

The Answer

SHELTERFORCE

Q: Can Including Rent and Utility Payments in Credit Scores Reduce Racial Disparities in Lending?

A: Yes.

THE PROBLEM

Historically, people of color have had limited access to safe, affordable credit. From the 1930s through the 1970s, discriminatory rating systems labeled communities of color “high risk” and those neighborhoods were “redlined” on real estate maps. Loans made to residents who lived in these communities—if they were made at all—were extremely expensive.¹

As a result, communities of color had to rely on fringe lenders, who only reported negative data to credit bureaus. This has led to a cycle of thin credit histories and subprime loans, which are harder to repay due to higher interest rates and faster repayment periods. Because of this, African Americans and Latinos were more likely to have poor payment histories, which affect credit scores.

A SOLUTION

How Rent and Utility Payments Could Help

Making consistent on-time rent and utility payments is predictive of positive credit behavior.² However, this information is rarely factored into a person’s credit score—even though delinquent payments are!

Including positive payment information in credit reports and scoring models can increase credit scores. In one pilot program, 79 percent of low-income renters whose rents were reported saw their VantageScore (a credit-score model that recognizes these kinds of payments) increase; their increase averaged 23 points. Fifteen percent moved into a lower credit-score risk tier.³

Inclusion of utility payments could reduce the number of borrowers considered to be subprime by half.⁴

Because a majority of African Americans and Latinos are renters,⁵ this change would reduce racial disparities in credit scores as well.

VantageScore estimates that mortgage lending to African Americans and Latinos could increase by 16 to 32 percent over 2013 levels if all credit scores included information on rent and utility payments.⁶

¹ Discriminatory Effects of Credit Scoring on Communities of Color, by Lisa Rice and Deidre Swesnik. National Fair Housing Alliance, 2012, bit.ly/2EMsNTL

² “In Need of an Update: Credit Scoring in the Mortgage Market,” by Laurie Goodman. Urban Institute, July 2017, urbn.is/2XBVavP

³ “An Opportunity for Housing Providers to Help Renters Build Credit,” by Sarah Chenven. Shelterforce, Feb. 14, 2019, bit.ly/2K47IRM

⁴ Let There Be Light: The Impact of Positive Energy-Utility Reporting on Consumers, Experian, 2015, bit.ly/2VD7YjJ

⁵ “More U.S. Households Are Renting Than at Any Point in 50 Years,” by Anthony Cilluffo, Abigail Geiger, and Richard Fry. Pew Research Center, July 19, 2017, pewrsr.ch/2Tu7iQt

⁶ “Challenging the Almighty Credit Score,” by Lillian M. Ortiz. Shelterforce, July 25, 2016, bit.ly/2SKMkbn