

## **Big Issue Invest/Experian – Rental Exchange/Tenancy Sustainability**

### **An Example of Why Arhag Chose to Implement the Big Issue Invest/Experian Initiative**

The full story of why Arhag Chose to Implement the Big Issue Invest/Experian initiative is expanded upon in the sections below. However, the following is an example of how we have recently utilised this powerful analytic tool:

- Using the data provided by the Rental Exchange/Tenancy Sustainability model we have identified 101 tenants who are either '*Stretched Money Managers*' or in '*Current Financial Stress*' (over 10% of our tenant base).
- Of these, a significant proportion are working, not claiming benefits and managing to maintain their rent payments.
- However, a closer analysis of their financial position and debt profiles shows that there is an unhealthy dependency on short-term, high interest loans (pay-day loans).
- Being able to identify those tenants in greatest financial stress, and struggling with debt, has allowed us to pro-actively intervene with debt and budget advice.
- We have also referred these particular tenants to our partner Credit Union to firstly becomes members and consolidate their debts into a single, low interest, Credit Union loan, to receive more intensive budgeting and debt advice/training and to put a savings plan into place, to slowly reduce their reliance on borrowing.

Our ability to use the Big Issue Invest/Experian initiative to more effectively, and pro-actively, triage tenants at risk of falling into rent arrears is good for the quality of our tenants' lives, helps them to sustain their tenancies in the long-term and is good for Arhag as a business for social purpose.

### **Background & Context**

Arhag was set up in 1979 as a community organisation to support African refugees who were experiencing housing problems. Arhag registered as a housing association in 1988 and started to develop permanent homes in 1989. Arhag still, primarily, houses refugees and migrants but now from all countries and continents.

Welfare Reform, and particularly Universal Credit, is identified as the biggest risk facing the Association. The requirement, under Universal Credit, for residents to directly pay their rent to Arhag threatens our income stream and, should residents fail to manage their monthly budgets effectively, threatens the sustainability of residents' tenancies and may lead to a greater number of evictions with the associated financial losses and costs.

In 2010 Big Issue Invest (the social investment arm of The Big Issue) introduced the concept of using rental payment information to help social housing tenants improve their credit profile and qualify for more affordable credit and other services. Many organisations rely upon credit scoring to decide whether to give customers access to financial products such as a mobile phone contract, a bank account or a loan at an affordable interest rate. Big Issue Invest sought a partner to create and responsibly manage an initiative to help tackle the financial, digital and social exclusion often faced by social housing tenants and, in 2012,

selected Experian to help develop and implement the initiative. The Big Issue Invest/Experian initiative became known as the 'Rental Exchange'.

The Rental Exchange/Tenancy Sustainability initiative is a key component in Arhag's strategic, combined, approach to Welfare Reform and Community Engagement (known as the ACE/Welfare Reform project). The over-arching theme of the ACE/Welfare Reform project is 'Mitigating Risk & Tenancy Sustainability'. Under the over-arching theme the four strategic elements are:

- ***Employability:***
- ***Financial Inclusion:***
- ***Digital Inclusion:***
- ***Communications & Engagement***

Rental Exchange/Tenancy Sustainability is an important component of the Financial Inclusion element of the ACE/Welfare Reform project (see below), however it should be noted that all of these strategic elements, and their component parts, overlap like a Venn diagramme, none exist in isolation.

- ***Financial Inclusion:***
  - \* Big Issue Invest/Experian (Rental Exchange/Tenancy Sustainability).
  - \* Credit union engagement.
  - \* Budgeting, debt management & benefits/welfare advice.
  - \* Green Doctor.
  - \* Hardship Fund.

## **The Rental Exchange**

Many social housing tenants are excluded from affordable credit and services due to the lack of a credit history and this means they are more likely to be refused or pay more, putting extra pressure upon already challenging finances. In the same way that mortgage information counts towards a credit profile, rental payment history can be used as proof of a tenant's financial standing and reliability. By sharing rental payment history it helps tenants to create an online proof of identity, and a good credit history and makes it easier for tenants to open a full bank account, receive better gas and electricity rates, or obtain cheaper credit, etc.

