Reporting rental payments offers low-income renters an opportunity to build credit as a financial asset. Mission-driven affordable-housing organizations are poised to help them.

As many as 64 million U.S. households are excluded from the mainstream credit system because they have thin credit histories or none at all. One reason is that so many people live in rental housing—approximately 100 million individuals, or 39 million households. And although making late housing payments can damage the credit of people who own their home just as much as it damages the credit of renters, historically only homeowners have been able to build positive credit histories when they pay on time. Credit reports and credit scores that do not recognize on-time rental payments as creditworthy behavior present an incomplete and negatively skewed assessment of the credit risk many renters pose.

That matters. The credit report that consumers can provide increasingly defines who will do business with them and under what terms and conditions. Low-income individuals, who are often renters, are more likely than their higher-income counterparts to have no credit or poor credit.

According to the 2012 Current Population Survey, 63 percent of U.S. renters earn less than $35,000 annually, and 41 percent earn less than $20,000 annually. Renters with few assets or savings often become susceptible to predatory financial service providers. Too many unscrupulous companies market expensive, asset-stripping, short-term credit as an option for making ends meet but have no intention of reporting their customers' on-time payments to the major credit bureaus.

With little opportunity to build credit, many low-income renters face barriers to financial stability that are hard to overcome. Lack of good credit may mean that borrowers must make hefty deposits, pay higher insurance premiums, or be denied employment. Lack of

Building Credit through Rent Reporting

Sarah Chenven
CREDIT BUILDERS ALLIANCE

credit also impedes access to, or dramatically increases, the cost of asset-building products such as mortgages, small business loans, and education loans—any of which might otherwise present a pathway out of poverty.

Is Rent Reporting Viable?

Fortunately, there is a way for low-income renters to overcome such barriers. Landlords and online rental-payment-services companies that undergo a rigorous credentialing process may now report rental-payment data directly to at least one of the three major credit bureaus. The emergence of this new opportunity could provide millions of low-income renters with the chance to build credit histories without taking on additional debt or incurring the burden and risk of an additional monthly expense.

> *I pulled my reports and it was then I realized Experian's credit score was 71 points higher. … The only difference? Experian includes my rental-payment history. In the long run, having a two-year excellent credit line for my rental payments will add value by helping me to potentially receive lower interest rates on a mortgage and car and consumer loans. I may even get a better rate on insurance premiums.*
>
> –Anonymous Renter

Responsible reporting of alternative credit data such as rental and utility payments finally offers those who make on-time payments an opportunity to benefit from the mainstream credit system. Recent studies by the Policy and Economic Research Council and the Brookings Institution on alternative credit data show that reporting on-time utility and telecom payments enabled 40 percent of individuals who previously had no score to access prime credit.

APPROX. 100 MILLION PEOPLE LIVE IN RENTAL HOUSING

Consider the extent to which alternative credit reporting has already increased access for individuals:

- by 14 percent for African Americans and 10 percent for Hispanics;
- by 15 percent for youth under 25 and 11 percent for Americans 66 years and older; and
- by 21 percent for those earning less than \$20,000 annually and 15 percent for those earning between \$20,000 and \$29,000 annually.

For every individual consumer in the lowest household income category who experienced a reduced credit standing from moderately late payments, 27 gained access to mainstream credit.

One organization working to move this process along is the nonprofit Credit Builders Alliance (CBA). Founded in 2006 by and for nonprofit lenders, financial educators, and asset builders to catalyze their credit-building efforts, CBA now empowers a growing network of more than 350 members to help their low-income and underserved clients build credit and other financial assets.[1] CBA's philosophy—namely, that good credit is a financial asset—has been adopted by mission-driven entities across the spectrum. Among them are nonprofit and public affordable housing organizations, which are well positioned to help lower-income residents harness the power of responsible rent reporting by pairing it with meaningful financial education.

With financial support from the Citi Foundation, CBA is building on groundwork begun in 2012 to pilot a rent-reporting program with affordable-housing organizations and help several thousand low-income residents build credit histories. The pilot's goal is to combine rent reporting with credit education and identify impactful, replicable, and scalable strategies that maximize credit outcomes for low-income tenants. At the same time, the nonprofit is nurturing a learning community of practitioners who work in affordable housing. The learning community is now documenting and sharing rent-reporting models, experiences, and best practices in order to improve and strengthen their own organizations and move the credit-building needle for low-income renters generally.

Challenges and Successes

With every opportunity come challenges. Some in the affordable housing industry have raised legitimate concerns about the possibility of negative consequences for low-income residents who cannot pay their rent on time because of issues beyond their control. Nonetheless, many practitioners agree that the affordable housing residents who consistently pay their rent on time should be allowed to benefit from having those payments build their credit history.

> *Rent reporting is an excellent way to engage credit building and treating credit as an asset for our tenants. It allows them access to better jobs, better service costs, and lower borrowing rates. They should have the same opportunity for credit building as a homeowner would.*
>
> –Affordable Housing and Education Development
> Littleton, New Hampshire

Renters, too, are eager to leverage the opportunity. Although only 39 percent of residents in CBA's pilot program indicated that they had reviewed their credit report in the last 12 months, 96 percent stated that having good credit is important to them, 75 percent plan to take action to build their credit in the next three to six months, and 97 percent believe that reporting rental payments is a good way for them to do so.

CBA is collaborating with Experian on the pilot, the first and only major credit reporting agency to incorporate positive rental data into the traditional credit file. Experian's Rent Bureau division database receives rental-payment histories from property management companies and online rental-payment services and currently covers more than 9 million residents nationwide. Property management companies contribute their rental data to RentBureau directly and automatically from their property management software. Experian currently includes rental payments on its credit reports.

Experian RentBureau manages rental data in compliance with the Fair Credit Reporting Act (consumers may request free annual reports and may dispute errors), works closely with each property manager to understand its particular business rules to ensure accurate data flow, and also provides education materials to help rental data furnishers meet their responsibilities and legal obligations as well as educate their residents.

Through this pilot, CBA is providing a solution to a gap in the financial system that currently penalizes renters. Rent reporting also presents the affordable-housing industry with an opportunity to effect systemic change.

Through its signature services, Reporter and Access, CBA enables hundreds of nonprofit lenders to report their low-income borrowers' loans to the major consumer and business credit bureaus and to pull client credit reports for underwriting, financial counseling, and outcome tracking. As of this writing, CBA members report in aggregate more than 20,000 nontraditional loans worth half a billion dollars to the credit bureaus each month and pull more than 60,000 credit reports annually. CBA also has developed a unique training program that provides financial coaches, educators, and program managers with the knowledge and tools necessary to design, implement, and evaluate an asset-based credit building program.

In cooperation with its member nonprofits, CBA will continue to advance the understanding and use of credit building as a tool for asset building and financial capability among low-income and vulnerable populations.

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Endnote

[1] See www.creditbuildersalliance.org.