 1

damage waiver,” or CDW, coverage when the card is used to rent a car. *(See related story on page 2.)* Consumer Action’s survey highlights that many people incorrectly believe that the rental car insurance offered by credit cards protects them from liability for their actions while driving a rental car.

The survey offered five multiple-choice answers to the question “Credit card rental car insurance covers which of the following occurrences?” Four of the six answers were incorrect *(see below)*. Respondents were allowed to choose multiple answers. At least one correct answer was chosen by half of the respondents. Many respondents chose these incorrect answers:

- Property damage caused by you while driving the car (30%)
- Medical coverage for a bicyclist you hit while driving the rental car (12%)
- None of these (14%)
- All of these (49%)

Homeowner’s insurance

Of those with homeowner’s insurance, 39% pay annual premiums of “less than $1,000” and 17.2% paid between $1,001-$1,500.

About a third (32.2%) said they had filed a claim—and 14.5% said the claim was denied. Homeowner’s insurance premiums increased for 70% of those surveyed, after they filed the claim. 20% said that the insurance company did not renew the policy after they filed a claim.

“This is one of the most unfair aspects of the insurance industry,” said Linda Sherry of Consumer Action. “You pay for protection—sometimes for years—and once you need it, they drop you like a hot potato.”

Sherry noted that often it is a real scramble for people to replace coverage. In most cases, they end up paying much more for new (and sometimes less protective) coverage because of their claims history.

FDIC insurance, etc.

Most respondents knew the limits on Federal Deposit Insurance Corporation deposit insurance. More than three-quarters correctly identified $100,000 as the coverage limit on individual accounts. (The temporary measure to increase the limit to $250,000 occurred the week the survey was closed.) However, it is troubling that 16% said they did not know the limit.

When asked to name which of several factors *does not* affect auto insurance premiums, the majority at 65% correctly chose “vehicle fuel efficiency.” However, 19% said they did not know, and 8% incorrectly answered that credit history had nothing to do with auto insurance premiums. *(See story, page 8.)*

Again, the majority at 60% knew that it is the person (or persons) who signed the lease on a rental dwelling that can be held liable if a guest is injured on the premises. This question stumped a quarter of respondents, who answered, “I don’t know.”

Sixty one percent knew that floods are not covered by a homeowner’s policy. (The federal government sells separate flood insurance policies to homeowners who live in flood zones.) Given the potential for flooding in many parts of the country, it is disconcerting that 40% of respondents were unaware of this.

About the survey

Consumer Action used Survey Monkey (www.surveymonkey.com) to conduct the survey. The 828 respondents came from 41 states and the District of Columbia. More than 95% identified English as their first language, while 2% chose Spanish and 1% chose Chinese. ■

‘Pay-as-you-drive’ auto insurance

The cost to your privacy may outweigh lower premiums

By Ruth Susswein

Discount auto insurance plans have been cropping up in dozens of states across the country. They’re often called pay-as-you-drive (PAYD) or mileage-based insurance. These pay-less programs link your insurance premium to your car’s odometer. But consumer leaders counter that you ought to be eligible for discounts without giving up privacy.

In some states, you may be able to receive these discounts even without the PAYD program. The California Insurance Commissioner proposed a voluntary PAYD plan this August that would base car insurance rates partly on how many miles you drive per year. According to a Brookings Institution study, some California drivers could save about $276 per car with per-mile premiums.

California requires insurers to base auto insurance rates first on your driving record, second, on the number of miles driven and third, on the number of years you’ve been driving. Even under the new plan, the most weight will continue to be on your driving record. Thirty-four states offer some form of pay-as-you-drive insurance.

If you have a short commute to work and don’t do much carpooling of kids to various activities, you may save as much as 25% on your car insurance premium, according to Progressive Insurance. Conversely, if you have a long commute to work or lots of carpooling those extra miles could mean higher rates.

While most consumer groups strongly oppose many PAYD programs, environmental groups firmly support them. Groups like the Environmental Defense Fund expect mileage based programs to encourage people to reduce their driving by 10%-12%, and anticipate reductions in accidents, traffic, and air pollution.

Insurance companies say PAYD programs help them accurately price for risk. But consumer groups stress that odometer readings could be obtained without intrusive recordings.

How it works

Some PAYD programs base your premium on an estimate of the number of miles you expect to drive that year. You’re charged extra if you exceed that limit or receive a credit if you end up with unused miles.

Other plans discount your premium up front if your mileage is below a certain level. (Many companies already offer this discount without PAYD.) Drivers insured with GMAC, for instance, are eligible for a discount for driving less than 15,000 miles a year.

The PAYD system works by verifying mileage. Some plans have drivers report their car’s mileage but use random verification checks to confirm the accuracy of the numbers.

For its pay-as-you-drive program, GMAC uses General Motor’s OnStar GPS (global positioning satellite) system that logs how many miles have been driven. The odometer reading is automatically sent to GMAC. The insurer says, in some states, premiums are down 13% to 54%.

Most consumer and privacy groups consider automated tracking devices to be completely unnecessary and intrusive.

