Proposal: Help increase credit scores of residents of HUD public and assisted housing by reporting on time rental payments to credit bureaus

Summary of Proposal:

Federal housing policy should encourage the reporting of on-time rental payment by residents of HUD-assisted housing, thereby increasing residents' opportunity to build a positive credit history and supporting residents on a path towards saving and upward financial mobility.

Background:

Many residents of public and assisted housing properties overseen by HUD have little or no credit history and no credit score.[1] Without access to affordable credit, residents of HUD assisted housing may be more likely to have problems finding housing in the private market, become dependent on predatory loan products with high interest rates, face hurdles finding jobs, and pay higher prices for products and services – ranging from cell phones to automobiles and even to automobile insurance. For example, the difference in what someone with "good" credit and someone with "excellent" credit pays for car insurance is $214 on average --- and a "poor" credit score can add as much as $1,301 to an annual premium.[2]

Without access to affordable credit, it is much more difficult for entrepreneurs to finance small businesses, and for families to buy homes or secure funding for higher and vocational education for their children. Economic opportunity is also limited by a lack of credit or a blemished credit history in one's ability to secure employment. A National Survey on Credit Card Debt in Low- and Middle-Income Households found that 1 in 10 survey respondents who were unemployed had been informed that they would not be hired for a job because of the information in their credit report.[3]

In addition to the implications for individuals, families and small businesses struggling due to no or poor credit, the health of a community depends ultimately on the financial health of its residents. The impact of credit stress on individuals affects their personal situations as well as those around them.[4] Conversely, more financially stable households contribute to and are a source of strength for their communities. Credit building through rent reporting offers a critical opportunity for low- and moderate-income residents to achieve financial resilience, economic mobility, and sustained wealth creation – a benefit to them, to their landlords and to their communities at large.

Benefits of Rent Reporting:

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[1] https://www.experian.com/assets/rentbureau/white-papers/experian-rentbureau-credit-for-rent-analysis.pdf

[2] https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm

[3] http://www.demos.org/sites/default/files/publications/Discredited-Demos.pdf

[4] https://www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html#overview

Credit bureaus have historically collected late rental payment data from private property management companies. Beginning with Experian in 2010, credit bureaus began incorporating on-time payments into credit scoring as a means of establishing and improving credit scores. A 2014 study of the impact of this policy change on residents of subsidized housing found that 95% of residents experienced a positive or neutral impact on their credit score and all residents that previously could not be scored subsequently received a credit score.[5] Furthermore, according to a multiyear pilot conducted by Credit Builders Alliance (CBA) with eight affordable housing providers:

- Rent reporting is perceived by renters as a good opportunity for credit building -- 97% of residents who responded to a pilot survey stated that paying rent on time is a good way for them to build their credit.

- Rent reporting offers a significantly impactful credit building opportunity to residents living in affordable housing. After isolating the impact of the inclusion of the rental payment history on participants' credit scores, it was found that all (100%) of the residents in the Pilot who initially had no credit score[6] had either a high nonprime or prime score with the inclusion of their rental payment history; and that a large majority (79%) of the pilot participants experienced an increase in credit score, with an average increase of 23 points.

- Rent reporting in combination with financial coaching can incentivize residents to increase their rates of on-time rent payment to housing providers and HUD.

As a result of this pilot, today a handful of public housing agencies report rental data to at least one credit bureau and more have expressed interest in the opportunity. HUD is also conducting additional research in collaboration with the Policy and Economic Research Council (PERC), the credit bureaus, and score modelers to further evaluate the benefits of rent reporting for public housing residents in particular as well as the predictive value of reported rent payment data as it relates to access to and successful management of other types of credit products.