The majority of tenants pay their rent on time, so this information will enhance their credit score. The Rental Exchange also provides an opportunity for tenants to improve their credit rating without having to take on any further debt. The Rental Exchange also enables tenants to build an online proof of identity and this is important when applying for a utility supplier, a mobile phone provider or when online shopping. If a tenant is unable to pay their rent, it is unlikely they are suitable for a loan or other payment agreement, therefore the Rental Exchange supports responsible borrowing and lending and helps people avoid becoming over indebted.

Now that the Rental Exchange is an established scheme, Experian have arranged for members of the scheme that are in the social housing sector to have reciprocal access to closed user

group credit account information (CAIS) data. Access to this data means members of the scheme can understand the financial situation of tenants and start to work with their customers more effectively.

Understanding the financial profile of our tenants not only helps us plan for sustainable tenancies, but also helps identify those individual tenants who may be at risk of non-payment in the near future. By providing our tenant rental payment histories through the Rental Exchange and with access to full CAIS data, Arhag can access a tailored summary of each and every tenant's current and previous credit payment data. This provides us with a clear understanding of who is most financially resilient, and who may benefit from further financial support or advice.

The 'Tenancy Sustainability' element of the Rental Exchange is built specifically to help understand which of our tenants have significant financial commitments that will mean meeting regular rent payments may be a challenge. Importantly the solution provides this insight on all tenants including those that have rent paid for them through Housing Benefit, meaning we can better understand the future impact of Universal Credit roll out.

### Tenancy Sustainability

To help mitigate the risks of Universal Credit, Arhag has created a specialist Income Recovery Team with the single focus of maximising rental income and minimising rent arrears. This is all well and good, but we recognised that the traditional re-active approach of early contact *after* a tenant has fallen into rent arrears is inadequate in the face of the challenges presented by Universal Credit. What we needed was the ability to analyse all of our residents financial position, whether they are in arrears or not, and to be able to triage more effectively those residents under greatest financial stress and, even if up to date with their rent payments, those most likely to fall into arrears in the future. What we required was access to data to enable smarter decisions in allocating our resources most effectively.

With the roll-out of Universal Credit it will be increasingly hard to predict which of our tenants may need financial assistance in coming months or miss their rent next month. The Tenancy Sustainability model helps to identify those tenants who are likely to find it hard to pay their rent consistently, by giving insight into those individuals struggling to meet their other financial commitments, and who have the highest levels of borrowing. This allows us to predict those who are most likely to miss rental payments now and in the future, and therefore gain greater control over our income stream.

Tenancy Sustainability data is returned to Experian on a monthly basis and provides access to financial data including payment histories on traditional loans, payday loans, utility and mobile telephone accounts etc. The Tenancy Sustainability file contains an updated view of all of our tenants allowing us to always have a current picture of where financial stress, vulnerability and exclusion are experienced. The Tenancy Sustainability model goes further than traditional credit scoring, identifying behavioural characteristics to reveal deeper insight into the current situation an individual is in, and whether their position is improving, static or worsening. The Sustainability Model places tenants into one of five bands:

Resilient Money Managers
Vulnerable to Financial Stress
Credit Hungry
Stretched Money Managers
Current Financial Stress

As well as being able to identify the financial position of individual tenants, the model also aggregates the data to provide an overview of all tenants, showing the number and percentage of tenants in each band.

## Conclusion

Financially vulnerable tenants can often pass under the radar and suffer quietly for too long, leading them to be evicted or leave without warning if left unsupported. This can create significant costs through bad debt and void properties. Without taking a proactive approach to working with our tenants, we would be wasting resources by triaging many cases that do not need assistance and failing those who most need our help. Tenancy Sustainability, as a component of the ACE/Welfare Reform project, generates significant benefits and better value for money through effective targeting, whilst helping our ‘at risk’ tenants and stabilising our communities with longer term tenancies.

The Rental Exchange/Tenancy Sustainability, if utilised effectively, is a powerful tool in the early identification of residents who are, or may become, at risk of failing to meet their tenancy obligation to pay their rent. A properly resourced specialist team, equipped with the technical and analytical tools to work efficiently and effectively, is critical to maintaining Arhag’s income stream and mitigating the risks presented by Universal Credit.

## For Further Information

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