



The Impact of Rental Payments on Credit Scores and Mortgage Underwriting

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What is Alternative Data?

- **Alternative data:**

- Data currently **unreported or under-reported in the credit files** of the three national credit bureaus (Experian, Equifax, and Transunion) **used to generate credit scores.**
- While this data can cover a wide range, today, we will mostly focus on **rent payment data,** promising data in credit scoring and mortgage underwriting

Why Alternative Data?

- Studies that show **cashflow data complements FICO scores**, and using both improves the predictability of credit defaults (FinReg Lab, 2019).
- Our research finds that **past housing payment** is a **stronger predictor of future mortgage default** than FICO scores (Goodman and Zhu, 2021).
- With **advanced technology**, reporting rental payments to the credit bureaus and accessing bank accounts have become **easier and less costly**.

How Can It be Used in Mortgage Underwriting?

- There are two methods of incorporating alternative data into mortgage underwriting.

Update Existing Underwriting Variables with Alternative Data



Complement Existing Underwriting Variables with Alternative Data



What are the Recent Innovations?

Facilitating Rent Reporting & Using Rent Payment Incorporated Credit Scores

- In 2021 and 2022, Fannie Mae and Freddie Mac launched programs to incentivize multifamily property owners to report tenants' positive rent payment histories.
- Several Fintech companies (e.g. Bilt Rewards), have made it easier for tenants to report rent to credit bureaus.
- Few non-profit organizations (e.g. Washington Housing Conservancy) have enabled residents to report rent payments to credit bureaus

Examining Rent Payment in Mortgage Underwriting by Accessing Bank Accounts

- In 2021 and 2022, both Fannie Mae and Freddie Mac started to allow evaluation of on-time rental payment histories in their Desktop Underwriting for applicants who failed to meet traditional credit standards.
- In 2022, FHA updated its underwriting protocols to include positive rental history in its TOTAL Scorecard.
- Several companies (e.g. FormFree, Plaid) have improved utilizing bank account data through advanced technology.

What Is the Potential Impact?

Improve Credit Scores?



Expand Access to Homeownership?



What Are the Existing Barriers?

- **Data Collection:** Less than 5% of rental history data in the credit files. Receiving consumer permission to access bank account data is also challenging.
- **Consumer Awareness:** Our research finds that 45% of consumers are unsure whether their rent is reported, and many who say they report rent are likely misinformed.
- **Data Standardization:** Without data standardization, even with more alternative data added to the system will struggle to have a scalable impact.
- **Regulation & Consumer Protection:** Clear regulatory guidelines are needed to ensure responsible use of consumer information.

What will be Covered Today?

- **Panel 1:** How Does Reporting of Rent Payments Impact Credit Scores?
- **Panel 2:** What Innovations Can Further Help Consumers Build Credit?
- **Panel 3:** How Can Using Alternative Data Improve Mortgage Underwriting?



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New Pathways to Credit Building: Evaluating the Impact of Rent Reporting

Brett Theodos and Daniel Teles with Samuel Lieberman

Research implementation with Credit Builders Alliance

Research funded by the National Endowment for Financial Education

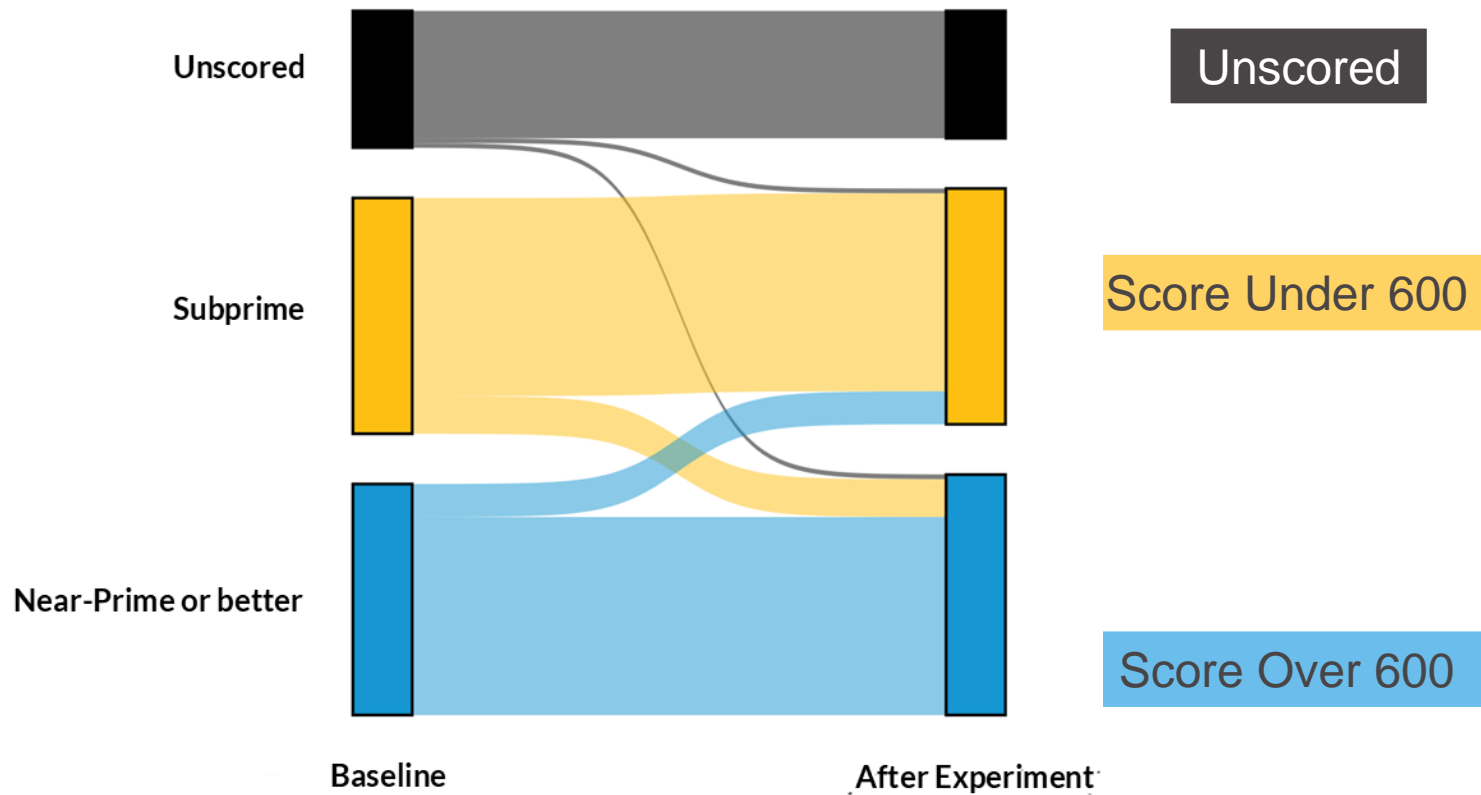
Credit Scores

Outcome	Average Before Reporting		Change (Post – Pre)		Estimated Impact (TOT)
	Initial Treatment	Control	Initial Treatment	Control	
Has a Vantage Score	84%	77%	8%	2%	12% (0.00)
Credit Score	619	606	11	3	10 (0.24)
Credit Score at least 600	40%	38%	17%	2%	25% (0.00)
Credit Score (at least 660)	26%	18%	3%	1%	5% (0.37)

