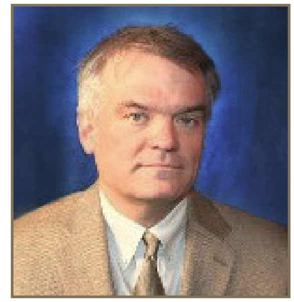
Sarah Chenven



Doug Ryan

Rent Reporting and the Importance of Credit-Building Options for Renters

Q&A with Sarah Chenven, Credit Builders Alliance and Doug Ryan, CFED

CI: Are credit scores becoming increasingly important for family financial security? What implications does that have for homeowners and renters?

A: Yes. Credit scores directly impact a family's access to safe, affordable credit products. Some insurance policies, including car and homeowner's insurance, are priced in part based on credit scores. Utility and cell phone providers also use credit scores to determine security deposit requirements and the amount that must be put down as a security deposit. About half of employers check credit reports as part of their applicant screening process.

Credit is used to price mortgages, including fees and other upfront costs. Poor credit can, of course, lead to a loan denial on the basis of credit. For example, in 2009 Fannie Mae raised its minimum FICO credit score for conventional loans from 580 to 620. Even if he or she can afford to make a 20 percent down payment, a mortgage applicant can be rejected with a score below 620. In all of 2013, only 1.4 percent of the single-family loans Fannie acquired were to borrowers with scores below 620. The trend continued in Q1 2014. The average FICO score needed to secure a mortgage loan in Q1 2014 was 741.

Credit histories also impact renters. Many landlords also use credit to accept or deny rental applicants and to determine how much of security deposit to collect. An accepted applicant who has a poor credit profile will likely be charged a higher deposit. Both homebuyers and renters face higher housing costs if they have poor credit or lack a credit history all together.

CI: We know that homeownership can come with substantial benefits like building equity and deducting mortgage interest from taxes. Are you seeing innovations in the field to support renters in establishing financial stability?

A: Yes. Organizations across the country are exploring incentivizing renting through rewarding community participation, on time rental payments and other areas. Credit Builders Alliance (CBA) has rolled out its Power of Rent Reporting pilot with funding from the Citi Foundation, which supports affordable housing providers to report rent payments to major credit bureaus to help renters build credit profiles. CFED is working with CBA and the Policy Economic Research Council (PERC) to expand this idea to other housing organizations.

CI: What are the credit-building challenges or barriers for renters? Has the situation changed since the Recession?

A: Like many Americans during the Recession, many renters lost jobs and their credit profiles suffered. Pressure on the post-crisis rental market has tightened the market, allowing landlords to raise credit standards and rents, aggravating an already difficult affordable housing shortage in many markets. Although making late housing payments can damage the credit of homeowners 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. Today, more than one-third of Americans rent their homes, a ratio that has increased since the start of the financial crisis. 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—particularly those who are low-income or underserved—pose, impeding their ability to successfully join the financial mainstream, and increasing their dependency on high-cost, asset-stripping payday loans and other predatory financial products and services. This systemic deficiency makes it difficult, if not impossible, for many struggling households to get and stay ahead, often across generations.

CI: What is rent reporting and why is it an important tool for renters? Are there large numbers of renters for which this could be impactful?

A: Two of the big three credit bureaus, Experian (through its RentBureau Division) and TransUnion (through its ResidentCredit initiative), offer renters the opportunity to include on-time rent payments as valid trade lines on traditional consumer credit reports. This data is reported either directly by landlords or property managers or by credible rental payment processors. The emergence of this opportunity could provide millions of renters with the chance to build credit without taking on additional debt or incurring the burden of an additional monthly expense.

CI: What model pilots are we seeing to help renters build their credit history?

A: A number of for-profit property management companies are already reporting their residents' rental payments to the credit bureaus. Most nonprofit affordable and public housing authorities, however, were neither aware of the opportunity nor able to easily leverage it on behalf of their residents prior to CBA's Power of Rent Reporting pilot, initiated a couple of years ago to catalyze interest and build capacity to rent report within this particular market. As stated above, there are currently two ways renters can build credit through paying their rent:

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1) either their rental payments are reported directly by their landlord or property manager, primarily through their property management software (this method is primarily designed for larger, institutional landlords/property managers), or

2) a renter may self-enroll with a company credentialed by the credit bureaus to furnish the rental payment data. Currently this is possible through online rental payment processors like WilliamPaid.com, also an active partner in CBA's Pilot, and ClearNow. This is an evolving opportunity as new and different companies enter the reporting space.

CI: How can readers learn more about or get involved with rent reporting efforts?

A: To find out more about these initiatives, visit any of their websites or contact Credit Builders Alliance. CI