Rent Reporting for Credit Building

2017 Housing Matters! Conference

October 26, 2017
Objectives

• Understand the value of Credit Building as a critical and distinct Financial Capability Strategy

• Raise awareness about the Power of Rent Reporting for Credit Building.

• Learn about how public and affordable housing providers are implementing RRCB across the country.
Helping organizations move people from poverty to prosperity through Credit Building.

**Good Credit is an Asset**

Mission driven nonprofits and other entities are uniquely positioned to help the households they serve build credit *as an asset* – often the FOUNDATIONAL asset.
Good “Credit”: Passport to the New Economy
Why Credit Building?

Increases *Access, Affordability, and Options* for:

- Financial products
- Rental Housing
- Utilities
- Cell phone plans
- Insurance products
- Asset Building
- Employment
Without access to affordable credit it is difficult if not impossible to achieve or maintain financial stability or security.

Why Credit Building?
Smooths Income & Buffers Shocks

Paid in Full each month =
30 day 0% loan

400%+ APR =
cycle of debt
## Why Credit Building?

**Increases Cash Flow & Reduces Expenses**

### $10,000 auto loan

<table>
<thead>
<tr>
<th>Score</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>15%</td>
<td>$237.00</td>
</tr>
<tr>
<td>620</td>
<td>9.4%</td>
<td>$210.00</td>
</tr>
<tr>
<td>720</td>
<td>3.4%</td>
<td>$181.00</td>
</tr>
<tr>
<td>760+</td>
<td>2% (or less)!</td>
<td>$175 (or less)!</td>
</tr>
</tbody>
</table>

**Potential Savings**
- each month = $62
- over 5 years = $3,720

### $250,000 mortgage 30 year fixed

<table>
<thead>
<tr>
<th>Score</th>
<th>Interest Rate</th>
<th>Monthly P&amp;I Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;620</td>
<td>Not Approved</td>
<td></td>
</tr>
<tr>
<td>620</td>
<td>4.7%</td>
<td>$1,291.00</td>
</tr>
<tr>
<td>760</td>
<td>3.1%</td>
<td>$1,064.00</td>
</tr>
</tbody>
</table>

**Potential Savings**
- each month = $227
- over 30 years = $81,720

**Source:** www.myfico.com 2016
ILLINOIS

Insurance Costs by Credit Score

Excellent Credit
$1,003
Baseline

Good Credit
$1,217

Poor Credit
$2,539

Excellent Credit with DWI
1,677

More

More

More

More

https://www.consumerreports.org/
**CREDIT BUILDING**: Establishing and maintaining ACTIVE (paying on-time) trade lines (like installment loans or revolving credit cards) that is reported by the creditor to the major credit bureaus.

**Focus on behavior now to create opportunities for the future**
An **active** Installment (loan):

- Has a balance
- Has a monthly payment
- Is not closed
An **active** Revolving (credit card):

- Doesn’t need to have a balance or payment
- At least one payment has been made in the past 6 months (date of last activity)
What is rent reporting?

Regular monthly reporting of tenant rent payments to at least one of the major consumer credit bureaus for inclusion on consumer credit reports.

What is rent reporting for credit building?

The pairing of rent reporting with credit/financial coaching and/or education and asset building programs for the purpose of supporting residents to build credit as a foundational asset and leverage improved credit to achieve financial goals.
CBA’s Rent Reporting for Credit Building Service

Supports *mission driven affordable housing providers* to implement rent reporting for credit building initiatives in order to help residents *build their credit histories* and offer them a *positive incentive for on-time rent payment.*
Rent Reporting for Credit Building Program Theory

Problem:
Unlike homeowners, renters do not ‘get credit’ on their credit report for making their monthly housing payments. 45% of individuals in low-income neighborhoods are ‘credit invisible’ or ‘unscorable’. Many have few opportunities to build credit history.

Solution:
Reporting rental payments offers low-income renters an opportunity to build credit as a financial asset and mission-driven affordable housing providers (AHP) are poised to help them do so. CBA is spreading awareness of and supporting AHPs to develop and implement Rent Reporting for Credit Building initiatives and also working with the credit bureaus and other industry partners to lessen and remove challenges to reporting for AHPs.