P-values in parentheses

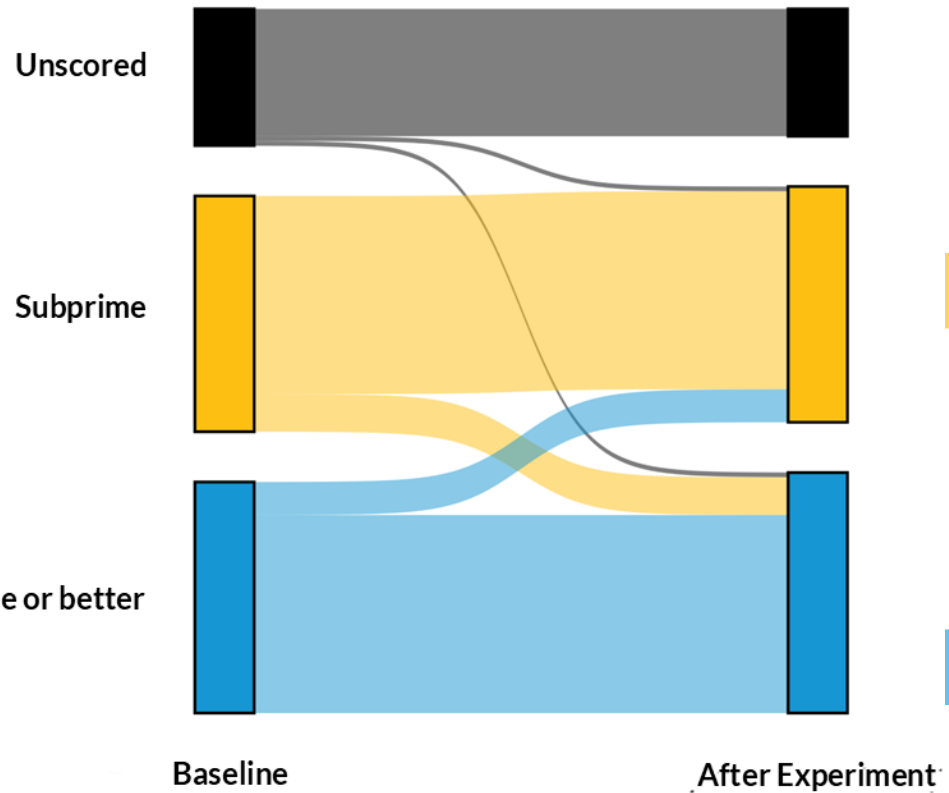
Changes within ...

Control Group

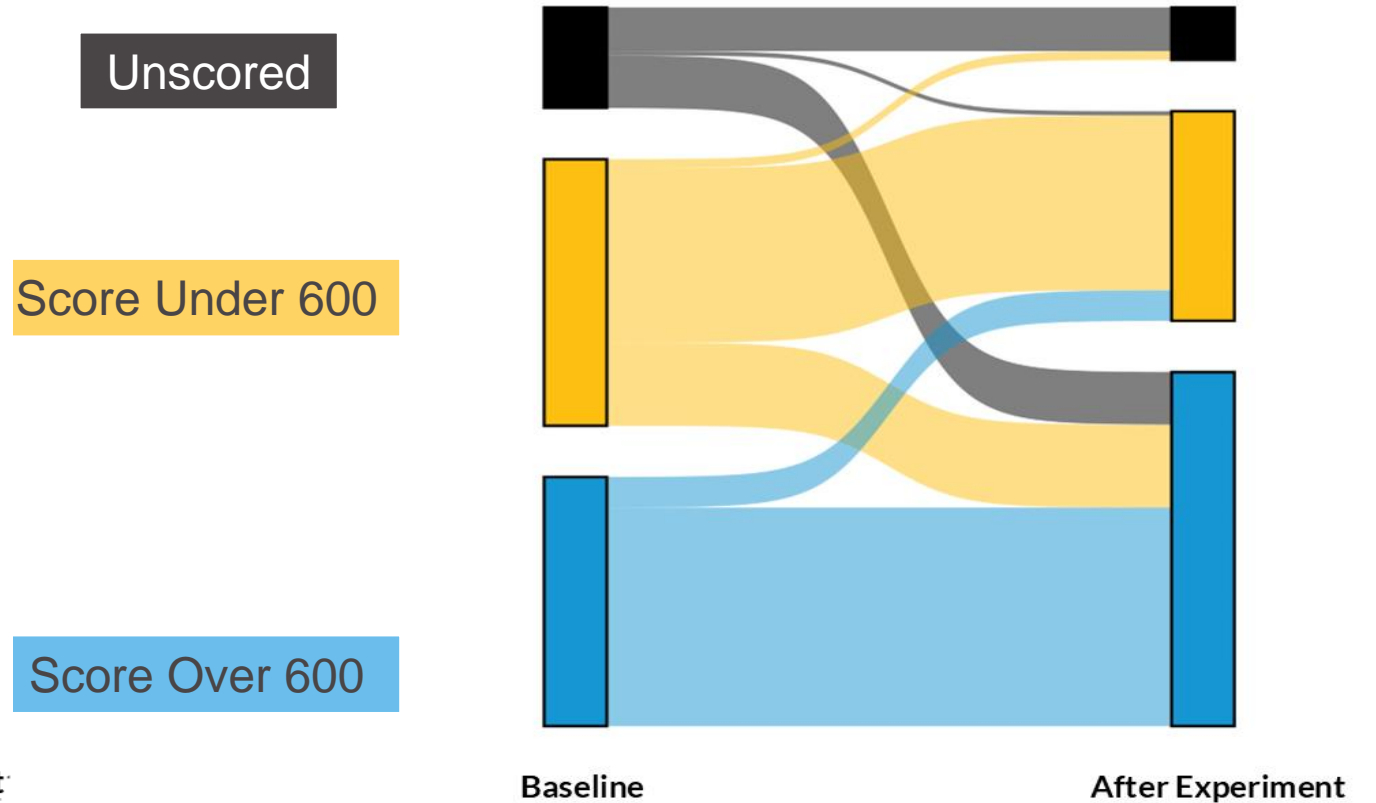


Changes within ...

Control Group

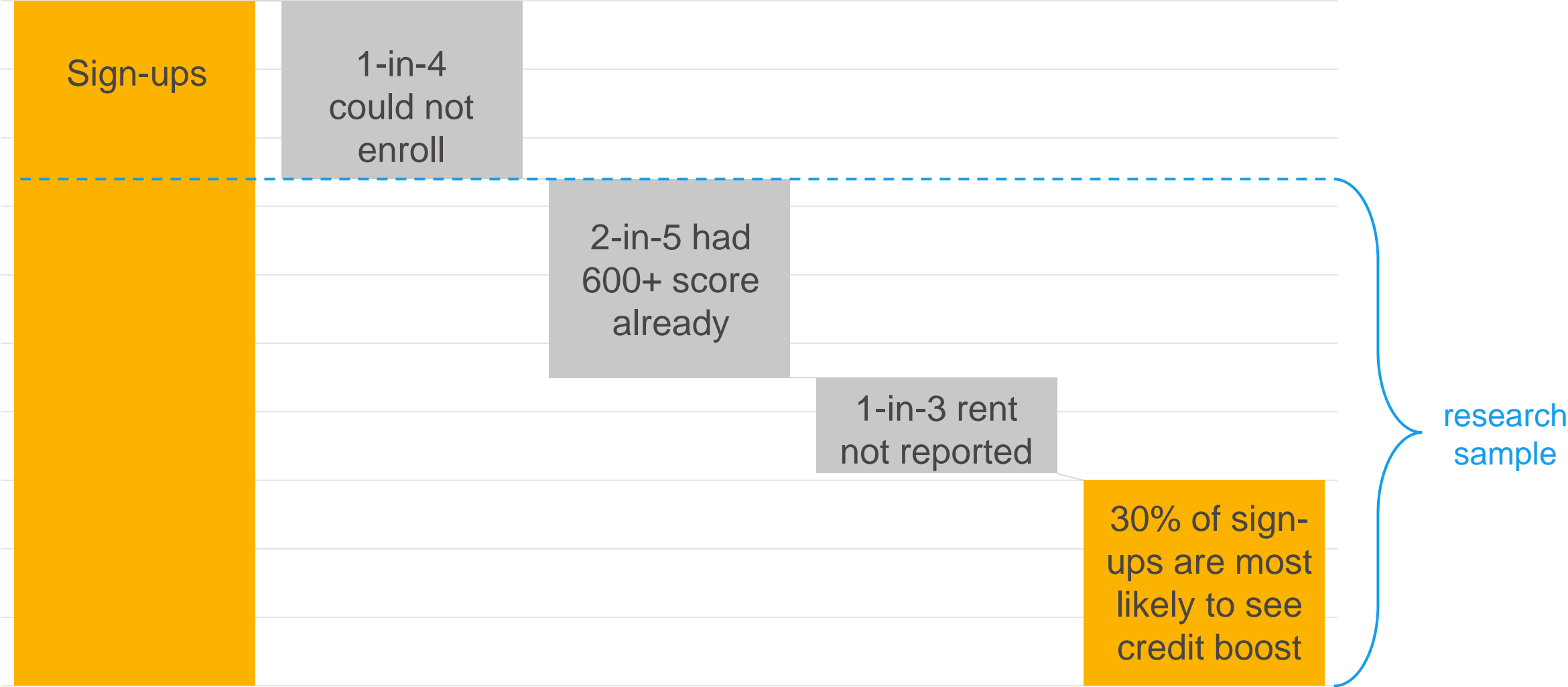


Treatment Group



Rent reporting in practice

Of those who signed up for rent reporting....