“In some states not only do insurers track miles, they track the speed you drive, whether you drive day or night, and how well you stop at red lights and stop signs,” says Consumer Action’s Executive Director Ken McEldowney. He argues that these systems violate basic principles of privacy. “Why would my insurance company need to track what time I am driving and how would that data be used? Would that knowledge make me a more or less risky driver?”

Progressive’s mileage based program does not use GPS tracking, but it does record time of day and braking patterns. Progressive Insurance provides you with a small electronic device that you install under the hood of the car. The device reports data to the insurer daily. It tracks the miles you drive as well as any abrupt braking and accelerating. It also records the time of day that such readings are taken. Progressive considers midnight to 5 a.m. dangerous driving time, while rush hour is called moderately risky. The insurer says it does not have access to your location.

Dangerous assumptions

As more information is tracked and transmitted about each of us, consumer groups have cautioned that mileage-based systems gather far more information than is necessary, and allow dangerous assumptions to be made without any proof of accuracy.

“If I drive to a corner and park my car, am I going into the gym on the corner or the bar across the street?” asks Bob Hunter, Director of Insurance for the Consumer Federation of America. “Are you going to assume where I am?”

In California, consumer and privacy groups fought hard to have any forms of mandatory tracking removed from the state’s discounted driving options.

Currently, with the backing of many consumer groups, California Insurance Commissioner Steve Poizner believes he has found a middle ground. Starting in 2009, he proposes to offer drivers three options to report low mileage and save money. Drivers could either submit car maintenance records, have the insurance company check the odometer periodically, or install an electronic device that reports directly to the insurer—but only tracks total mileage, not how or where you travel. ■

Auto coverage and car loan balance with gap coverage

By Michelle De Mooy

Purchasing a new car with a loan? Before you drive it off the lot, consider getting gap insurance. Gap insurance covers the difference between what you owe on the loan and the car’s value after it leaves the dealership. New cars can depreciate 20%-30% the second they are driven off the lot. Gap insurance can protect you if your new car is damaged or stolen, especially if you paid only a small down payment.

While cars depreciate in the blink of an eye, your auto loan often takes years to pay off. So though your car is losing value, the amount you owe the bank hasn’t changed. In housing, it’s called an “upside down” loan, meaning you owe more than the house (in this case car) is worth. The longer the loan term, the more likely it is that you are upside down. If your car is totaled, stolen, or you decide to roll your loan into another car, you will be literally paying for a car you no longer have. Gap insurance can cover the difference.

Anyone who is financing a car loan could use gap insurance, but it’s especially important if you think you might end up upside down on the loan because you made a low down payment, have a high interest rate or rolled in other costs like money you still owe on your trade-in vehicle. Car buyers who make a big down payment in cash probably don’t need gap insurance. Some purchase it early in the life of the loan if they’re a higher risk driver such as a very young or very old driver.

Cars depreciate in the blink of an eye, but your auto loan may take years to pay off.

Before you purchase a new car, check to see if gap insurance is already built into your current insurance policy. If it’s not, you can usually buy it at a reasonable additional cost. Not all companies offer gap insurance, but many do. If yours doesn’t, do some comparison shopping with reputable companies to find the best deal. Beware of buying gap insurance offered by the dealer as it is usually much more expensive than a policy offered by a traditional insurance provider.

Consumers who lease a car are the best candidates for gap insurance because typically they put down little or no cash so they have limited trade-in equity. If your insurance company declares the leased car a total loss after an accident, you’ll owe the difference between the actual market value of the vehicle and what you owe on the balance of the lease. Again, check your lease to see if gap insurance is already built into it, as well as your current auto insurance policy. It’s important to read the fine print on any policy, as some have specific limitations and won’t cover you in certain situations, such as if your car is destroyed in a natural disaster.

Drivers of SUVs are particularly vulnerable to hemorrhaging cash in the event of a loss. These cars depreciate very quickly. In the event of a loss you could be left paying off a high “gap” between what you owe and what traditional car insurance will repay you toward the value of the vehicle. SUV owners, in particular, should consider gap insurance to cover this potential shortfall.

Also, as car dealers have gotten more desperate to sell their inventory in a declining economy, they have introduced 72-month loans—six years. Think twice before taking a six-year loan because the money you’ll pay in interest will be more than the money you would save on the monthly payment. The longer you finance a car, the more difficult it is to “catch up” to the actual value of the car.

If you decide a 72-month loan is right for you, gap insurance might be your best defense against being upside down on your car.

The best place to find gap insurance is with an insurance company or bank that you already know and trust. According to Bankrate.com, typical gap insurance can range in cost from $14-$40 a month. ■

Auto claims may hinge on use of ‘aftermarket’ parts

Your car is damaged in a collision. It’s painful, but you’re relieved to have the insurance coverage to return your car to its pre-damage condition. Then you learn that your insurance company requires repairs using less-expensive “aftermarket” parts that were not manufactured by your car company. Now you have a new concern: Will your car be as safe to drive?