Goal:
To increase the number of AHPs reporting rental data to the credit bureaus; increase the number of affordable housing renters building credit via monthly rent payments; increase the number of affordable housing renters working to improve their financial capability and/or build assets.
Why Rent Reporting?

Rent Reporting → Credit Building → Asset Building → Financial Stability
Why Credit Building?
Program Goals

Residents gain the opportunity to build credit without assuming additional debt through the establishment of a new, positive, active trade line on their traditional consumer credit report.

Resident Service Providers gain access to a credit building product/tool which they can wrap coaching and education around and directly provide residents with means to measurably improve their credit profile.

Property Managers gain the opportunity to a positive incentive for on-time rent payment and a competitive advantage in recruiting new residents.
Pilot Overview

EPIC Property Management

Marquette Management

East Bay Asian Local Development Corporation

Cleveland Housing Network

Covenant Community Capital

Affordable Housing, Education and Development

Commonwealth Land Trust

AHC Greater Baltimore
Rent Reporting for Credit Program Model

Affordable Housing Provider + Credit Builders Alliance

Provide a population of residents with access to:

- Rent Reporting
- Credit and Financial Coaching and Education

And measure change in:

- Rates of on-time rent payment
- Credit Score
- Other measures of financial capability and asset building
Pilot participant survey results:

- **38%** have reviewed their credit report in the past 12 months
- **96%** reported that having good credit is important to them
- **97%** reported that paying rent on time is a good way for them to build their credit
100% of residents with no trades transitioned to the thin-file category and are now **SCOREABLE** by VantageScore 3.0.

<table>
<thead>
<tr>
<th>Risk Segment</th>
<th>Percentage of Unscoreable Population</th>
<th>Average VantageScore 3.0 before</th>
<th>Average VantageScore 3.0 after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>72%</td>
<td>N/A</td>
<td>688</td>
</tr>
<tr>
<td>Nonprime</td>
<td>28%</td>
<td>N/A</td>
<td>646</td>
</tr>
<tr>
<td>Subprime</td>
<td>0%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>N/A</td>
<td>676</td>
</tr>
</tbody>
</table>
Pilot Results

Change in Participant Credit Score

- 79% Increase
- 14% No Change
- 7% Decrease

Average Participant Credit Score Increase by Baseline Score Tier (in points)

- Prime: 4
- Nonprime: 10
- Subprime: 32

79%
Pilot Results

Participant Credit Score Change by Baseline Score Tier

<table>
<thead>
<tr>
<th>Tier</th>
<th># with score decrease</th>
<th># with no score change</th>
<th># with score increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>45</td>
<td>54</td>
<td>138</td>
</tr>
<tr>
<td>Nonprime</td>
<td>11</td>
<td>42</td>
<td>131</td>
</tr>
<tr>
<td>Subprime</td>
<td>16</td>
<td>36</td>
<td>489</td>
</tr>
</tbody>
</table>

- 58% of Prime participants saw a score increase.
- 71% of Nonprime participants saw a score increase.
- 90% of Subprime participants saw a score increase.
Pilot Results

Change in Participant Score Tiers with the Inclusion of Rental Data

- **Uscoreable (Highest Risk)**
  - Without rental trade line: 3%
  - With rental trade line: 0%

- **Subprime**
  - Without rental trade line: 55%
  - With rental trade line: 47%

- **Nonprime**
  - Without rental trade line: 19%
  - With rental trade line: 26%

- **Prime (Lowest Risk)**
  - Without rental trade line: 24%
  - With rental trade line: 27%

Credit Score Tier

- Blue: Without rental trade line
- Red: With rental trade line
How Does CHN Get Such a High Enrollment Rate?

- Behavioral Economics 101 - leveraging attention at the right time
- Opt-In is an opening for conversation
- Continue conversation at the time you review their credit report
- Ensure importance of credit/rent is top of mind when making their decision

90% Opt-In Enrollment Rate

- 41 point average credit score increase
- 25% reduction in late payments among chronically late payers
How Rent Reporting Works

Rental payment information can be reported to one or more of the major credit bureaus by...