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Understanding Bilt's Flywheel: Rewarding \$2T+ in Housing & Neighborhood Spend

**Residential payment processing:
Earn points on rent/mortgage payments**

Bilt has become the exclusive payments platform for 70% of the top 100 multifamily owners. When members pay through Bilt, they earn rewards and get free credit reporting - regardless of payment method.

Market size: \$700B Annual Rent Payments, \$1.4T Annual Mortgage Payments

G I D | RELATED | GREYSTAR | Brookfield Properties | Berkshire | Willow Bridge | United States | + more



**Connected commerce:
Rewards & benefits on neighborhood spend**

Bilt's connected neighborhood experience helps merchants attract valuable local customers, while giving members enhanced rewards and exclusive benefits at their favorite neighborhood spots. Bilt's merchant network has already grown to over 24,000 local businesses.

Market size: 80% of consumer spend outside of housing happens within 15 miles of home.

RUMBLE | Telagreena | SINS THEO'S | SOULCYCLE | LILIA | Lyft | CIPRIANI | Msi | + more

**Leasing + home buying incentives:
Earn rewards when you sign/renew a lease or buy a home**

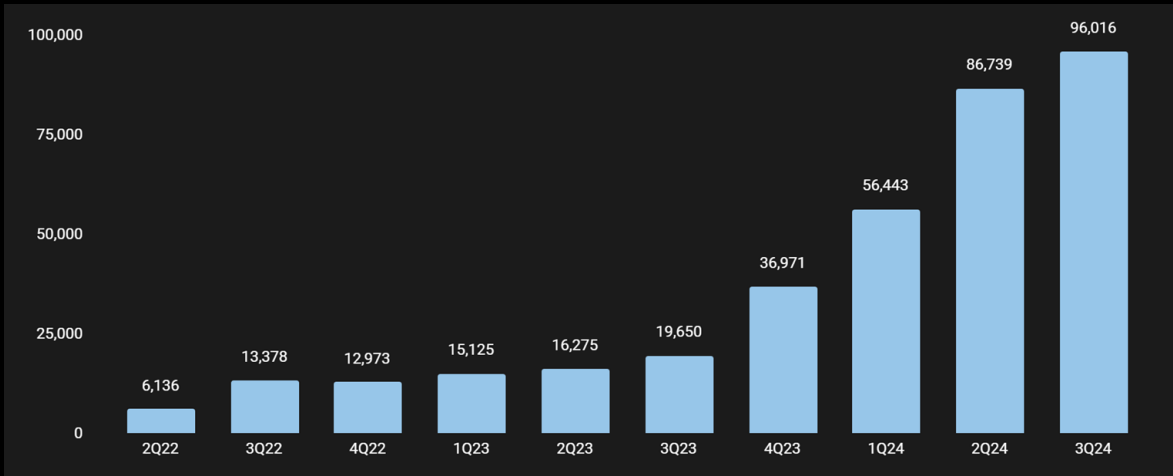
Approx 40% of renters move each year. Bilt transforms \$30B+ in lease marketing + incentives into enhanced rewards for members on new leases and lease renewals. And when members are ready to buy we offer significant rewards on home purchases through our broker network

Market size: \$700B Annual Rent Payments, \$1.4T Annual Mortgage Payments

Willow Bridge | Equity Residential | Cushman & Wakefield | SL GREEN REALTY GROUP | thrive | GREYSTAR | VALIANT | + more

RENT REPORTING FEATURE

RENT REPORTING ENROLLEES ACQUIRED PER QUARTER



On average, 28K+ users enroll in Rent Reporting each month

~430K
Total Users

640
Avg FICO

35
Avg Age

FREE

Free to landlords and renters, so zero costs to report rent

OPT-IN

Renters can easily opt into the rent reporting feature with a click

POSITIVE ONLY

Only positive payments are reported, to all three bureaus

BEYOND MF

Bilt can now report rent even for members outside multifamily

RENT REPORTING SIMULATED IMPACT

Comparison of credit score before and after adding rental data

Starting FICO Score	# Members	Avg Change	Overall Impact			Percentiles				
			Negative	None	Positive	10th	25th	50th	75th	90th
300-499	34,991	+19	2%	11%	88%	0	+6	+15	+29	+45
500-539	38,172	+14	3%	20%	77%	0	+1	+9	+19	+38
540-579	47,324	+10	4%	23%	73%	0	0	+7	+14	+24
580-619	51,357	+7	5%	28%	67%	0	0	+5	+11	+19
620-659	68,301	+5	6%	33%	61%	0	0	+2	+6	+14
660-850	556,509	+2	10%	37%	52%	-1	0	+1	+4	+7

OBSERVATIONS

1. Meaningful impact (+20) only occurs for some renters with very low starting FICO scores
2. For those just outside of mortgage ready, the impact is small but helpful
3. For all ranges (particularly higher scores) there is a risk that a *clean* rental tradeline will negatively impact credit

RENT REPORTING: IMPLICATIONS

1 MORE DATA AND RESEARCH

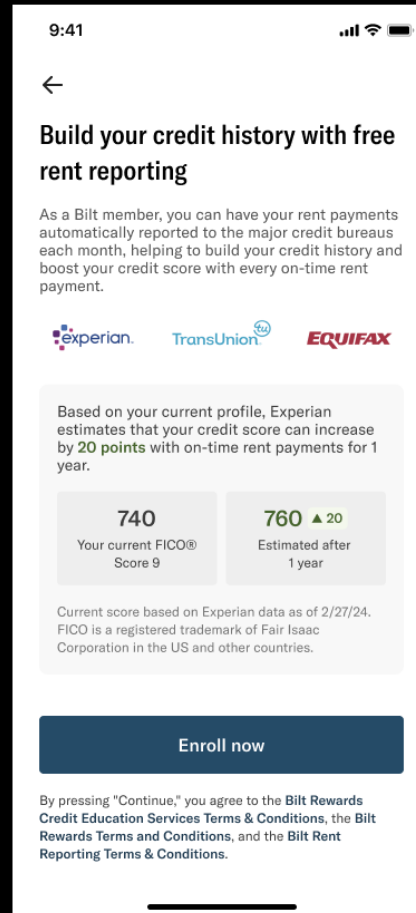
For many people, rental data establishes credit or has a positive impact on their score. But, not enough data is being captured.

What is the impact of missed payments? Renewing a lease? Moving to a rental without rent reporting?

