The Advantage of Adding Rent and Utility Data to the Credit File

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INTRODUCTION

Credit scores play an important role in a consumer's financial life. Financial institutions use credit scores like the VantageScore® credit score, together with other important criteria, to make decisions on who to approve for a loan and what terms to offer. A high credit score increases the chances of approval for a new loan, a higher credit amount or a lower interest rate.

Credit scores are typically based on the information available in a consumer's credit reports, which are maintained by the three national credit reporting companies (CRCs), namely Equifax, Experian and TransUnion. Credit reports include information about credit accounts, inquiries for new credit, collections and public records. From the time when VantageScore's original model was introduced in 2006, all versions of VantageScore credit scoring models have incorporated rent, as well as telecommunication and utility (such as gas, electricity) records in the computation of credit scores when that information is present on the credit report.

Although rent is the main monthly expense for millions of Americans, the reporting of rent payments to the CRCs by landlords and property managers is limited. Similarly, service providers do not routinely report telecommunication and utility payments or other records to the CRCs.

There is an opportunity to capture greater insights about consumers' established record of managing their rental, telecommunication, and utility related financial obligations as part of their overall credit history. The inclusion of this type of information in the credit file will be particularly beneficial to consumers who otherwise have limited credit experience, allowing these consumers to have their history of complying with these financial obligations to also be included in their credit profiles and their credit scores. Ultimately, increased reporting of rent, utility and telecommunications related data in credit files in a standardized fashion will also allow credit scoring models and other decisioning tools to leverage these types of data to an even greater degree in the algorithms, leading to enhanced accuracy in risk assessments and overall better decisions.

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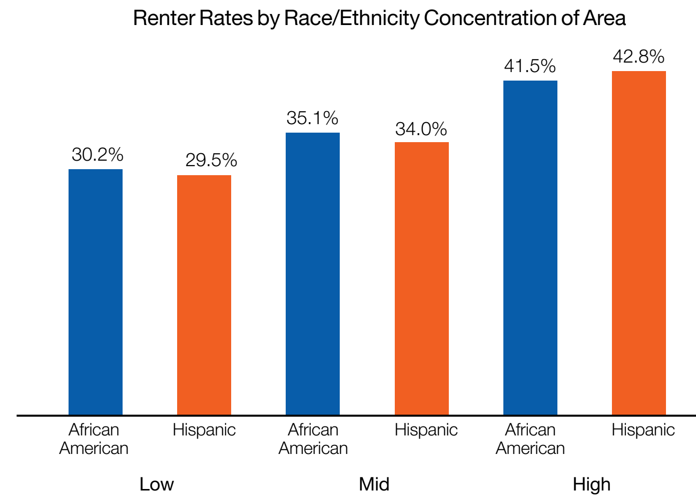
FINANCIAL INCLUSION IMPLICATIONS

The inclusion of rent, utility and telecommunications related activity on consumers' credit files will also benefit minority populations, who tend to have more limited credit profiles and lower home ownership rates. An analysis based on the U.S. Census Bureau's 2019 American Community Survey (ACS) shows that the percentage of households that are renters is significantly higher in areas where more than 10% of the population is African American or Hispanic when compared to areas with a lower minority representation. For example, areas where African Americans make up more than 10% of the population have, on average, 41.5% of the households renting as compared to 30.2% for areas with lower African American populations.



Increased rent reporting will be particularly beneficial for minority populations, especially given that they otherwise tend to have more limited information on their credit files. Combining the same 2019 ACS information with credit file data from the CRCs, we note that consumers living in areas with higher renter rates tend to have thinner files compared to those living in areas with higher homeownership rates. In fact, 11.2% of consumers in high renter areas (i.e., where more than 40% of the households are renters) have Thin Files, compared to 8.1% for consumers living in lower renter areas (i.e., where less than 25% of the households are renters).

A greater percentage of consumers living in areas with high renter rates fall into the "Newly Scoreable" segments in VantageScore models. Given the limited data in their credit files, these consumers are invisible if using conventional models but can be scored through VantageScore models. This newly scoreable segment is made up of consumers with young credit files, consumers who have been recently inactive with credit, and consumers who do not have any accounts reported to credit files but do have other information present, such as collections, credit inquiries and public records.[2] 15.6% of consumers living in areas with high renter rates fall into this Newly Scoreable segment, compared with 12.7% of consumers in areas with high rates of homeownership. A higher percentage of consumers (5.4%) are not scoreable with conventional models in higher renter areas as compared with high home ownership areas (3.5%).

	Proportion of Renters in an Area		
	<25%	25% to 40%	>40%
Full File Consumers	75.7%	72.4%	67.8%
Thin File Consumers	8.1%	8.9%	11.2%
Consumers Newly Scoreable by VantageScore	12.7%	14.6%	15.6%
Unscored Consumers	3.5%	4.1%	5.4%

[2] Please refer to the research studies "Credit Scoring and Financial Inclusion" and "Credit Invisible No Longer: examining the relationship between socioeconomic disparities and scoreability" for an in-depth discussion on Newly Scoreables: https://vss.credit/research.

