White paper

Credit for renting

The impact of positive rent reporting on subsidized housing residents

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About the analysis

For many Americans, financial exclusion is a reality. They operate primarily on cash basis, so their credit history is limited or nonexistent. They can't access mainstream financial services products, even if they always meet their financial obligations on time. They're dependent on high-cost, short-term credit, and they pay a premium for access to basic services such as utilities and telecommunications.

It's a vicious circle: consumers can't improve their economic well-being and enter the financial mainstream without enough credit history, and they can't get that credit history without entering the financial mainstream.

In this white paper, Experian RentBureau analyzes data from a subset of the larger Experian RentBureau database, which comprises rental payment history on more than 18 million residents nationwide. The analysis examines the impact to credit scores of paid-as-agreed rent reporting for subsidized housing residents. Particular attention is paid to how positive rent reporting impacts the thickness of the credit file (as measured by the number of trades on file), the movement of residents' credit scores between score bands and the credit score impact on previously unscoreable subsidized housing residents. In addition, the corresponding effect on credit card interest rates potentially offered to the study population as a result of the positive rent reporting is examined.

To conduct the analysis, Experian RentBureau gathered rental payment data from the Experian RentBureau database. Nearly 20,000 leases, as reported by property management companies to Experian RentBureau, were found that met the desired criteria, including the receipt of housing subsidies on the lease and positive lease payment behavior (as defined by the absence of outstanding balances or write-offs). Subsidized leases with negative rental payment history specifically were excluded from the analysis. The leases in the study were initiated between 1994 and 2013 and comprised both completed and active leases.

The addition of these leases to the Experian credit database then was simulated.

All leases in the study were added to the Experian credit database as actual tradelines, specifically Metro 2® type code 29 tradelines (rental agreement). The lease tradelines were reported as an account that must be paid in full each month. If available, up to 25 months of rental payment history was included on each simulated tradeline. The monthly payment amount of the simulated tradelines reflected each resident's actual financial obligation on the lease and did not include the subsidized portion not paid by the resident. The credit score impact as a result of adding the simulated rental tradelines to the residents' credit files was evaluated using VantageScore® 3.0.[1]

In the past, only negative rental payment data, such as rental collections, was reported to credit reporting agencies. Until recently, when Experian RentBureau began working with property managers to incorporate positive rental data into the traditional credit file, on-time rental payments were never included in credit reports — unlike credit card,

[1] *For the purpose of this data analysis, Experian RentBureau utilized the VantageScore 3.0 advanced credit scoring model, which produces a highly predictive score and scores up to 35 million consumers previously deemed unscoreable. VantageScore 3.0 has a score range of 300 to 850 to represent a consumer's creditworthiness.*

mortgage and car payments, which help build credit history when paid on time. For renters, not only can the reporting of positive rental payment data make a difference for those who are looking to build credit history, but it also may help thin-file or underbanked consumers become scoreable by certain traditional credit scoring methods and potentially gain access to credit. Subsidized housing residents are no exception to the potential beneficial impact of positive rent reporting. The following analysis investigates this impact in greater detail.

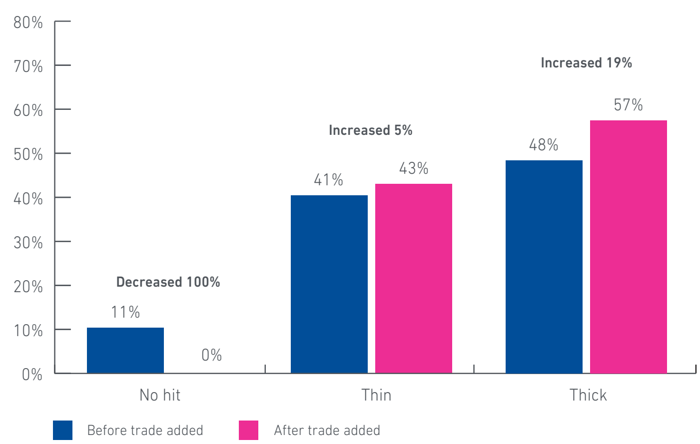
Credit file thickness

The effect on credit file depth for no-hit and thin-file residents as a result of adding positive rental tradelines.
A critical element of a lender's decision is often the thickness of the consumer's credit file. The depth of a credit report reflects the number and types of accounts on file. A more robust and diverse credit file may signal to a lender that a consumer is adept at managing multiple credit obligations. In this white paper, Experian RentBureau analyzes the impact on credit file thickness for the study population of subsidized housing residents. The relative thickness of the file is grouped according to three categories: no-hit, representing no credit file present (no tradelines on file); thin file, representing two or fewer tradelines on file; and thick file, representing three or more tradelines on file.