Insurance companies specify the use of aftermarket parts because they are cheaper. In this case, however, cheaper does not mean the parts are of lower quality. But depending on where you live, you may have to pay the difference if you want manufacturer’s parts.

Insurance is regulated by each state. Every state determines if it will allow insurance companies to use aftermarket parts for car repairs. Thirteen states allow repairs to be made with aftermarket parts—with the consumer’s consent. Some states allow these parts without consent, and a few states still ban the use of aftermarket parts.

By some estimates, it may cost 30%-50% less to use aftermarket parts to repair your car, compared to the original equipment manufacturer’s parts.

Aftermarket parts are new parts usually made by a company other than your car’s manufacturer. They are not rebuilt or reconditioned parts. In some cases, these parts are made by the original equipment manufacturer.

Will they pay?

Insurers may tell you that they only will cover the entire repair bill if aftermarket parts are used. Otherwise you will not be fully reimbursed. Insurance companies are responsible for repairing or replacing parts with parts of the same kind and quality but not necessarily the original manufacturer’s parts.

Some insurers only require the use of aftermarket parts on cars that are three years old or more. Other insurers place that limitation on certain parts, such as air bags.

Safety of aftermarket parts

The independent research group, the Insurance Institute for Highway Safety, says that with the possible exception of car hoods, there are no safety implications for aftermarket parts.

Ask your mechanic if the part you’re replacing is “CAPA certified.” CAPA is the Certified Automotive Parts Association that tests and guarantees the quality of aftermarket parts. It also offers the CAPA Tracker online (www.capacertified.org). If the part is entered into its system you will be notified in case of a parts recall. ■

—Ruth Susswein

Travel insurance

Is it worth the extra cost?

By Ruth Susswein

Insurance is designed to protect you when catastrophe strikes. But trouble is the last thing most of us want to think about when planning a trip.

What if you have a heart attack while traveling overseas, or just before you leave? Are you covered? What if your luggage is lost on the way to giving a big presentation the following morning? If the tour operator cancels your trip, are you out the many thousands of dollars you've paid? Before deciding if you need the added protection, it's helpful to know what is covered.

A travel insurance policy may cover lost or delayed luggage, trip cancellations or delays, and medical emergencies.

Baggage claims. If an airline loses your luggage it may be liable to compensate you (up to $3,000 within the U.S. and up to only about $450 overseas) for lost, stolen or damaged luggage. But you may have to prove the value of the items you traveled with and face exemptions for expensive items like jewelry. Ultimately, refunds will be based on the items' depreciated value. (How much are those seven-year-old leather boots worth today?)

Separate travel policies may reimburse up to $1,000 for lost items. Some will cover the cost of goods needed during a travel or baggage delay. You may have to buy a new suit for the speech you'll be giving in a few hours even though your bag didn't arrive. Remember to save receipts for those new goods if you'd like a refund.

TIP: If you are traveling with valuables, you can ask to purchase "excess valuation" coverage from a counter agent at the airport. It will cost about $1 per $100 of value and you will be asked to list the contents of your luggage.

(For car rental insurance information, see page 2.)

Trip cancellation claims. Often you'll be covered if you must cancel your trip because of a death in the family, jury duty, or if you (or a family member) are ill. Sometimes natural disasters, such as hurricanes or tsunamis that prevent travel, are covered. Some policies will offer cancellation coverage for business or work related emergencies. Check on what kind of proof is required when filing a claim.

If you experience a travel delay of more than six hours, your policy may reimburse you for missed connections on another flight or cruise.

It is just as important what's not covered. Often pregnancy related conditions, anxiety, and pre-existing conditions are not covered. Cancellations for terrorist related events are excluded.

Medical emergencies. This type of coverage can be very valuable if you are traveling internationally. If you get sick or injured while in another country, it is unlikely that your insurance will be accepted there. Good candidates for this coverage are students studying abroad, foreigners studying here and U.S. vacationers traveling overseas. But be sure you qualify for the coverage. Check on pre-existing conditions and age limitations if you're older than 55.

Emergency medical insurance may include doctors' and hospital expenses as well as reimbursement for cancelled airfare, hotels, and tour costs. Medical evacuation is another important element. Check to see how much you are covered for and how long the coverage lasts. It may only last 15 to 30 days. Medical and dental costs may be covered up to $25,000 and medical transport up to $500,000 per trip.

TIP: If you must be transported for medical reasons, check to see if you or the insurer will choose where you will be treated and by whom.

Travel insurance. This protection can reduce the risk of having to incur the cost of travel and lodging when unexpected events interfere. It is worth weighing the cost of your trip against the cost of the policy. If you've gotten a bargain airfare you may not feel the need to insure that expense, but if you've spent a small fortune on the trip of a lifetime you may want to protect your investment.

Credit card coverage. Check with your credit card issuer before buying a separate policy. Particularly if you're a Gold or Platinum card customer, your card may automatically offer insurance at no additional cost. You may already be covered for lost luggage, travel accident insurance, rental car collision coverage, international medical assistance, emergency cash, etc.

Credit cards also offer the added protection of being able to dispute charges for items that you never received, such as a flight on an airline that has gone out of business.

