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# Rest Insured

BY JEFF GELINEAU  
Vice President of United Agencies,  
The Club's Auto and  
Home Insurance Partner

## What's Your Score?

One of the most controversial questions we often receive is, "Why does the insurance company care what my credit score is?"

### Credit Ratings and Insurance

Credit scoring is a system creditors use to help determine whether to give you credit. It also may be used to help decide the terms you are offered or the rate you will pay for the loan.

Information about you and your credit experiences, like your bill-paying history, the number and type of accounts you have, whether you pay your bills by the date they're due, collection actions, outstanding debt, and the age of your accounts, is collected from your credit report. Using a statistical program, creditors compare this information to the loan repayment history of consumers with similar profiles. For example, a credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points – a credit score – helps predict how creditworthy you are, how likely it is that you will repay a loan and make the payments when they're due.

Some insurance companies also use credit report information, along with other factors, to help predict your likelihood of filing an insurance claim and the amount of the claim. They may consider this information when they decide whether to grant you insurance and the amount of the premium they charge. The credit scores insurance companies use sometimes are called "insurance scores" or "credit-based insurance scores."

### Credit Scores and Credit Reports

Your credit report is a key part of many credit-scoring systems. That's why it is critical to make sure your credit report is accurate. Federal law gives you the right to get a free copy of your credit report from each of the three national credit-reporting companies once every 12 months.

The Fair Credit Reporting Act (FCRA) also gives you the right to get your credit score from the national credit reporting companies. They are allowed to charge a reasonable fee for the score. When you buy your score, you often get information on how you can improve it.

To order your free annual credit report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com).

### How a Credit Scoring System Is Developed

To develop a credit scoring system or model, a creditor or insurance company selects a random sample of customers and analyzes it statistically to identify characteristics that relate to risk. Each of the characteristics then is assigned a weight, based on how strong a predictor it is of who would be a good risk. Each company may use its own scoring model, different scoring models for different types of credit or insurance, or a generic model developed by a scoring company.

Under the Equal Credit Opportunity Act (ECOA), a creditor's scoring system may not use certain characteristics – for example, race, sex, marital status, national origin or religion – as factors. The law allows creditors to use age, but any credit scoring system that includes age must give equal treatment to applicants who are elderly.

### How to Improve Your Score

Credit scoring systems are complex and vary among creditors or insurance companies and for different types of credit or insurance. If one factor changes, your score may change – but improvement generally depends on how that factor relates to others the system considers. Only the business using the system knows what might improve your score under the particular model they use to evaluate your application.

Nevertheless, scoring models usually consider the following types of information in your credit report to help compute your credit score:

- Have you paid your bills on time? You can count on payment history to be a significant factor. If your credit report indicates that you have paid bills late, had an account referred to collections, or declared bankruptcy, it is likely to affect your score negatively.
- Are you maxed out? Many scoring systems evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit, it's likely to have a negative effect on your score.
- How long have you had credit? Generally, scoring systems consider your credit track record. An insufficient credit history may affect your score negatively, but factors like timely payments and low balances can offset that.
- Have you applied for new credit lately? Many scoring systems consider whether you have applied for credit recently by looking at "inquiries" on your credit report. If you have applied for too many new accounts recently, it could have a negative effect on your score. Every inquiry isn't counted: For example, inquiries by creditors who are monitoring your account or looking at credit reports to make "prescreened" credit offers are not considered liabilities.
- How many credit accounts do you have and what kinds of accounts are they? Although it is generally considered a plus to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, many scoring systems consider the type of credit accounts you have. For example, under some scoring models, loans from finance companies may have a negative effect on your credit score.

Scoring models may be based on more than the information in your credit report. When you are applying for a mortgage loan, for example, the system may consider the amount of your down payment, your total debt, and your income, among other things.

Improving your score significantly is likely to take some time, but it can be done. To improve your credit score under most systems, focus on paying your bills in a timely way, paying down any outstanding balances, and staying away from new debt.

Not all insurance companies use credit scores, and many people don't think that it is "fair," but it seems to be here to stay.

Feel free to contact me or any of our agents if you have any questions about insurance, or would like a quote on any of your insurance policies today!

### Be safe and have fun!

#### About United Agencies

United Agencies is the Club's Partner in helping members with their home and car insurance, and related products. Feel free to call us with any questions about rental cars, auto insurance, or any other topic. We specialize in creating personal relationships with our customers, and serving their needs in a prompt, efficient and friendly manner.

Call our office today at (888) 801-5522.

Check out the City Employees Club page on the United Agencies Website: [www.ua-insurance.com/city-club](http://www.ua-insurance.com/city-club)

#### Have a question?

Is there something about insurance that you've always wanted to know, but were too ashamed to ask? Maybe something that you've just always been curious about? Feel free to send me an email at [jeffg@ua-insurance.com](mailto:jeffg@ua-insurance.com), and I will try to answer your question in one of our monthly columns.