Prior to the simulated rent reporting, 11 percent of subsidized housing residents included in the study did not have a credit file. As a result, these individuals were unscoreable prior to the reporting of the paid-as-agreed rental tradelines to the Experian credit database. Following the addition of the rental tradelines, all of these residents transitioned to the thin-file category. In addition, the study population shift from thin file to thick file as a result of adding the rental tradelines is compelling. Twenty-three percent of thin-file residents migrated to the thick-file category. Thick files increased from 48 percent to 57 percent of the sample population.

As a result of adding the positive rental tradelines, not only are the 11 percent previously no-hit residents now considered thin file, they also now are scoreable using VantageScore 3.0. These individuals now are able to leverage the existence of a credit file to continue to build credit history. An additional 9 percent of the study population now is considered thick file, potentially resulting in increased access to credit at better terms.

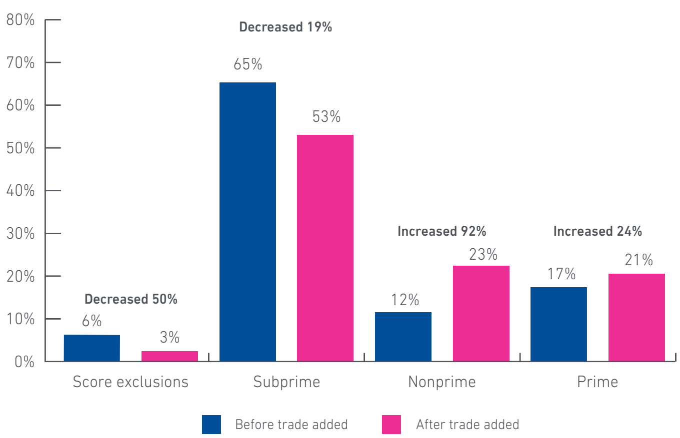
File thickness migration



Risk segment migration

How positive rent reporting results in migration across the subprime, nonprime and prime risk segments.
Further insight into the impact of adding paid-as-agreed rental tradelines to credit files is exhibited by the risk segment migration of the study population. Risk segment tiers, as defined by VantageScore 3.0, include subprime, nonprime and prime. Subprime is defined as a score from 300 to 600, nonprime is defined as 601 to 660, and prime is a broad category with a score range of 661 to 850. Prior to the addition of the positive rental tradelines, 65 percent of the study population fell in the subprime category. Compared with the overall U.S. population — in which about 32 percent are considered subprime, according to VantageScore 3.0 — the increased proportion of subprime consumers in the study is not surprising, as the study population comprises individuals who qualified for subsidized housing.

Risk segment migration



Residents in the study considered subprime prior to the analysis particularly benefited from the addition of the rental tradelines, as evidenced by a 19 percent decrease in this group. These individuals migrated from subprime to at least one higher (less risky) risk segment (nonprime or prime). In addition, the segment of the population in the nonprime category nearly doubled from 12 percent to 23 percent, and the allocation in the prime category increased by 24 percent, from 17 percent to 21 percent. Although decreasing after the addition of the rental tradelines, a small portion of the study population received a score exclusion after the simulation due to various reasons.

Generally speaking, subprime consumers receive fewer credit offers, higher interest rates and limited access to credit. Although scoreable, these individuals ultimately may not benefit from the credit opportunities available to this risk segment due to the corresponding high cost of credit. In real terms, migrating from a subprime credit offer to a prime credit offer could represent an interest rate decrease of nearly 11 percentage points (see page 5 for additional details). Through the addition of the positive rental tradeline, an additional 15 percent of the study population migrated to the nonprime or prime risk segments, therefore potentially receiving more affordable credit, additional credit opportunities and increased ability to build credit history going forward.

No-hit impact

The credit score and risk segment impact for the previously no-hit study participants.

Also interesting to note is the impact to credit scores and corresponding credit risk segments for subsidized housing residents in the study who were unscoreable prior to the addition of the rental tradelines. As previously noted, 11 percent of the residents included in the study did not have a credit file prior to the addition of the rental tradelines. Following the simulation, all of these residents were scoreable by VantageScore 3.0. Particularly compelling is that 97 percent of the previously no-hit residents fall in the prime and nonprime risk segments with the addition of the paid-as-agreed rental tradelines. The majority of those previously unscoreable now are considered consumers in the highest (least-risky) prime category.

Risk segment detail for no-hit population

Risk segment	Percentage of no-hit population	Average VantageScore 3.0 before	Average VantageScore 3.0 after
Prime	59%	N/A	688
Nonprime	38%	N/A	649
Subprime	3%	N/A	586
Total	100%	N/A	670

Although it may seem surprising that the addition of one paid-as-agreed rental tradeline could cause a resident to not only now be scoreable, but also to fall within the highest (least risky) risk segment, this finding shows that many subsidized residents do consistently pay their rent on time, every month. Indeed, 81 percent of previously no-hit residents in the study had more than 12 months of rental payment history data available in the Experian RentBureau database. These residents now receive credit for not just one positive payment, but for months of responsible payments. This history of recurring on-time payment behavior should be noted by lenders and consequently rewarded.