TIP: If you choose to buy travel insurance, purchase it from a company that is not connected with a tour or cruise you booked. If the tour operator goes out of business, there may be no money left for your insurance claim.

To compare the price of different travel insurance offers, visit www.insuremytrip.com or www.squaremouth.com. ■

Renters insurance provides affordable benefits

By Michelle De Mooy

Consumer Action's recent insurance poll found that 84% of respondents said they paid $400 or less per year for renters coverage. More than a third paid an annual premium of less than $200.

Linda Sherry of Consumer Action pointed out that renters insurance, which is similar to "condo insurance" available to condo or cooperative owners, is an affordable protection. "Above all, you are protected from liability should a guest be injured in your unit," said Sherry.

Many tenants forego renters insurance because they assume that the landlord's insurance would pay them in the event of personal liability or a disaster—*not true*.

A survey conducted by the Independent Insurance Agents & Brokers of America (IIABA) of 1,000 people living in rental properties found that 64% did not have renter's coverage.

Renters insurance is as crucial to your financial security as homeowners or life insurance. It can mean the difference between losing all your belongings and losing all your belongings but having the money to replace them.

Who needs it?

Whether you rent from a house owner, a property manager, or even a university, if you are a student living in a dorm, you need to be protected with renters insurance. A renters insurance policy provides financial coverage for your personal property, items like appliances or furniture, and may cover your personal liability if someone gets injured on your property.

Keep in mind that your landlord's policy only covers the physical building in which you live, not the personal property inside your unit. Some people assume their landlord's policy covers things like fire or water damage and it does - but it only applies to the structure of the building - not to the new stove you installed in the kitchen that went up in flames.

Like opinions, most renters insurance policies vary. The basic categories of coverage are theft, damage, and liability. However, most insurance policies spell out what you are insured against, called "named peril," and state specific occurrences under which you'll be covered, like vandalism, electrical storms, and fire.

Some companies offer additional coverage based on your situation. For a higher premium, for example, you can get coverage that will include location-specific hazards, such as earthquake damage or water damage due to flooding—there are even additions for nuclear hazards. It's also possible, for a fee, to tailor a policy to specific personal property that might have a higher value, like a vintage Barbie doll collection or a wedding ring.

Be sure to buy a policy with liability protection, which covers damages as a result of accidental bodily injury or property damage to another person. If your best friend trips down your stairs and breaks her leg, you might be able to salvage the friendship because your policy could cover her medical bills. Some policies may even pay for your legal defense in these circumstances.

Renters insurance can also extend to theft and hazards outside of your property—so if your bags are stolen while you are vacation in the Bahamas, you'll be protected. Check on deductibles—how much money you'll shell out before your insurance kicks in—and caps. Ask if there is a maximum reimbursement.

Costs

Renters insurance typically offers two kinds of payouts: actual cash value (ACV) and replacement cost coverage (RCC). ACV pays you an amount equal to the current cost to replace your property, minus depreciation, while RCC gives you the full cost of replacing your items, but only if you actually go out and replace them. Even with replacement cost coverage, there is a limit to how much money you will be reimbursed. Ask the insurer what that limit is when shopping for a policy. RCC premiums tend to be higher because it will cost more to replace your 10-year old toaster with a new one then what it's currently worth.

Your deductible is the amount you're responsible for before the insurance company begins paying. The size of the deductible has a direct impact on price—the higher your deductible, the cheaper your premium. The price of the policy also will depend on your location. If your neighborhood is prone to theft, your premiums will likely be higher.

The National Association of Insurance Commissioners (NAIC) says basic renters insurance averages less than $350 per year for $50,000 coverage depending on the location and size of the rental unit and the policyholder's possessions.

Most people tend to undervalue their personal property until they actually have to go out and replace them. Small things, like clothing and CDs, can really add up. *(See box with this story.)* Your premiums are determined in part by this total.

How to get it

The best way to find renters insurance that suits you is to research your options.

There are numerous insurance-only companies to consider, like Geico and State Farm, as well as some banks that provide renters insurance, such as Chase and Bank of America. Also, check your current auto insurance provider, as many companies offer discounts to policyholders who purchase additional insurance.

Every state has a department of insurance that provides detailed information on insurance options, questions to ask, and information you'll need to get a quote on a policy.

Some states even provide insurance for citizens who are not able to find it anywhere else, so it pays to track down this office.

Most, if not all, state insurance departments have web sites for consumers. Go to www.naic.org/state_web_map.htm to locate your state insurance department. This site, operated by the NAIC, also offers free guides on many types of insurance.

Your credit score may affect the terms, conditions and price you'll be offered for renters insurance in some states. So pull a copy of your credit history for free at www.annualcreditreport.com (and buy a copy of your credit score for about $7 at the same site). The lower your score, the higher a risk the company may feel you are, and may charge you more.

What to ask

It's important to find out specifically what and whom your policy covers. For example, will your insurance cover any of your roommate's stuff? If your apartment is destroyed, will your policy cover the cost of interim housing? For how long?