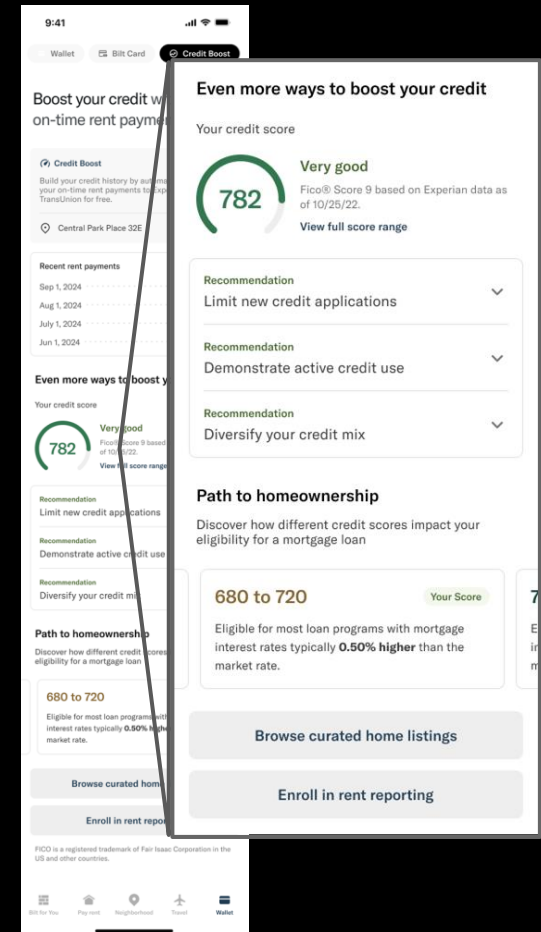
2 FOCUS ON TARGET MARKET

Rental data particularly helps people with no or low credit scores, so if it is mandated it should be focused specifically on affordable housing. However, even for lower credit borrowers, it could still have a negative impact on credit score...

3 OPT-IN



4 BUILD A JOURNEY





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Washington
Housing
Conservancy

WHC OVERVIEW

2024

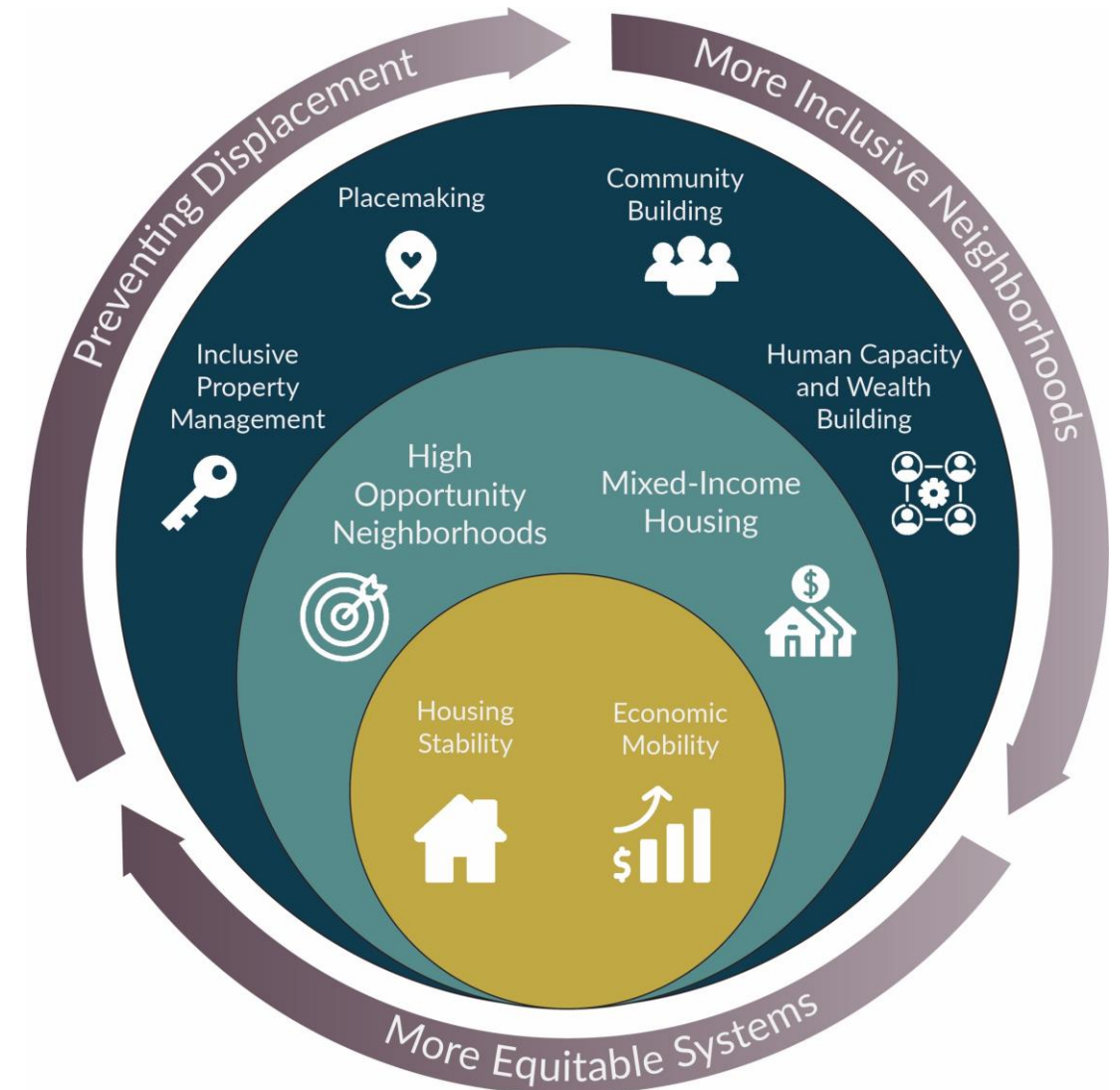
The Aspiration

Reinvent the housing system to become a more equitable pathway to opportunity and prosperity.

HOUSING STABILITY → OPPORTUNITY



- WHC promotes housing stability and opportunity for mixed-income residents, creating a path to wellness, economic mobility and greater neighborhood and civic engagement
- Four Key Strategies:
 - Inclusive Property Management
 - Human Capacity and Wealth Building
 - Placemaking
 - Community Building