A Property Manager

Or

A Third Party Payment Processor/Service provider
Resident Participation Options*:

- Opt-In
- Opt-Out
- Automatic

*must comply with Privacy Act
Affordable housing owners or operators who benefit from federal assistance are subject to the Privacy Act of 1974, which places certain safeguards on the sharing of residents’ personally identifiable information with a third party, including a credit bureau.

Any property owner or operator subject to the Privacy Act and wishing to report rental payment data to the credit bureaus must obtain a resident’s opt-in — i.e., prior written consent — to do so.
FAQs

Does rental information show up on the credit report as an installment or revolving account?

Neither actually. Rental information reported on the credit report functions as an open trade line. It has a recurring monthly set payment and does not calculate each monthly payment against any overall balance based on the lease.
FAQs

Is it possible for rent reporting to have a negative impact on an individual’s credit score?

Yes. The addition of any new trade line on a credit report, even one with only positive payment history, can potentially result in a decrease in credit score in the short-term.
FAQs

How could a positive trade line have a negative impact on credit score?

- Average length of history
- Debt to credit ratio
- Movement between scorecards
FAQs

Are rental trades factored into all credit scores?

Newer scores including VantageScore 3.0 and FICO 9 are optimized for rental data.

Older and more commonly used scores were designed before the reporting of monthly rental data was commonplace. Many may factor-in rental trades but our understanding of the impact is limited.
Considerations for Property Managers

- Compliance/Liability
- Time Commitment
- Control over Reporting Process
- Cost
Let’s explore some options

• RentTrack: payment processing + rent reporting
• RentDynamics- Rent Plus: rent reporting
• Rental Kharma: Rental Verification and Reporting
• Others: ClearNow, Rezzcard, PayYourRent, RentReporters
Model: Payment Processor

How it works: Residents enroll in electronic payments and rent is reported monthly to all three credit bureaus

Costs: Monthly fee per unit – can be paid by resident, by housing provider or split

Other notes: Residents can see their credit scores online at onset and use online credit tools (extra cost to receive credit score each month)

www.renttrack.com

*special discount for CBA members
General Stats:
- *Average increase* in VantageScore of **9 points**
- For *subprime consumers* (scores <650), the average point increase was **29 points** in 2-6 months
- **100%** of residents *without a score* became scoreable, with an average starting VantageScore of **639**

Portland Community Reinvestment Initiative:
- **47** residents enrolled
- System easy; online payments come with an email reminder and an email receipt every month
- RentTrack often was their first use of autopay
- RentTrack optional monthly credit score review fee-based service (1st one free)
- As of 9/2016, average score increase for enrolled residents was **32 points**
Options for individual renters

- RentTrack: Direct to resident option
- Rental Kharma: Payment verifier
- Many others exist

Challenge:
- Services for individual renters are still fairly expensive for low-income renters
Characteristics of Successful RRCB Initiatives

- Organizational buy-in at all levels and understanding of mission and business alignment

- Capable and responsive property/asset management team and software/IT contact(s)

- Resident services capacity to coach/educate and motivate residents about credit building and linkage to financial goals
RRCB Process Overview

- Organizational Commitment
- Assess Reporting Options
- Outreach, Education & Outcome Tracking Plans
- Application & Credentialing (Direct) / Back-end Coordination (3P)

Program Implementation
Organizational Assessment: Areas of Inquiry

Establishing Need and Buy-in for Rent Reporting

- What are the credit needs/issues among your clients?
- Does program staff support Rent Reporting and see a fit with your current programs?
- How to generate buy-in across departments (and/or) third parties involved?
- What key outcomes are you hoping to achieve through Rent Reporting?
- Are there any legal/liability concerns?
What is the in-house capacity required to implement a RRCB program?

- What departments/key roles need to be involved and at what level:
  - Leadership
  - Funding
  - Program Staff- Resident Services
  - Program Staff- Property Management
What is required from 3rd parties to implement a RRCB program?

- Needs from Third Parties
  - IT/Tech Consultants
  - Software providers
  - 3rd party property managers
Organizational Assessment: Areas of Inquiry

What does a RRCB program workflow look like?

- Enrollment/Outreach strategies, opportunities
- Integration with existing Financial Capability/Financial Education programming
- How will success be measured?
- Program implementation, policies and procedures
Rent Reporting for Credit Building

Thank You!

Questions