Ask about rate increases. Find out if your premiums can increase due to inflation, because you file a claim or because of a decrease in your credit score.

Big moments in life—like getting married or having a baby—generally mean lots more stuff, so remember to take the time to adjust your coverage. ■

The value of your stuff

What are your personal effects worth? Insure.com estimates the value of a typical single-person household to include the following items.

Furniture:	$8,000
TV, VCR, stereo, tapes and CDs:	$2,000
Home computer:	$1,500
Microwave:	$120
Other appliances:	$240
Clothing:	$3,000
Paintings, prints, photos:	$800
Glassware, china, and silverware:	$600
Sports equipment:	$600
Cameras and related equipment:	$800
Books:	$700
Jewelry:	$1,000
Other property:	$4,000
Total:	**$23,360**

Choosing a reliable insurance company

By Michelle De Mooy

In an unstable economy and a world where disasters happen, insurance is more than ever a critical financial safeguard. How can you find a reliable insurance company, one that will come through for you when you need it?

Start by assessing the kinds of insurance you might need. Do you own your home or rent an apartment? Are you planning to buy a new car in the next year or so? Are you expecting a child? Questions like these can help you determine the insurance products you need.

Then go online to browse the web sites of well-known insurers, like State Farm and Allstate, and take a look at smaller competitors' sites. Netquote (www.netquote.com) offers information about insurance companies and will provide price quotes.

Many insurance web sites provide an overview of insurance products, who needs them, and how the policies work. A poorly designed and hard-to-read web site can be a bad sign. Always check companies with your state insurance department, the Better Business Bureau or your local Chamber of Commerce before you do business.

If you already have coverage with a certain company and you are happy with the service, ask if it offers other coverage that might suit your needs. Companies may offer discounts to customers who add new policies to their existing accounts.

As always, one of the best ways to do research is to ask your friends and relatives about their experiences. How responsive are the customer service representatives? Have the premiums changed often and for what reasons? How quickly does the company honor claims? Is the company responsive to customer's questions?

Premiums

The premium (the money you pay for coverage) is a key factor in choosing an insurance company. Most large insurance companies give you a free online quote. You'll have to provide personal information, so read the fine print and privacy statements to make sure you agree with how the company will keep and use your information. Because premiums vary widely, even for the same coverage, get several quotes before you commit.

During the application process, the insurer will gather information about you and use it to assess your risk using statistical data. Your premiums are determined by the risk you pose to the insurer. For example, a younger driver will probably have a higher insurance premium than an older driver. Even though it isn't necessarily true that a younger driver drives faster than an older one, statistically younger drivers have more accidents than older ones. Many factors go into assessing your risk level, possibly even your credit score. *(For more information on credit scores and insurance see page 8.)*

If you live in California or New Jersey, you might be eligible for low-cost, state-sponsored auto insurance. Because of strict laws requiring insurance for all drivers, these states recognized the need to offer low-income residents a more affordable option. Check your state's department of insurance web site for details about low-cost policies.

Premiums are not set in stone year after year. They tend to increase each year to adjust for inflation and they are likely to be higher after you have filed a claim.

Check your facts

Every state has an insurance department. The Insurance Information Institute (www.iii.org) provides links to all state insurance department web sites.

Along with consumer educational materials and licensing information, the sites list all insurers in your state and may provide the number of complaints a particular company has received. You can review these complaints to understand a company's weaknesses. Avoid companies that often are accused of not paying claims, or of paying them late. You may be able to compare rates among companies. This is helpful if you don't want to provide personal information and fill out lengthy applications just to get a quote.

The National Association of Insurance Commissioners (www.naic.org), or NAIC, is also a good resource for insurance company claims information. You can file a complaint at www.naic.org.

Finally, you can evaluate the strength of an insurance company by reviewing its rating. Private companies, such as A.M. Best (www.ambest.com) and Standard and Poor's Insurance Ratings Services (www.standardandpoors.com) provide ratings based on financial strength, operating performance, overall credit, and other factors. A.M. Best "grades" companies on a scale of A++ to S. A++ is its highest mark—this means the company has a superior overall financial picture. S means ratings have been suspended because the company is broke (insolvent).

Standard and Poor's ratings go from AAA to R. AAA means the insurer has an extremely strong financial position. An R rating means the company is under regulatory supervision because of poor finances.

Narrow it down

A company with a good reputation and rating, responsive customer service, low premiums, minimal complaints and high marks from family and friends is a strong contender for your business.

Once you've narrowed down your choices to a few companies, call your candidates. There is nothing quite as telling as how a company handles a routine phone call. Pay attention to responsiveness, how you are treated, and whether you're forced to give information before they'll answer general questions.

Buying insurance

Researching and purchasing insurance online is a safe bet these days. You can peruse insurance products, fill in personal information, get a free quote, and purchase your policy directly. Online, you can search various company and product options quickly. Quote sites like www.netquote.com are a great way to research companies serving your area.

Insurance agents have advantages as well. Agents can use their knowledge and expertise to take your personal needs into account. Agents can represent one company, or act independently to sell you a policy from many different insurers. Independence Insurance Agents and Brokers of America (www.iiaba.com) provides a zip code finder to help you locate an agent or broker in your area.