Credit score change

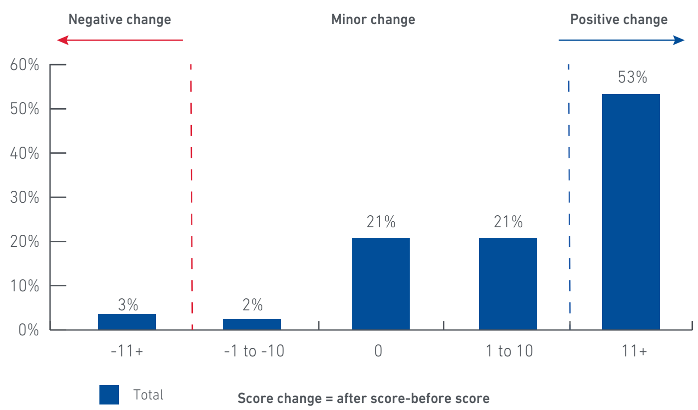
A closer look at the distribution of credit scores among previously scoreable residents as a result of positive rent reporting.

Looking more specifically at the distribution of score changes after the addition of the rental tradelines, the analysis revealed that nearly 75 percent of the study population (those previously scoreable) experienced a score increase, the majority of which were 11 points or more. Twenty-one percent of the residents in the analysis received a neutral or no score change impact, and only 3 percent experienced a score decrease that was 11 points or more.

In other words, 95 percent of study participants experienced a score increase or no score change as a result of positive rent reporting. In particular, subprime and nonprime residents received the greatest positive score impact, with 84 percent of subprime residents in the study and 50 percent of nonprime residents experiencing a positive score change.

A resounding 65 percent of subprime residents in the study received a positive score impact of 11 points or more. The average VantageScore 3.0 score change for previously scoreable participants in the study was an increase of 29 points.

Risk score change



The greater than 10 points score decrease experienced by 3 percent of the study population is attributed to a variety of score factors. Additionally, although these particular residents experienced a score decrease, they largely remained within the same risk segment (e.g., subprime) and still received the addition of an incremental tradeline to their files (increasing the thickness and diversity of their credit files and the resulting potential benefits, as noted previously).

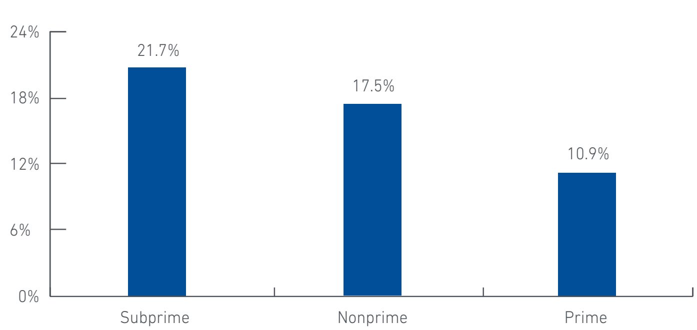
Financial impact

An example of the potential financial benefit for subsidized housing residents as evidenced by modeled credit card interest rates.

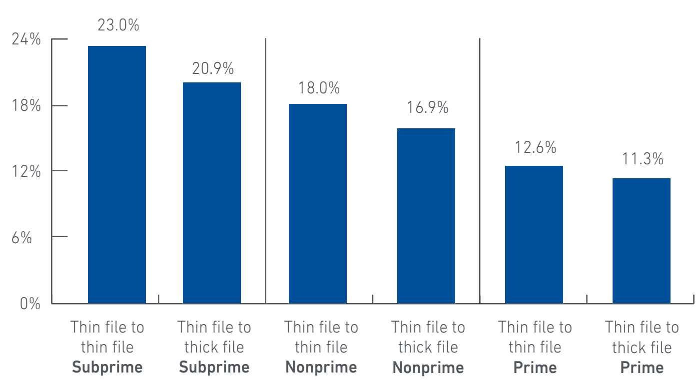
An analysis of modeled credit card interest rates across risk segments provides just one example of the potential financial impact for subsidized residents as a result of the addition of the positive rental tradelines to their files. An analysis by Experian revealed that as a consumer's risk segment improves (the consumer becomes less risky), the lower the credit card interest rate the consumer is likely to receive from lenders. This was determined by evaluating a random, statistically representative population of consumers over the course of six months. Note that the population of consumers in the credit card modeled interest rate analysis was distinct from that in this white paper. Experian's EIRC for Revolving℠ product was used to model the credit card interest rate for the population of consumers in the modeled interest rate study. EIRC for Revolving is an estimated interest rate calculator that leverages historical credit card data to determine a number of attributes, such as the average effective annual percentage rate on a consumer's credit cards.

