



# Overview: Access to Rental Data for Underwriting Mortgage Credit\*

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**M**ore than one-third of US households are renters, including 58 percent of Black households, 53 percent of Hispanic households, and nearly half of households who earn less than the median income. Renter households are also about seven times more likely than homeowners to lack sufficient traditional credit history to generate a credit score under the most widely used credit scoring models.

Rental payment history used to be a major component of underwriting first-time homebuyers' mortgage applications, but its importance waned with the adoption of automated underwriting systems because so few landlords reported to nationwide credit bureaus that early generations of credit scoring models did not account for rental data even if available. Because data access has increased and newer credit scoring models can use rental data, stakeholders are increasingly focused on the potential to increase access to credit and reduce disparities in homeownership.

## CURRENT ACCESS

Of the 80 million adults who live in rental housing, fewer than 2 million are estimated to have payment

history reflected in their credit files with Equifax, Experian, or TransUnion. But initiatives to expand access to the data are growing.

In November 2021, Freddie Mac began offering discounted loan closing costs to owner-operators of all multifamily properties it finances to report tenants' on-time rent payments to all three major credit bureaus, through a contract with Esusu Financial Inc., a national mission-driven rent reporting platform. Where verifiable historical data are available, Esusu will report up to 24 months of past on-time payments to give an immediate boost to consumers' credit scores. Esusu will automatically unenroll tenants when they miss a payment, though they may reenroll after six months.

Three states have also recently enacted rent reporting measures. The most expansive is California's Rental Law SB 1157, which applies to leases commencing on or after July 1, 2021.<sup>1</sup> (The other two are in Colorado and the District of Columbia.<sup>2</sup>) SB 1157 requires all landlords with more than 15 subsidized rental units to offer their tenants the option to report their rent payments to major credit bureaus for no more than \$10 per month. As with the other measures, the bill requires

the tenants' signed written consent to comply with federal privacy protections, and landlord disclosure of which national credit bureaus rents will be reported to. SB 1157 requires full-file reporting, meaning that once a tenant opts in, all rental payments will be reported, regardless of whether they are on time, late, or missed.

A growing number of platforms have developed to facilitate data reporting. Some companies focus primarily on working with landlords, such as by offering credit reporting as an adjunct to property management or payment processing software. Consumers can also sign up to have their rental payments reported to one or more of the three main credit bureaus through various services, such as platforms that pull payment history from bank accounts or reach out to landlords on the consumers' behalf. Lenders can also sign up with services that pull rental information from bank account records where individual applicants consent to the data transfers. Consumers may have to pay fees and/or provide log-in credentials to make the data available through these channels. Consumer permission is also required before operators of federally subsidized housing report on-time payment history to credit bureaus under the Federal Privacy Act.

## CURRENT USE

Adoption of models that use rental payment history has been slowed in the mortgage market because the automated underwriting systems used to decide which mortgages meet the standards to be guaranteed by Fannie Mae, Freddie Mac, or the Federal Housing Administration (FHA) rely on older FICO versions that do not consider rental payment history, even when it is available in applicants' credit files. Fannie Mae, Freddie Mac, and the FHA allow lenders to account for rental payment history when performing manual underwriting, but these procedures have made little impact on the current market.

Where lenders are willing to forgo the possibility of securitization or guarantees through these channels, VantageScore models and FICO models released after 2014 will factor rental payment history into scores automatically where the data are available in credit bureau files. Specialty credit scores or services that provide lenders information from bank accounts generally involve additional charges, separate from obtaining consumers' main credit scores or credit files.

In August 2021, Fannie Mae announced modifications to its automated underwriting engine to make it easier for lenders to consider positive rent payment history for first-time homebuyers who would otherwise be rejected under its automated procedures. Because rental information remains so limited in credit bureau files, the new processes rely instead on rent payment history as reflected in automated feeds of bank account information permitted by the mortgage applicant.

## RESEARCH

Although not representative of all renters and involving small samples, several studies quantify the credit score impacts of reporting on-time rental payments. Because of design constraints, these estimates should be interpreted with caution. Significantly more consumers benefit from rent reporting, but in each study, a nontrivial share suffer score declines:

- One study found that 76 percent of consumers experienced score increases, with 19 percent experiencing an average increase of 11 points or more. Almost 29 percent of consumers were unscorable until rental data were added, and they had an average score of 700 (prime) when the information was included. Six percent experienced score declines, including 3 percent with declines of 11 points or more.<sup>3</sup>
- In another pilot, 3 percent of sampled residents were unscorable without the rental data, and all became scorable at either the near-prime (average 646) or prime (average 688) credit tiers with the addition of their rental data. Post-rent reporting, 2 percent experienced a drop of 11 points or more.<sup>4</sup>
- In a third pilot, 11 percent of the sample were unscorable at the outset but became scorable with the addition of rental payment data, with an average score of 670 (prime). Seventy-five percent of previously scorable consumers experienced average score increases of 29 points. Scores dropped on 5 percent of previously scorable files with the addition of rental data, with 3 percent experiencing score decreases of 11 points or more.<sup>5</sup>
- A fourth study, of public housing residents, is unique in that it analyzes the effects of

including both on-time payments and full-file information under both the VantageScore 3.0 and FICO 9 models. Although directionally similar, the models produce widely different scoring outcomes. For example, adding data only for tenants with on-time rental payment histories produced 16.5 times as many score increases as declines in one model and more than 2.5 times as many score increases as declines in the other. Adding rental payment data to credit files even where they reflected some delinquencies raised credit scores for 23 percent of tenants and reduced scores for 20 percent of tenants under one model, while raising scores for 61 percent and reducing scores for 22 percent under the other. Adding the full-file data also increased the share of consumers who were scorable and who had credit scores above 620 from 23 percent to 38 percent of the sample using one model and from 28 percent to 43 percent using the other.<sup>6</sup>