Esusu Rent Reporting Stats

80% of our residents
are enrolled in the program

327 residents established
credit for the first time

70% of our residents
improved their credit score

Data as of December 2023



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Trends in Rental Reporting

Ethan Dornhelm

VP, FICO Scores and Predictive Analytics

Prevalence of Rental Data Reporting is Increasing

Coverage of Total Rental Population in the Credit File Still Modest

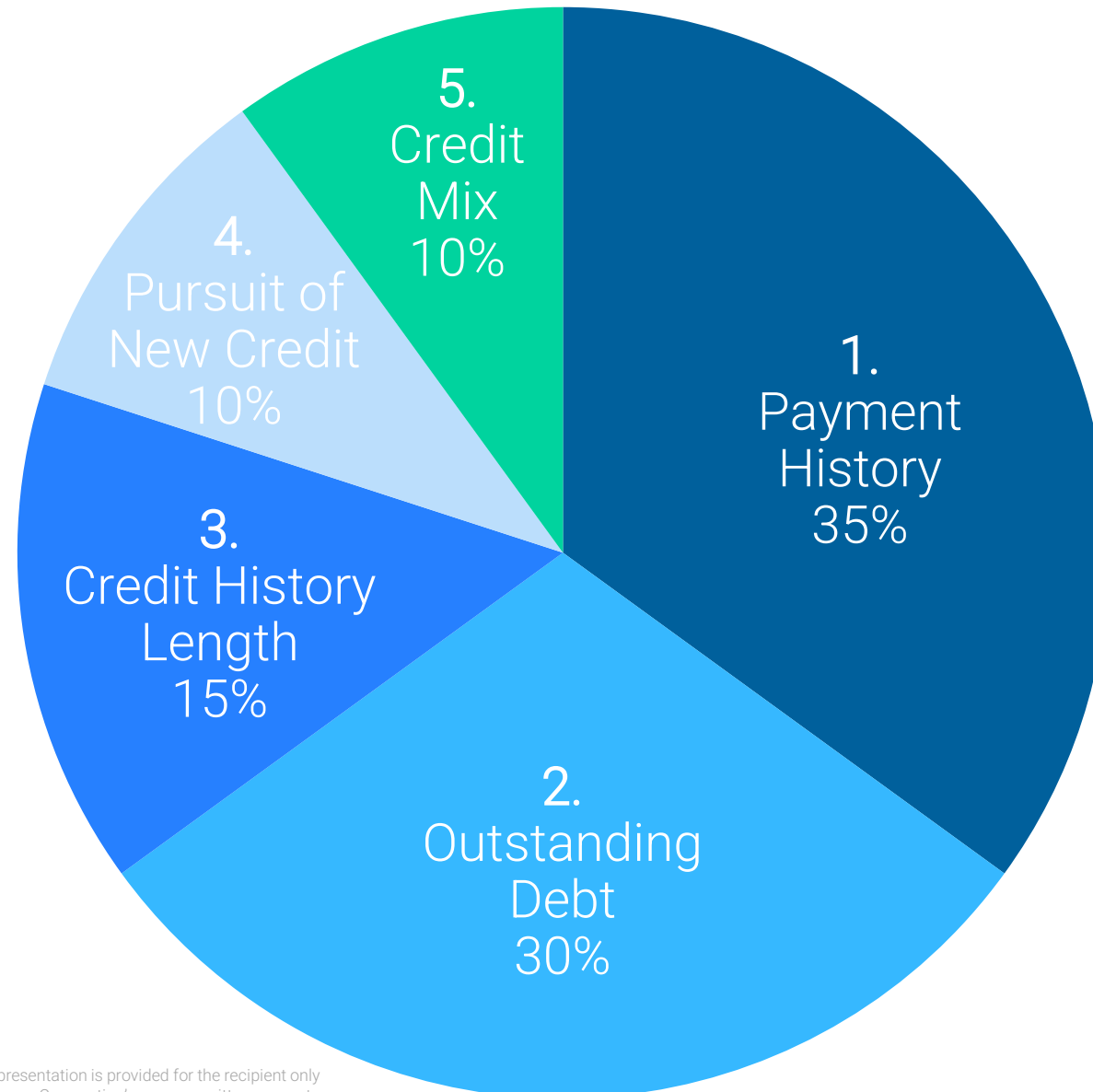
- In past 5 years, number of rental trades reported on credit file increased more than 30-fold
- As of 2024, ~2.7M consumers have rental trades reported in their credit file
 - On a base of ~77M renters, ~3.5% of all renters have rental info reported in the credit file
- Profile of rental data furnished as of 2024
 - Of consumers with 1+ rental trade(s) on file...
 - 65% have 1+ open/active rental trade(s) reported
 - 98.4% have no sign of delinquency (30+ days past due) on their rental trade(s)

Profile of Consumers with 1+ Rental Trade(s) Reported in Credit File

Relative to Total Population with a Credit File

	Population with 1+ Rental Trade(s) Reported	Total Credit File Population
Population Size	~2.7M	~230M
Average Age	38	53
Credit Profile	Skews to 'credit building' populations: <ul style="list-style-type: none"> • Thin/new-to-credit • Credit blemished 	<ul style="list-style-type: none"> • Thicker file • Longer time-in-file • Fewer credit blemishes
Average FICO® Score	650	715

The Five Key Categories of the FICO® Score Calculation





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Early Observations on the FHA Positive Rental History Program

Wenzhen Lin
HUD Office of Policy Development &
Research
Housing Finance Analysis Division
5 December 2024



Positive Rental History (PRH) in TOTAL

- **Definition**
 - On-time rent payments of at least \$300 per month for the previous 12 months
- **FHA incorporates PRH into the TOTAL decision**
 - Threshold for “Accept” lowered.
- **Eligibility**
 - Purchase mortgage
 - At least one borrower is a First Time Homebuyer (FTHB)
 - Minimum Decision Credit Score is 620 or greater
 - At least one borrower has Positive Rental History (PRH)
- Since October 30, 2022, PRH has been included as an element of the FHA's TOTAL Mortgage Scorecard.
- Since March 25, 2023, HUD has required lenders to report PRH.
- By August 31, 2024: **6,060 endorsements** were accepted through TOTAL due to PRH
- Fannie Mae and Freddie Mac have integrated PRH into their underwriting processes since September 2021 and July 2022.