As illustrated below, prime consumers in the study received modeled credit card interest rates 10.8 percentage points lower than the subprime consumers in the study. In addition, within risk segments, consumers with more robust credit files received lower modeled credit card interest rates. For example, in the subprime risk segment, consumers in the study who migrated from thin file to thick file during the six-month period received modeled interest rates more than two percentage points lower than their thin-file counterparts within the same risk segment. Applying Experian's modeled interest rate analysis to the results of this white paper demonstrates that the addition of the paid-as-agreed rental tradelines to the Experian credit database yields tangible benefits.

Modeled credit card interest rate by risk segment



Modeled credit card interest rate file thickness migration



Conclusion

The data in this analysis demonstrates the impact of positive rent reporting on credit file thickness, risk segment migration and credit scores for subsidized housing residents. These factors were analyzed in the context of subsidized housing residents before and after the addition of the paid-as-agreed rental payment tradelines to the consumer credit database. Nearly 20,000 susbidized housing leases were evaluated to conduct the analysis.

Following the addition of the positive rental tradelines, 100 percent of the previously no-hit residents in the study population subsequently were scoreable. In addition, 23 percent of thin-file residents migrated to the thick-file category with three or more tradelines on file. As evidenced by the credit card modeled interest rate analysis, increasing the credit file thickness alone, even holding the risk segment constant, yields tangible benefits in terms of lower credit card interest rates likely to be received by consumers.

Further insight into the impact of adding paid-as-agreed rental tradelines to credit files is exhibited by the risk segment migration of the study population. Prior to the addition of the positive rental tradelines, 65 percent of the study popluation was considered subprime. Following the addition of the rental tradelines, this group decreased by 19 percent — migrating to at least one higher (less risky) risk segment (nonprime or prime). In addition, the segment of the population in the nonprime category increased 92 percent, and the allocation in the prime category increased 24 percent.

Following the positive rent reporting simulation, all of the previously no-hit residents in the study were scoreable, with 97 percent of these residents now considered prime or nonprime. The majority (59 percent) of the previously no-hit residents transitioned to the prime (or least risky) risk segment category. Many of these residents had several months of positive rental payments that contributed to a history of on-time payment behavior.

Lastly, 95 percent of the study population experienced a score increase or neutral score impact as a result of the simulated positive rent reporting. Nearly 75 percent of the study population experienced a score increase, the majority of which was 11 points or more. Subprime and nonprime residents received the greatest positive credit score impact, with 84 percent of subprime residents and 50 percent of nonprime residents experiencing a positive score change. Overall, the average VantageScore 3.0 score change for previously scoreable participants in the study was an increase of 29 points.

Positive rent reporting presents an opportunity for subsidized housing property managers and owners to play a key role in helping their residents build credit history. The ability for many of these consumers to become scoreable, build a more robust credit file and potentially migrate to a better risk segment simply by paying their rent on time each month is powerful and represents an opportunity for positive change that should not be overlooked. Subsidized housing residents who pay their rent on time should not be credit-disadvantaged simply because they rent instead of own the place they call home. Experian® is committed to helping all consumers establish or build credit history and encourages subsidized housing property managers and owners and the industry at large to follow suit.

About Experian RentBureau

Experian RentBureau is the largest and most widely used database of rental payment information and currently includes information on more than 18 million residents nationwide. Property management companies and electronic rent payment processors report rental payment data directly and automatically to Experian RentBureau every 24 hours. This detailed rental payment information enables organizations to make better informed decisions. Property management companies utilize this data to screen new rental applicants' payment history as part of their existing resident screening services. Experian is the first major credit reporting agency to incorporate positive rental payment data reported to Experian RentBureau in consumer credit reports, enabling residents to build credit history by paying rent responsibly.

To learn more about Experian RentBureau, visit www.rentbureau.com.

For renters interested in building credit history through rental payments, please visit www.experian.com/buildcredithistory.

About Experian

Experian unlocks the power of data to create opportunities for consumers, businesses and society. During life's big moments — from buying a home or car, to sending a child to college, to growing a business exponentially by connecting it with new customers — we empower consumers and our clients to manage their data with confidence so they can maximize every opportunity.

We gather, analyze and process data in ways others can't. We help individuals take financial control and access financial services, businesses make smarter decision and thrive, lenders lend more responsibly, and organizations prevent identity fraud and crime.

For more than 125 years, we've helped consumers and clients prosper, and economies and communities flourish — and we're not done.

Our 17,000 people in 37 countries believe the possibilities for you, and our world, are growing. We're investing in new technologies, talented people and innovation so we can help create a better tomorrow.

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