In addition to these studies, Fannie Mae and Freddie Mac have released statistics in connection with their recent initiatives. The yearlong pilot that informed the design of Freddie Mac's national multifamily rent reporting initiative spanned 11,000 units in 30 properties.<sup>7</sup> It created credit scores for 2,000 previously credit-invisible consumers and boosted by an average of 26 points those who had credit scores at the start. In addition, Fannie Mae's analysis of a sample of first-time homebuyer applicants who did not qualify for a mortgage using its automated underwriting system found that 17 percent could have been approved if their lender factored in a rental payment history of 12 consecutive on-time payments.<sup>8</sup>

## MARKET AND POLICY ISSUES

Newer credit scoring models such as VantageScore 4.0 and FICO 10 that can use rental data if reported to a national credit bureau have not yet been approved for use by the Federal Housing Finance Agency in underwriting mortgage loans for sale to the government-sponsored enterprises or by the US Department of Housing and Urban Development (HUD) for packaging FHA loans into Ginnie Mae securities. Although Fannie Mae and Freddie Mac are expected in 2022 to complete a review of more modern scoring models for possible use in

securitizations, widespread industry adoption will take several years.

The potential of Freddie Mac's national multifamily rent reporting initiative to stimulate similar efforts by Fannie Mae and other major market participants should not be underestimated, but it does not address the biggest barrier to significantly increasing rent reporting rates for underserved populations, which lies in the diffuse ownership structure of the nation's rental housing stock. About 44 percent of all rental units are owned by about 10 million individual investors who typically manage only one or two units apiece, are hard to reach, and have little economic incentive to engage in rent reporting. For these properties, the most practicable way to obtain payment history may be through consumer-permissioned access to mortgage applicants' bank accounts.

Guidance for how to report rental payment history to credit bureaus is limited, and stakeholders report variations in practices. Industry actors are working to develop more consistent and detailed standards for rent reporting, such as by addressing the treatment of situations in which a tenant withholds rent as part of a landlord dispute rather than because of an inability to pay. Standardization in reporting and further research to determine what factors or patterns regarding rental payments are most predictive of future credit defaults could increase the consistency and effectiveness of scoring and underwriting models.

Several alternative data mortgage underwriting bills have been introduced in Congress, but no action has been taken on any of them. One would enable HUD and the FHA to pilot alternative credit scoring models that incorporate available UTR data,<sup>9</sup> and another would enable the Veterans Administration to do the same for mortgage applicants whose credit records are insufficient to generate a credit score.<sup>10</sup>

\* For more information, see Kelly Thompson Cochran and Michael Stegman, [Utility, Telecommunications, and Rental Data in Underwriting Credit](#) (Washington, DC: Urban Institute and FinRegLab, 2021).

- <sup>1</sup> [SB-1157 Tenancy: Credit Reporting: Lower Income Households](#), California Legislative Information.
- <sup>2</sup> [Colorado House Bill 21-1134](#) and [Public Housing Credit-Building Pilot Program Amendment Act of 2018](#).
- <sup>3</sup> Comptroller (Office of the New York City Comptroller), [Making Rent Count: How NYC Tenants Can Lift Credit Scores and Save Money](#) (New York: Comptroller, Bureau of Policy and Research, 2017).
- <sup>4</sup> Sarah Chenven and Carolyn Schulte, [The Power of Rent Reporting Pilot: A Credit Building Strategy](#) (Washington, DC: Credit Builders Alliance, 2015).
- <sup>5</sup> NALCAB (National Association for Latino Community Asset Builders), [Expanding Credit Building Opportunities for Latino and Immigrant Renters](#) (Washington, DC: NALCAB, 2020).
- <sup>6</sup> Michael Turner and Patrick Walker, [Potential Impacts of Credit Reporting Public Housing Rental Payment Data](#) (Washington, DC: US Department of Housing and Urban Development, Office of Policy Development and Research, 2019).
- <sup>7</sup> Alexis Sofyanos, ["Tenant Advancement through Credit Building."](#) Viewpoints (blog), Freddie Mac.
- <sup>8</sup> Fannie Mae, ["Fannie Mae Introduces New Underwriting Innovation to Help More Renters Become Homeowners,"](#) press release, August 11, 2021.
- <sup>9</sup> [Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act](#), H.R. 123, 116th Cong. (2019).
- <sup>10</sup> [Building Credit Access for Veterans Act of 2021](#), S. 1838, 117th Cong. (2021).