PRH Acceptance Trends and Patterns

Fig. 1 Counts of Endorsements With and Without PRH

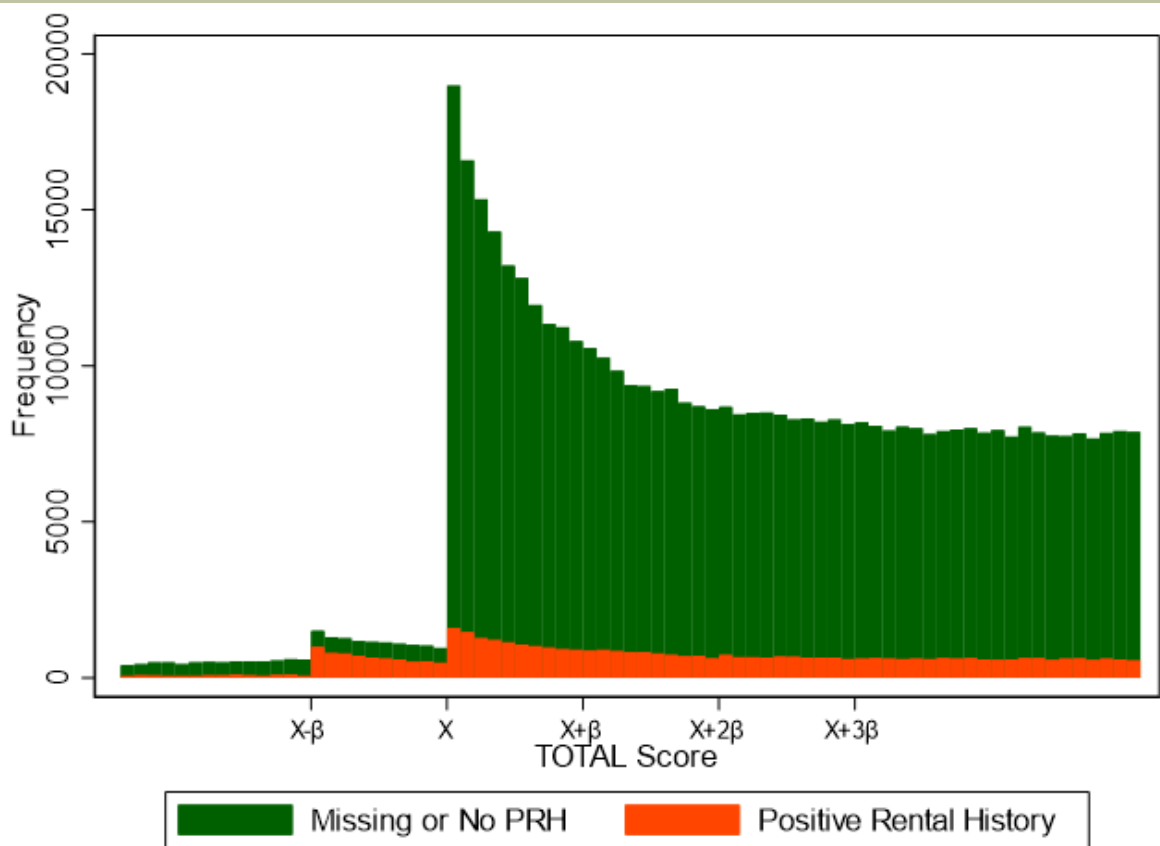
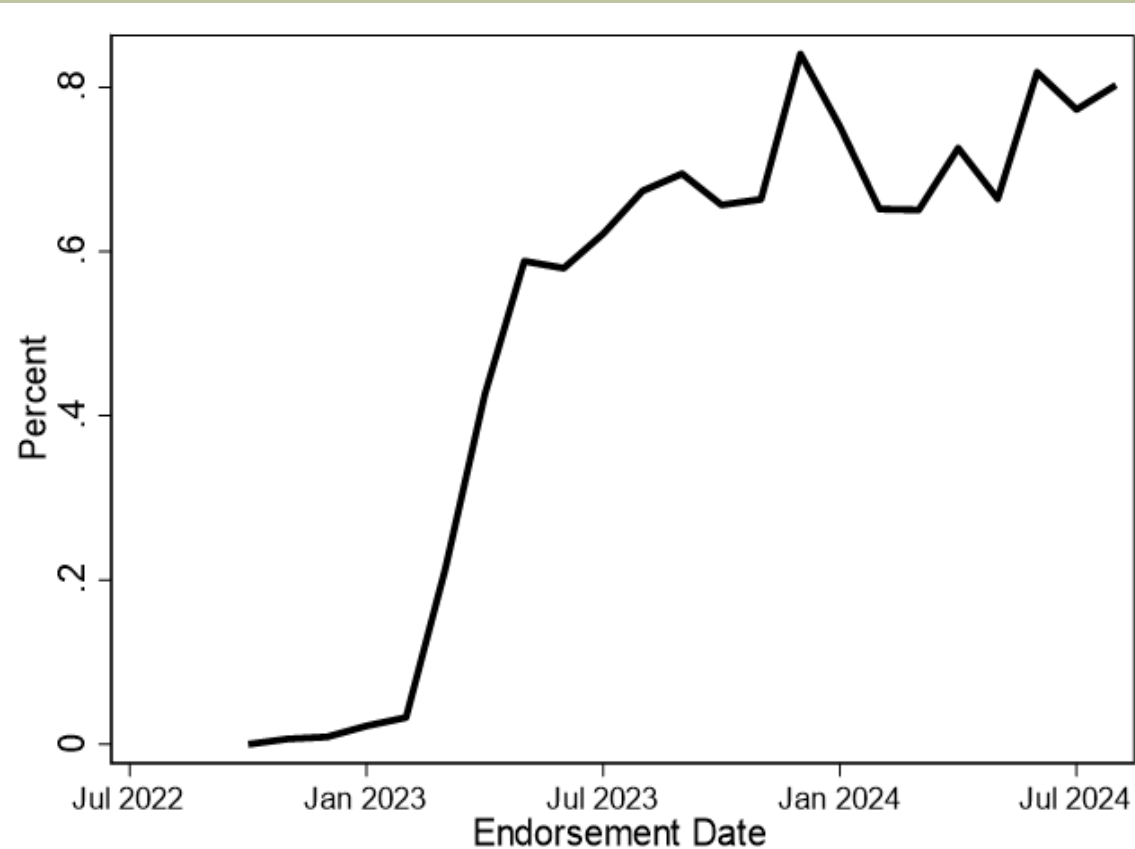
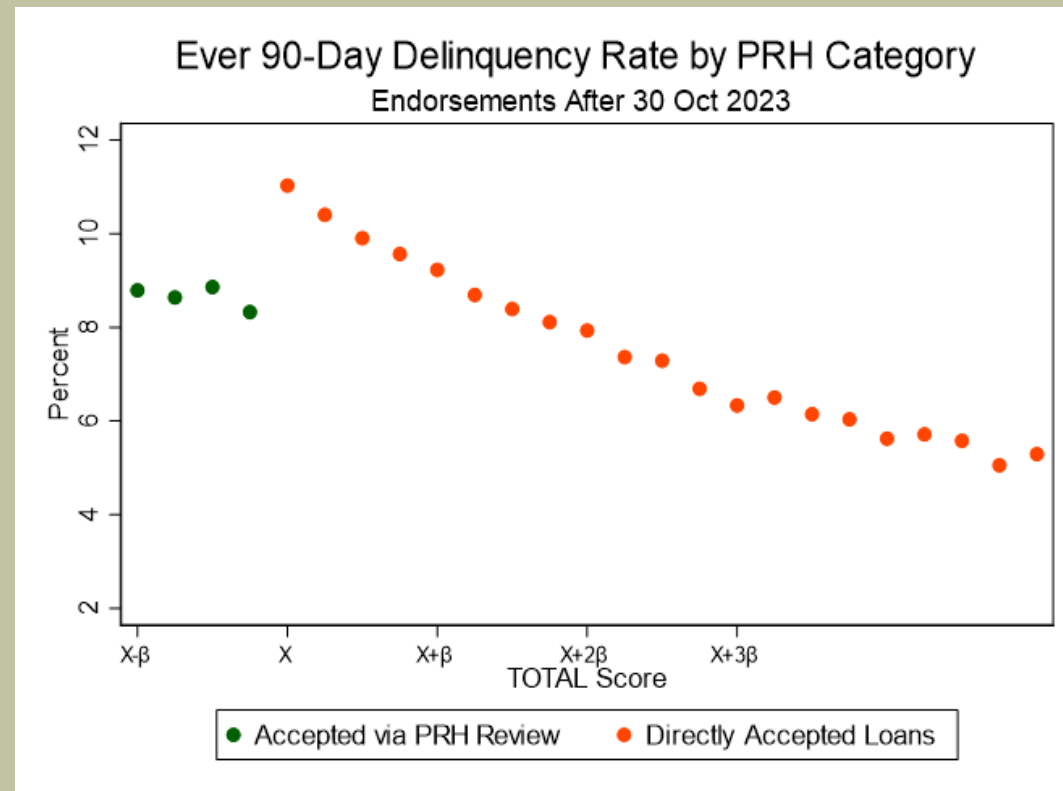