An analysis of the credit file data compositions for different race and ethnicity groups provides further evidence of the limited credit file information available for minority consumers. A greater percentage of African American and Hispanic consumers have Thin Files (i.e., less than three credit accounts). Further, the newly scoreable rates, as well as the rate of consumers who are not conventionally scoreable, are significantly higher among African American and Hispanic communities. The limited credit data that is currently available for these consumers underscores the potential benefit of including rent, utility and telecommunications information in these consumers' credit files.

	Minority Representation in Area			
	Neither African Americans nor Hispanics >10% of Population	Hispanics >10% of Population	African Americans >10% of Population	Both African Americans and Hispanics >10% of Population
Full File Consumers	74.6%	72.3%	69.2%	68.3%
Thin File Consumers	8.2%	10.1%	9.4%	10.8%
Consumers Newly Scoreable by VantageScore	13.6%	13.3%	16.7%	15.5%
Unscored Consumers	3.5%	4.4%	4.7%	5.4%

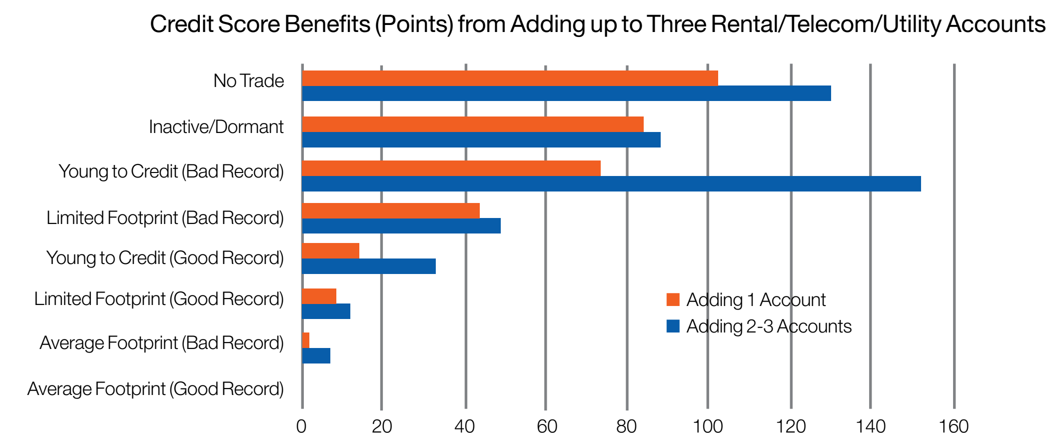
ASSESSING THE SCORE IMPACT

VantageScore conducted a simulation analysis which demonstrates the impact of adding rent, telecommunication or utility accounts when calculating consumer credit scores using the VantageScore 3.0 model. In this analysis, the effects of adding one or more rent, telecommunication or utility accounts were explored using several hypothetical consumer profiles with different levels of experience and histories with credit products. The hypothetical consumer profiles analyzed ranged from consumers with a limited credit footprint (Thin File) to consumers with well-established (Full File) credit profiles, as well as consumers with clean payment histories versus consumers with prior delinquencies. The analysis also addressed the impact of adding rent, telecommunication or utility accounts on the conventionally "credit invisible" consumer profiles that are Newly Scoreable using a VantageScore model, including young to credit consumers (with a clean or a tarnished credit history), inactive consumers, as well as consumers with no credit accounts but with other data on their credit files, such as collections and inquiries.

It is important to note that because each person's credit history is unique, the impact of reporting additional rent, telecommunication and utility accounts will differ from one consumer to another. There are many unique factors that will impact a consumer credit score, related to such items as the age and mix of credit accounts, payment history, utilization, and newly opened credit accounts, among others. It is also important to note that the results may differ from one credit scoring model to the next as factors considered in various models may vary.

The simulation analyzed scenarios which incrementally added 12 months of clean payment history (i.e., no missed payments) on the credit file using hypothetical monthly payment amounts of $1,700 for rent, and between $100-$300 for electric, gas and cell phone bills. Another scenario was evaluated assuming that the consumer had missed one payment on one of those accounts in the current month.

The results of the study indicate that consumers can see a significant benefit to their credit scores if rent, telecommunication or utility accounts are added to their credit reports.



The benefits are greater for those consumers who start out with more limited information in their credit files. The Newly Scoreable consumers (i.e., those who are invisible with the use of other generic credit scoring models but are scored by the VantageScore models) see the largest point increases in their credit scores. Incremental rent, telecommunication or utility accounts also help increase credit scores for consumers who have prior delinquencies on other accounts on their credit report. Consumers with a limited credit history are also more likely to see a score increase as a result of adding these new accounts that have been paid timely.

Also, consumers who are not scoreable due to the lack of information on their credit files can nonetheless become scoreable by adding one or more rent, telecommunications or utility accounts to their credit history.