Opportunities for HUD to Promote Rent Reporting

On time rental payments can help improve credit scores of rental households while also bolstering property portfolio quality of HUD assisted housing – a win-win for residents and landlords. Nonetheless, many landlords (public, affordable, and market rate) are not yet aware of the opportunity to report rental data, and those that are interested in reporting this data may face inconvenient and perhaps challenging impediments to implementation – including challenges associated with becoming a "credentialed data furnisher"[7]. To help move the needle on rent reporting, HUD should explore multiple avenues of intervention, including but not limited to:

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[5] Ibid

[6] *VantageScore 3.0*

[7] In order to report any data to the credit bureaus, any entity (lender, landlord, collections agency) must become a "credentialed data furnisher". This is a process by which the entity applies to the credit bureaus, which vet it to

- **Ensuring that PHAs are aware that operating funds may be used to cover the cost of rent reporting and related services.** The option to offer a rent reporting program should also be a built in component of supplemental programs intended to foster financial self-sufficiency, including HUD's Family Self-Sufficiency and Jobs Plus programs.

- **Incentivizing rent reporting in PBRA contracts.** Private owners of properties subject to project-based rental assistance agreements should be encouraged (with "opt-in" participation for tenants) to report rent payments, and permitted to include the cost of reporting as an operating expense in the project's budget.

- **Informing HCV landlords on rent reporting advantages.** At the time that a Housing Choice Voucher contract is executed, landlords -- particularly those that administer a large number of HCVs -- should be provided with information on the options and processes for reporting rental payments and on the benefit to tenants.

- **Connecting PHA and private landlords to resources to learn about their options.** Understanding that HUD cannot endorse third parties, it should nonetheless present information about resources to those interested in pursuing rent reporting. These could include how to contact the credit bureaus directly as well as how mission driven entities like the CBA and Prosperity Now can offer varying levels of resources, guidance and/or consulting on rent reporting implementation and financial capability best practices.

- **Engaging with PHAs, private landlords and their property management and accounting software providers to offer integrated, cost effective software capabilities in order to furnish rental data to all of the big three credit reporting agencies.** While there are numerous factors at play currently, and CBA has worked with the credit bureaus to create an interim but clunky solution that helps mission driven landlords circumvent software incompatibility, the ability for landlords to create and submit rental payment data easily in the formats required by the credit bureaus is one of the biggest impediments to implementation.

- **Revising HUD's list of "routine uses"[8] to exempt full-file (positive and certain negative) rental reporting from the requirement to obtain written consent (or "opt-in") from residents prior to furnishing personally identifiable information (PII) as necessary for rental reporting purposes.** Although this requirement stems from the Privacy Act of 1974, it stands in stark contrast to the existing inclusion of severely derogatory accounts that can be reported as collections accounts to the

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ensure that it is a legitimate company with adequate security protocols in place and capacity to comply with the Fair Credit Reporting Act. Once approved by the bureaus, the next step is to send in test data to ensure that the entity can produce the data in the required format necessary. Once that test period is complete the entity is officially a credentialed data furnisher and can start live reporting.

[8] Privacy Act Handbook, 3-6.

credit bureaus without residents' written consent. CBA has raised this issue with HUD's Office of General Counsel in the past and was told that the latter is deemed permissible as required for internal use related to departmental performance (e.g. efforts to collect funds ultimately owed to the federal government). CBA's contention is that like the negative incentive to collect on charged off rent, the positive incentive of building a credit history by paying rent on time should also be considered essential to the government's ability to get paid.

- **Evaluating the impact of rent reporting on underwriting, and informing lenders of the findings.** In addition to the research currently underway between HUD and PERC, the Federal Housing Administration (FHA) should evaluate the predictive value of reported rent payment data and issue guidance to FHA mortgage lenders encouraging use of such data where appropriate to expand the availability of mortgage credit. FHA should also work with credit bureaus and scoring modelers to incorporate credit scoring innovation. Currently only the latest generation of FICO Score (FICO Score® 9 and VantageScore) incorporate rental trade line data into their respective algorithms. None of those scores are used by FHA mortgage lenders in their automated underwriting process. Through careful analysis and guidance on how to responsibly weigh the data, HUD and the FHA can serve as thought leaders and market influencers in expanding access to homeownership.

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