Fig. 2 Share of Endorsements Accepted Through PRH

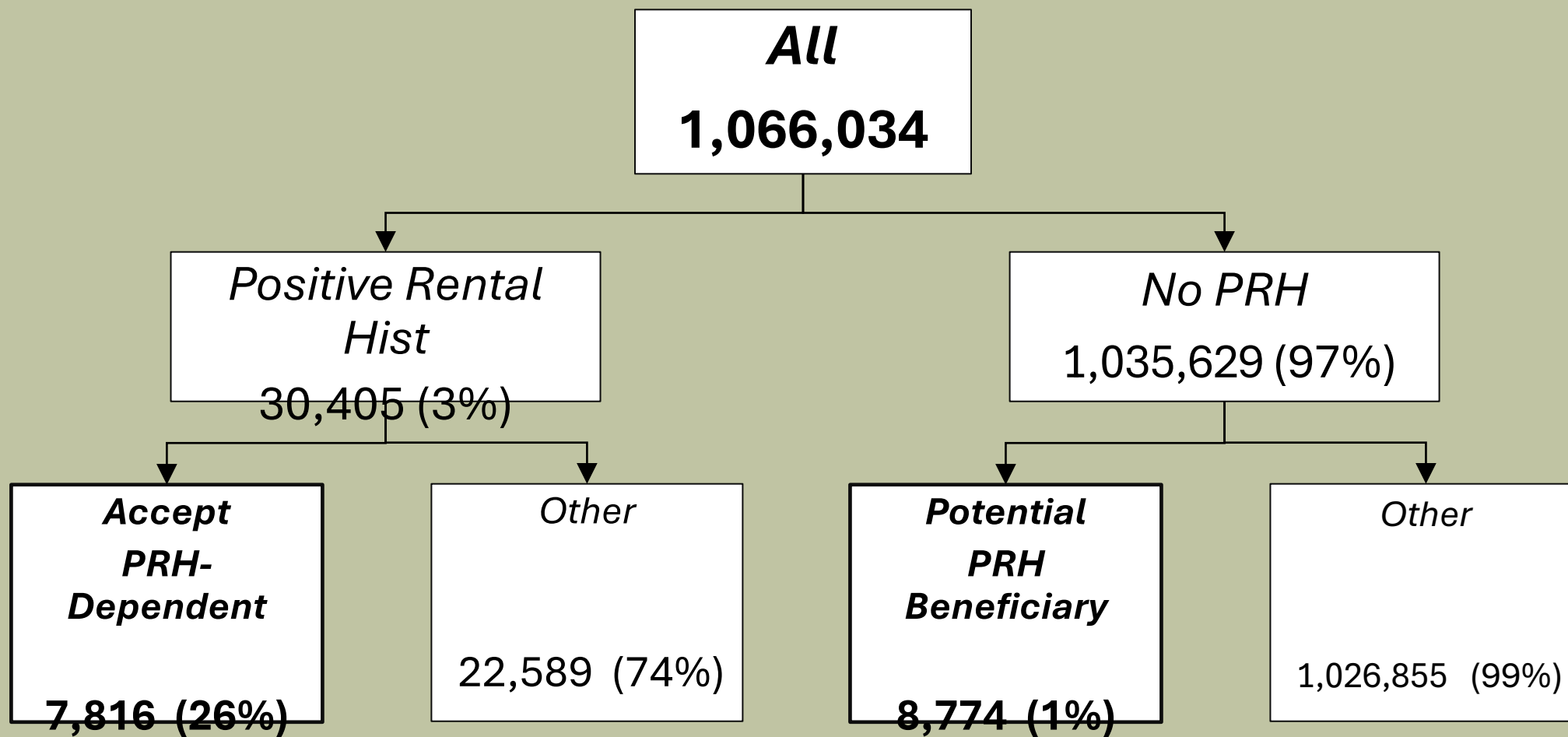


Borrower Characteristics and PRH Impact on Delinquency Rates

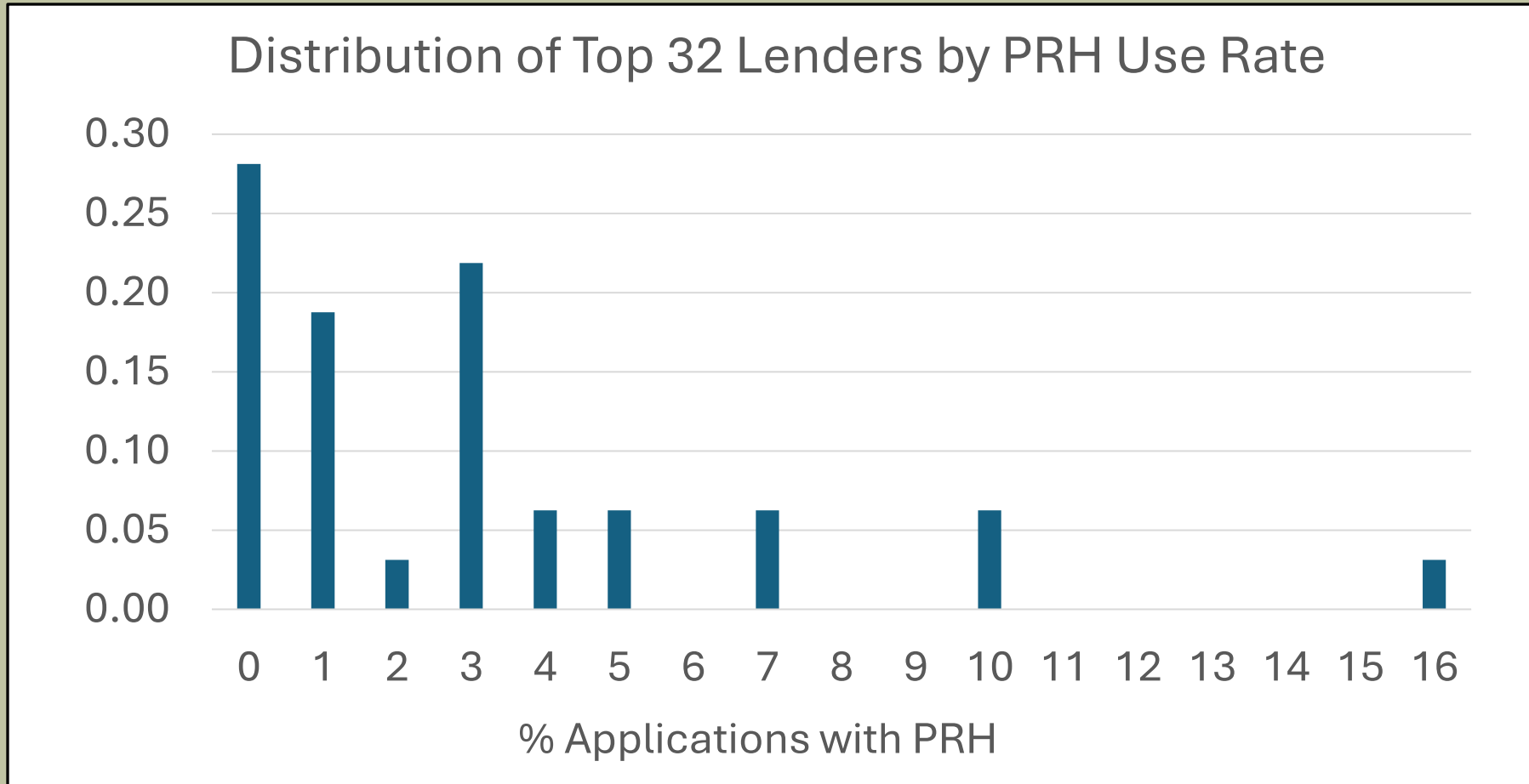
		PRH-Dependent [X-β,X)	Lower Score [X, X+β)	All Loans
Characteristics	Age	38.87	37.7	37.89
	FICO	640.3	640.6	679.2
	Loan to Value Ratio	96.04	95.79	94.50
	Back End Ratio (%)	45.98	46.29	45.21
	Borrower Assets (\$)	14,901	19,225	35,543
	Annual Income (\$)	76,815	78,015	99,835
	Mortgage Amount (\$)	256,502	257,562	307,152
Race (%)	Black	18.63	16.59	12.41
	Hispanic	18.07	18.30	18.44
	White	31.44	32.92	35.01
	Other	1.88	1.81	2.90
	Missing	29.98	30.38	31.23
Gender (%)	Male	37.66	39.47	40.91
	Female	37.56	35.71	33.34
	Unknown	24.79	24.83	25.75



Distribution of FHA Applicants



Largest Lenders Evidence Large Variance in PRH Use



Thank you!

For more information on PRH, please visit

PD&R Edge article “Updated Analysis on Positive Rental History”

<https://www.huduser.gov/portal/pdredge/pdr-edge-trending-111224.html>





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Asset & Income Modeler (AIM) Evolution



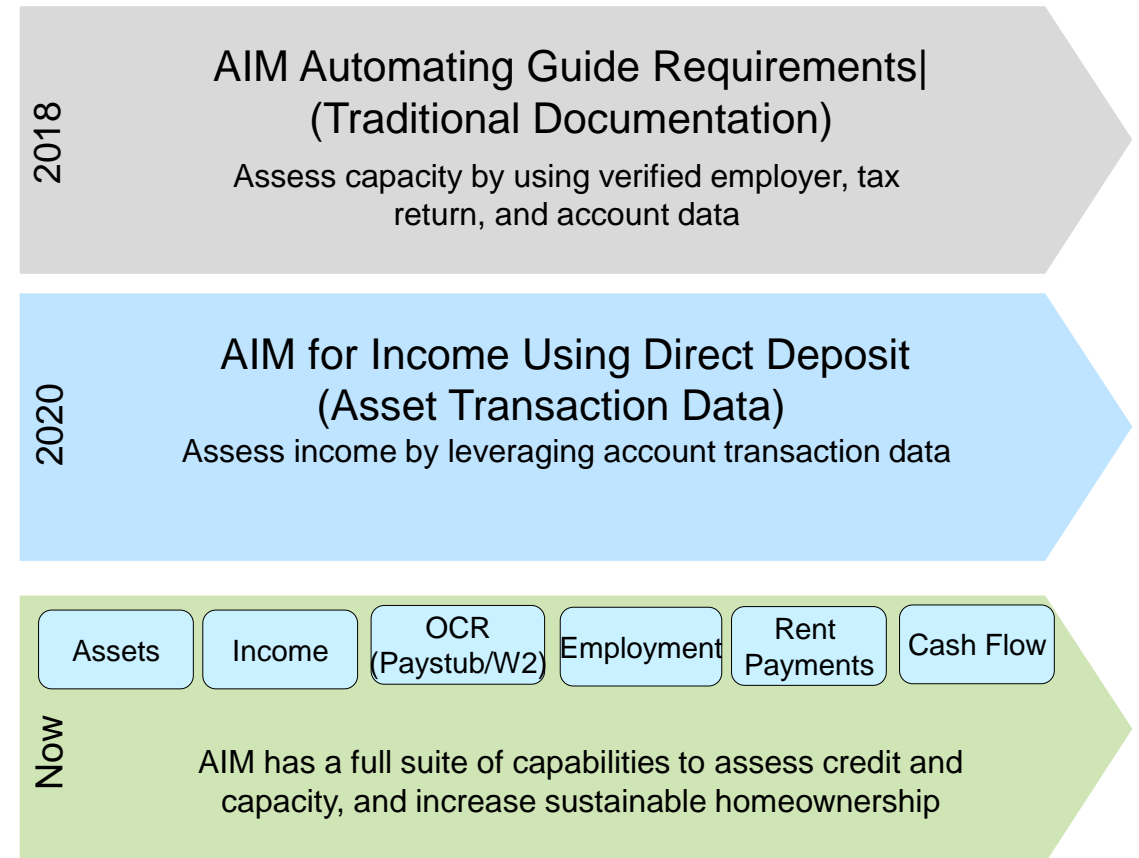
What is AIM?