Company failures

The implosion of insurance giant AIG in September shocked the financial world—and left many people wondering what would happen if their insurer fails. Fortunately, it is likely that your policy will be protected.

States regulate insurance companies and typically require them to participate in a "guaranty" fund or association to back up their policies. If your insurer goes bankrupt, the guaranty fund would pay outstanding claims.

A last resort

The devastating weather that has rocked the continental U.S. in the last several years has produced yet another casualty: consumers without insurance. Worried that insuring too many properties in "risky" geographic areas will subject them to concentrated losses, insurers are limiting the number of policies in these areas by dropping customers and not accepting new business. That's where "insurers of last resort" come in.

According to the *Wall Street Journal*, last-resort insurers issued more than two million policies to homeowners and businesses in hurricane-prone states in 2006. Created by state governments to protect economic growth (and because banks require insurance when issuing mortgages), these entities cover people who cannot get insurance from a private carrier.

Sometimes called "risk pools," they cover risks that many companies will not insure against, such as earthquakes, wildfires, and hurricanes. Some risk pools provide coverage in high crime areas where homeowner's or auto insurance isn't available.

Carriers of last resort don't always have the backup cash reserves to pay out large claims. When they face deficits, these insurers often turn to the federal government or even to other insurers in the state to make up the shortfall, which is then passed on to other policy holders with less risky policies.

However, as last-resort insurers have become more common and their membership has grown, their cash reserves have increased. It can be difficult to gauge whether an insurer of last resort is financially healthy, but it's likely that your policy will be paid—states do not want angry constituents and stopped development.

The premiums charged by insurers of last resort may be lower than traditional insurance policies. Any local insurance agent or broker should be able to tell you more about last-resort carriers in your region. ■

Insurance you may not need

By Ruth Susswein

While the law mandates auto insurance and mortgage lenders require homeowner's coverage, some products just make good sense like health insurance, if you can afford it. On the other hand, some insurance products are not worth your time or money.

Credit Insurance

Credit protection insurance is a good example. This is optional insurance offered with your credit card. It may also be offered by car dealers, furniture stores and other creditors.

Credit insurance might claim to cover your credit card bills if you die, are disabled or unemployed. However, except for death, this insurance is designed to pay only your minimum monthly credit card payment (which is a mere 2%-3% of your balance). Meanwhile interest is still accruing on your balance each month.

This coverage could be useful if you become seriously ill and carry very large credit card balances. It will help you avoid late fees and penalty interest rate hikes, at least temporarily. However, even at its best, its value is limited.

Costly limitations

The cost of credit insurance is based on your balance, and it is expensive compared to other forms of insurance. Depending on your balance, it can cost $25 to $30 or more per month. It also comes with costly limitations.

Sometimes the plan will only make that minimum payment for a few short months. If you continue to be unemployed or ill, you're back in trouble in no time. You cannot use the credit card while the insurance is covering your monthly minimum.

Those who are self employed or seasonal workers may not be eligible for coverage, but many don't realize it until after they file a claim.

If you have a complaint about credit protection insurance, contact the insurance company and file a complaint with your state insurance commissioner. Check www.naic.org (The National Association of Insurance Commissioners) to find your state's commissioner.

There is no need to carry insurance for credit card debt if you are the sole owner of the account. If you die and you are the only person named on the account (authorized users don't count) no one else in your family will be liable for that debt. Your estate will pay the balance, and if you die without money or assets, the debt dies with you.

ID theft insurance

Thieves use your personal information to create credit accounts in your name and steal money. This is called identity theft. Some scammers send seemingly legitimate emails that appear to be from your bank asking you to provide or confirm personal information to access your accounts. This form of ID theft is called phishing. According to the Federal Trade Commission, tens of millions of people have become ID theft victims.

Many companies sell insurance to protect you if you become a victim of ID theft.

While you are likely to lose more time than money with ID theft, you'll probably be left with a big clean up job trying to convince companies and debt collectors that you've been defrauded. Whether it's worth shelling out extra money for this coverage is unlikely.

Insurance to protect you from this type of scam may be included—at no additional cost—in your homeowner's (or auto) insurance policy. Your insurer may provide a free resolution service with access to a fraud specialist to help you place anti-fraud protections (like fraud alerts) on your information. Check with your insurers to find out if you already have this coverage.

If you want ID theft coverage but it is not included in your existing policies, compare the cost of adding it to your homeowner's policy as optional coverage or purchasing a standalone policy. Make sure it covers lost wages while you work to convince debt collectors and creditors that you don't owe them money. Some policies may cover only the costs of documenting your loss, for instance copying charges and certified mail costs, but not lost wages.