The impact for consumers who already have a well-established credit history appears to be more muted. A consumer with a strong credit record and a good mix of credit use sees little to no benefit from the addition of rent, telecommunication or utility accounts. In fact, in some instances, depending on the specifics of the consumer's credit file, the impact of adding another account may cause the credit scores for consumers with well-established credit files to decline because a previously unknown, new obligation is being added to the score calculation.

The simulations suggest that the largest positive impact typically comes from the first added rent, telecommunication or utility account. Adding more than one such account with positive history further improves the credit score, while how much the score changes for each additional account depends on the specific profile of the consumer.

As expected, in the event that the newly added rent, telecommunication or utility account reflects a missed payment, the impact to the credit score will likely be negative, especially for well-established consumers who previously had a clean credit history.

Overall, the results indicate that the reporting of one or more rent, telecommunications or utility accounts can help to increase credit scores for consumers with more limited credit information on their files.

CURRENT REPORTING PRACTICES

Rent, telecommunication and utility records are not routinely reported to the Credit Reporting Companies (CRCs). There are a number of current obstacles to the systematic reporting of such data to the CRCs. Such obstacles may include potential legal liability concerns from becoming a data furnisher, the lack of any incentive or direct benefit to the furnisher from the reporting of these types of obligations, the lack of reporting standards, and the potential furnishers' inadequate knowledge about the reporting process, for instance, in the case of individual landlords who may not want to risk reporting rental data.

More recently, a number of third-party services are beginning to provide consumers with the opportunity to 'opt-in' and thus have their rent, utility and telecommunications accounts incorporated into their credit files in the hopes of helping these consumers improve their credit scores. While there are variations in how this information is obtained, the process typically involves the consumer granting permission to have this data pulled directly from their providers and added to their credit reports.

Since the late 1990s, furnishers have reported data to the CRCs using the universal Metro 2 reporting format that is managed by the Consumer Data Industry Association (CDIA). These reporting guidelines do not,, however, clearly address the characteristics of rent, telecommunication and utility type accounts that do not fit into a typical credit account format.

When reported into the credit files, furnishers typically report rent, telecommunication and utility accounts as open-ended accounts (and very seldom as installment accounts) with some type of indication of the nature of the account being a rental agreement, a telecommunication or utility account. The account history for rental accounts would generally begin with the lease start date or move-in date, and for telecommunication or utility accounts, the date the account had been opened. Given the lack of standardization in reporting these types of accounts, the Date Opened field is not always populated with this information, causing an incomplete picture of the consumer's length of credit history and recent account openings. An update on the account is provided every month and the history of these monthly reported statuses is summarized in the payment history of the account.

The Original Amount (if the account is reported as installment) or the Credit Limit (if the account is reported as an open-ended account) reflects the amount that the consumer is scheduled to pay every month (a fixed or variable amount depending on the account type). If the consumer pays the scheduled monthly amount, the balance is reflected as such. However, due to the timing of monthly payments, the reported balance most often switches back, within days after full payment was made to reflect the new due amount, with the indication of the payment obligation being met captured by a "paid as agreed" status for the month. Reported balance therefore remains the same as or similar to the Original Amount or the Credit Limit for these accounts most of the time, which appears as a high Balance-to-Original Loan amount or highly utilized account.

The reporting of these accounts involves other considerations relating to how the Term, Original Loan Amount, Past Due status, etc., should be reported given these report fields were designed for credit products, and not rental, utility or telecommunications accounts. The establishment of new reporting standards that are able to capture the unique characteristics of rental, utility and telecommunications accounts would ensure that all relevant information regarding these types of accounts is fully captured and can be effectively used in the development of future credit scoring models and other applications.

CONCLUSION

There is strong evidence demonstrating the benefits of reporting of rent, utility and telecommunications accounts for consumers, particularly for those consumers who otherwise have limited information in their credit files. Currently, the frequency of reporting these types of accounts to the credit files maintained by the CRCs remains low, even though there is a growing awareness of the value of reporting this type of data.

In addition to efforts aimed at increasing the inclusion of rent, utility and telecommunications information in consumers' credit files, either directly by landlords or utility / telecommunications providers or through third-party reporting services, key industry participants are also focusing on increasing standardization in the manner of reporting such data.

VantageScore strongly supports efforts aimed at increasing the reporting of rent, utility and telecommunication accounts in credit files and establishing standards regarding how this reporting is to be done. All versions of VantageScore models incorporate these types of accounts in the calculation of credit scores, resulting in a more complete picture of the consumer's past credit and payment history when that information is available. Increased reporting of these types of accounts in the credit files would not only result in an improvement in the credit scores of many consumers, it would also provide a more complete and consistent representation of a consumer's credit history, thus allowing greater predictive accuracy for credit scoring models and other types of credit decisioning tools.

The VantageScore credit score models are sold and marketed only through individual licensing arrangements with the three major credit reporting companies (CRCs): Equifax, Experian and TransUnion. Lenders and other commercial entities interested in learning more about the VantageScore credit score models, including the VantageScore 4.0 credit score model, may contact one of the following CRCs listed for additional assistance:

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