Asset & Income Modeler (AIM) is Loan Product Advisor's (LPA's) automated asset, income and employment assessment. AIM uses trusted data to assess assets/income/employment:

- » Asset account and transaction data
- » Tax data
- » Employer data and Paystub W2 OCR data

AIM Capabilities

- 2018: Focus on automating Guide requirements. This benefited borrowers with income and assets that could be underwritten with traditional documentation by:
 - » Using verified data from approved third-party sources
 - » Consistently applying unbiased calculation
- 2020: AIM enhanced to use transaction data in innovative way, for income & employment
- 2022: Use transaction data to convert LPA Caution to Accept (positive impact only):
 - » Rent payment history
 - » Borrower Cash Flow
- Now: AIM evolution continues with future initiatives to improve assessment and help underserved borrowers:





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Open banking and mortgage underwriting

83%

Lenders open to new data sources,
primarily cash flow

72%

Loan applicants comfortable sharing
bank data with lenders



Verification

1



Second Look

2



First Look

3



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Brent Chandler, FormFree

RIKI™ Report

Alternative Data Intelligence

John Homeowner

Report information

Report ID	RPRT-72aaadd4-b7ca-4ffd9bd6-4622085f
Report Date	06/01/2021
Email	jhomeowner@formfree.com
Phone Number	239-555-0537
History Available	377 Days

Ability to Pay Metrics

RIKI

130

Excellent Rating
Adaptive measurement of sufficient cash flow. Values range between 80 and 150.

RIKI Trend

13.8

Trending up by 13.8 points monthly.

Cash Flow Index

202

Normal range (interquartile range) is 105-140.

Cash Flow Index Trend

50.5

Trending up 50.5 points monthly.

Ability to Pay Metrics

Account Balances

\$2,118.97

Wells Fargo	5077 CHECKING	\$1,956.54
Wells Fargo	0362 SAVINGS	\$162.43

RIKI

103

103 = Good. RIKI is an adaptive measurement of sufficient cash flow. Values range between 80 and 150. A value above 100 represents positive cash flow.

Credit Range

620 - 639

Borrowing Power

\$230k - \$370k

Estimated Monthly Obligations

\$2,140.19

Estimated monthly obligations such as debt and rent.

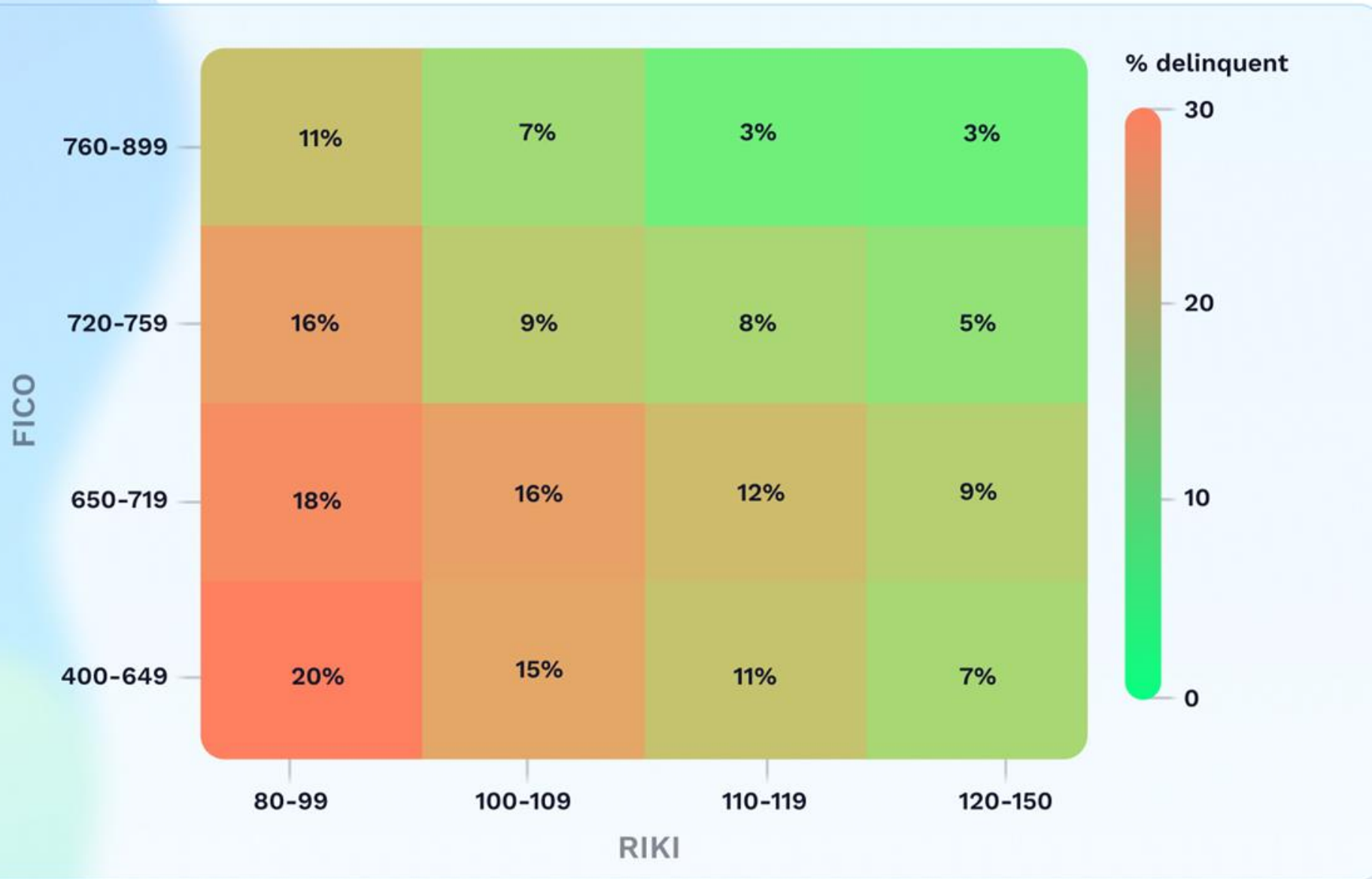
Estimated DTI

63%

Ratio of estimated obligations to estimated monthly income.

Delinquency risk by FICO and RIKI range

Guild Mortgage set of first-time homebuyers



FICO/RIKI Correspondence Values (First-Time Homebuyers)

FICO	RIKI
780-800	125+
760-779	120
740-759	115
720-739	110
700-719	105
680-699	103
640-659	95
620-639	85



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