If an ID theft policy offers compensation for lost wages, ask about deductibles, if there's a limit to the number of covered days and the amount you can collect per day. Find out what documentation you will need to provide to verify a claim. ■

Consumer Action's 37th Anniversary

Alan Fisher, Executive Director of the California Reinvestment Coalition (CRC), accepts a 2008 Consumer Excellence Award from Consumer Action's Cher McIntyre. At left are three members of the CRC staff (L-R), Kevin Stein, Victoria Leon Guerrero and Liana Molina. (All staff photos)

Annual event

Continued from page 1

Weisbaum's reporting has received many awards from the Associated Press and the Society of Professional Journalists, among others, and has helped countless consumers find good deals and avoid rip-offs and scams.

Neil Gendel, founder of the Healthy Children Organizing Project and an early leader of Consumer Action, also received an award this year.

Presented by Consumer Action Executive Director Ken McEldowney, the award commemorates Gendel's service to public interest issues for over 40 years, including stints as California Deputy Attorney General and as a commercial law and bankruptcy attorney.

Gendel founded the Healthy Children Organizing Project in 1990 to protect children from exposure to lead and other harmful environmental toxins.

Accomplishments

McEldowney also reported on Consumer Action's activities this year, remarking, "It's been a productive and successful year for the organization." He told the enthusiastic crowd that Consumer Action has been able to distribute 1,201,923 publications to our ever-growing network of community-based organizations in the last year. The organization has trained hundreds of CBO staff members on financial issues to groups across the country, including presentations on avoiding identity theft, building and keeping good credit, and learning key money management skills.

In addition, Consumer Action's DC office has provided strong advocacy to strengthen credit card protections for consumers, eliminate predatory lending practices, and increase consumer privacy protections. This advocacy has resulted in several key legislative victories this year, including the passage of the Credit Cardholders Bill of Rights in the House of Representatives. ■

Award recipient Pam Dixon, executive director of the World Privacy Forum, is seen with Consumer Action's Ruth Susswein.

Herb Weisbaum, consumer reporter and ConsumerMan columnist, received the Consumer Excellence Award for Media. Consumer Action's Linda Sherry presented the award.

Michelle de Mooy (L) and Sol Carbonell (R) of Consumer Action are seen with supporter Steve Solomon, Esq.

Consumer Action's Nelson Santiago (L) is seen with Alan Fisher of the California Reinvestment Coalition (center) and Neil Gendel, recipient of a lifetime service award.

Consumer Action Director of Training and Outreach Mikael Wagner greets party guests.

Longtime Consumer Action employees Hazel Kong (office manager) and Ricardo Perez (mailroom operations) helped greet guests at the anniversary party.

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Many thanks to our Educational Network of more than 10,000 community-based organizations nationwide. We appreciate the work you do and respect your commitment to excellence.

Insurers score your credit for auto rates and more

By Ruth Susswein

In most states, your credit rating plays a major role in how much you pay in car and homeowner's insurance premiums.

Do you ever pay your bills even one day late? Do you owe more money now than you did last year? Has the global credit crisis forced you to use more of your credit line or has your credit score dropped? These factors in your credit report can have an effect on the price and availability of insurance. In some states, your credit score is the most important factor in determining your rate. Insurers may even pull your credit score when you call to ask for a price quote.

Is this legal? Is it fair? Legal, yes, because companies are allowed by law to review your credit record if you are shopping for credit, employment or insurance. Your credit score may be used as a reason to reject your insurance application or charge you a higher-than-average rate.

But the question of fairness is still on the table. "If I lose my job, I'm laid off, and my credit score suffers, why does that make me a worse driver?" asks Bob Hunter, a former state insurance commissioner and Director of Insurance at Consumer Federation of America (CFA). "I don't think it makes any sense."

Insurance score

The insurance industry insists that there is a correlation between credit history and claims. Insurers often create their own "insurance scores" to size you up. The Insurance Information Institute says that statistically a person who has a poor insurance score is more likely to file a claim.

CFA's Hunter calls this concept nothing more than a "trade secret which industry won't reveal." Hunter says the industry has refused to provide any data publicly that would explain its theory.

A 2004 Texas Insurance Department study found that there is a strong relationship between credit score and claims experience. It argues that character traits that lead to careful money management seem to show up in other ways people act—such as driving.

"In today's economy, credit scores are worsening and accident frequency is going down sharply," counters Hunter. "If there's a correlation how come they're not the same? Gas prices have more to do with accident frequency [than credit scores] because people don't drive as much when prices go up."

Insurers continue to rely on your age, where you live and your driving record—as well as insurance scores—to determine your auto insurance rate. The industry argues that over 50% of policyholders benefit by receiving a lower premium when companies use an insurance score.

Each insurer may use slightly different criteria or weigh each factor differently. Here are some of the criteria used to determine an insurance score:

- How long you've had a credit record
- Late payments
- Number of credit lines
- Type of credit card (store card, etc.)
- Size of credit lines
- Foreclosure, bankruptcy

For homeowner's insurance, the factors also include:

- The home's construction
- Location
- Proximity to a fire department

California, Massachusetts, Michigan and Hawaii ban the use of credit scores in assessing insurance risk. Other states, like Maryland, ban the use of scores for homeowner's insurance but not for auto insurance. Others prohibit the use of disputed credit file information, certain types of credit or total available credit.

If you learn of errors in your credit record, dispute the mistakes with the credit bureau and the insurer. If you are turned down for insurance because of a credit score, the insurer must notify you and provide the name of the credit reporting bureau that provided the score. If your score is affected by the mistakes, the insurance company will change your rate. But Hunter warns that the burden's on you to prove it.

Tip: Insurance rates vary widely. Even without a credit score problem, you could be paying twice the rate for the same coverage so shop around every so often.

Your home's 'credit' report

Your house has its own "credit report" called a C.L.U.E. report. The record lists all claims filed against a property, a history of the home's insurance losses for the last seven years. A similar report may exist on your car as well.

If you're in the market to buy a house, you'll want to review a home's C.L.U.E. report to learn of any previous problems. A home's claims history can affect the cost of homeowner's insurance. Insurers can even refuse to issue a policy based on previous claims. This can have a domino effect. Without a homeowner's policy, lenders will not issue a mortgage, and most people can't buy a house unless they get a mortgage.

C.L.U.E., or Comprehensive Loss Underwriting Exchange, is a database designed to allow insurers to access claims information so they can analyze properties and price insurance policies. ChoicePoint of Atlanta, GA is the major issuer of C.L.U.E. reports.

What's in the file?

The database includes the home's address and a description of the property. (For autos, there's specific vehicle information.) The file also stores information about the insured homeowner—name, date of birth, type and date of loss and amount paid on any claim.

By law, the only parties entitled to a copy of a C.L.U.E. report are the current homeowner, the insurer and the lender. If you are serious about buying a property, ask your real estate agent or the current owner to get a report before you commit to buy any house.

Under the Fair and Accurate Credit Transactions Act (FACTA), you may receive a free annual C.L.U.E report on properties you own. To request a free copy, contact ChoicePoint Consumer Disclosure at www.choicetrust.com or call 866-312-8076.

The homeowner has the right to dispute invalid information in the report, just as you would with a credit report. Consumers are also entitled to add a comment to the report. For instance, if a dog bite claim is listed in the report but the dog has since died, that information could be added to the file.

Disaster reports

Environmental hazard reports reveal if a home is in a high-risk area.

If the house you've set your sights on is in a government designated landslide or earthquake zone, or the area tends to get hit with hurricanes. This is information you'll want to know before buying a property. Hazard reports also disclose if the property you're interested in is located in a flood or fire zone. (If you live in California, the law requires that much of this information must be disclosed to potential buyers.)

Environmental hazard reports can tell you if the area has been contaminated by asbestos, an underground storage tank, or toxic mold. Reports can cost about $50 to $100.

If there is a problem it is better to have the hazard disclosed and addressed before closing, when you still have leverage with the seller. ■

Title insurance sales driven by referrals, not choice

By Linda Sherry

Title insurance is probably the largest of the closing costs that face home purchasers.

Title insurance protects the lender and sometimes the buyer against people coming forward to claim that they had an ownership interest in the property but did not realize it was being sold and did not benefit from the sale. It provides protection from chain-of-ownership problems before the new buyer took title.

Regulated at the state level, title insurance policies come in two forms: lender's insurance and optional policies that protect consumers.

Lender's insurance is required if you take out a mortgage, and the buyer usually pays, however sellers sometimes can be persuaded to pay for the lender's title insurance. Lender's title insurance protects the company that issues the mortgage in case the homeowner defaults on the loan. For years it has been alleged that title insurers overcharge homebuyers and split excessive fees with people who steer customers their way. Homebuyers do not shop around among title companies (or escrow companies as they are called in some states). Instead, they simply go with real estate broker recommendations—and because of this, they often overpay.

For instance, during a refinancing, consumers may save quite a bit by using the same title company they used when they bought the property. Typically, title companies have much lower rates for "reissue" policies since most of the work has already been done.

Title problems

Most title problems are discovered and corrected during the title search. If the title is challenged after the property has changed hands, the insurer must clear up the problem. However, title insurance claims are rare. Some of the risks covered under owner's title insurance include:

- Deed fraud and criminal impersonation of the true owner
- Signatures of minors or mentally incompetent sellers
- Undisclosed or missing heirs
- Unpaid liens for child support or taxes
- Unrecorded easements (rights of way)

Title insurance tips

Before you buy title insurance:

- Check out the services of several title insurance firms—don't just accept a referral from your agent or lender. Look for other companies in the Yellow Pages.
- Verify the face value of the title policy.
- Make sure the effective date on the policy matches your loan's closing date.
- Check that the policy describes all of the property being purchased.
- Read your policy and ask questions about any aspects you do not understand.
- Keep your policy in a safe place.

After closing

While rare, title and escrow problems sometimes arise after closing (settlement). For example, companies may neglect to pay off a prior mortgage or lien, to record the deed or mortgage release, or to provide copies of legal documents. Most problems can be amended when brought to the firm's attention.

Title insurance does not protect you from problems you knew about but did not disclose, such as building code violations.

Always arrange to have a knowledgeable person, such as an attorney or buyer's broker, review your title company's documents. ■