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FINANCING SOCIAL ENTERPRISES

THE IMPACT OF SOCIAL HOUSING RENT-PAYMENT DATA ON CREDIT SCORING

Sarah Forster and George Wilkinson

Further information

This report and a summary version are available in print and as a pdf from Big Issue Invest, 1-5 Wandsworth Road, London, SW8 2LN (info@bigissueinvest.com and www.bigissueinvest.com).

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Big Issue Invest

Big Issue Invest is a specialised provider of finance to social enterprises or trading arms of charities that are finding business solutions to social problems. Part of The Big Issue group of companies, it is led by social entrepreneurs and experienced social financiers. (www.bigissueinvest.com)

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We hope that this work will contribute to the development of fair access to finance in the UK, particularly for the benefit of social housing tenants on low-incomes.

Sarah Forster

George Wilkinson

FOREWORD

Big Issue Invest and the Friends Provident Foundation came together to support this work because of a shared interest in exploring new ways of tackling financial exclusion that deal with some of the underlying causes of the problem. We believe that one cause is an information gap. Our belief was that there are millions of low-income people who are excluded from affordable credit due to the lack of a mainstream credit history. Such people are more likely to be declined or pay a higher price for credit that contributes to keeping them in the poverty trap.

We are very proud to be publishing the results of three years of groundbreaking work which indicates that this information gap does exist. This report shows that adding social housing rent-payment data to mainstream credit scoring models could have major benefits for tenants in terms of providing lenders with a more complete picture of tenants' creditworthiness and over-indebtedness, and enabling fairer decision-making and pricing.

This study is timely given the current housing market, in which people under 30 are having to rent as they find house prices high and are unable to meet higher mortgage deposit requirements. The current demand for social rented property is particularly high.

We would like to thank Sarah Forster and George Wilkinson for their tireless commitment to leading this work and engaging with a wide range of stakeholders, which has been crucial to the project's success. Our special thanks to the housing associations and the many banks that have engaged with the team and been open to the potential of rent data sharing

and those that shared their own data for analysis. Sincere thanks also to James Brooks of Advent International and Richard Jones of Clifford Chance for their invaluable professional advice. Finally, we would like to convey our appreciation for the tremendous contribution that Experian has made to evaluating the social and commercial value of rent-payment data.

We hope that this project will serve as a catalyst to a further closing of the information gap and bringing large numbers of 'thin file' and un-scored low-income tenants into the credit mainstream. Big Issue Invest looks forward to remaining involved in bringing this data to market and developing a business solution to the social problem of financial exclusion.

Nigel Kershaw OBE

Chair, The Big Issue and CEO Big Issue Invest

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EXECUTIVE SUMMARY

Introduction

This report presents the findings of a proof of concept project led by Big Issue Invest to determine whether including new, alternative sources of data in credit scoring and decision-making would increase the ability of mainstream lenders to better assess the credit-worthiness of low-income consumers and thereby increase access to affordable mainstream credit and other financial services.

The project focused on social housing rent-payment data to establish whether reliable payers of rent are being unnecessarily declined or charged overly high interest rates by lenders. Social housing tenants are significantly poorer than the population average, with 70 per cent earning less than £20,000 a year (the lowest income quintile) (Hills 2007). They are also the most un-banked population. About 1.13 million individuals, including one in seven people in the lowest income quintile, are estimated to be unbanked. Four in five (79 per cent) are social tenants (Ellison et al. 2010).

Hence, the social, economic and commercial benefits of such data sharing are potentially large in terms of its contribution to financial inclusion, reducing over-indebtedness, fairer pricing and bringing more people into the mainstream credit and banking system.

The study involved a detailed analysis of 50,000 social housing rental accounts. Rent-payment data was added to a generic credit-scoring model constructed and tested by credit-reference and credit-scoring professionals, Experian. Their results indicate that rent payment sharing could improve credit decisions and thus achieve the intended purpose, particularly

for those with no or a limited credit history recorded on credit bureaux. The analysis also found that rent data would help social tenants more easily prove their identity through electronic authentication methods, which would help facilitate easier access to public and private services.

Financial exclusion and social tenants

Financial inclusion initiatives have been the concern of Government and of social landlords for some years. Government has encouraged financial inclusion through support for financial education, money advice, basic bank accounts, savings schemes and affordable lending by non-bank providers. Tenants, principally social ones, are known to be among those having the most difficulties with finance and exclusion.

The information gap

Over the past 25 years, credit has taken on an increasingly important role in the UK economy, to the extent that concern is now focused on reducing over-indebtedness and ensuring more responsible borrowing.

There is a high degree of automation involved in making lending decisions. Computerised decision processing and credit-scoring techniques are used to assess the probability that customers can and will meet their financial commitments. The underlying analysis behind such systems relies on lenders' records, supplemented by data received from a credit reference agency. Increasingly, credit reference agencies have become powerful third party collators of data and 'translators' of individuals' creditworthiness through their generic credit scores, which are used by many lending institutions in their credit decision-making.

Applicants with little or no credit experience or without a history of credit provision from providers that share data with a credit reference agency are more likely to be declined or to pay a higher price for credit. This is because credit providers frequently ‘price for risk’ and those with thin or empty files in particular attract higher rates as they are judged to be riskier. Even if they are reliable payers, if there is no information to prove this at a credit bureau they will be considered a riskier customer.

Effectively, those outside the credit mainstream are trapped in a ‘Catch 22’ situation. How does one build a credit history when denied access to mainstream credit and banking services? Sharing non-traditional or ‘alternative’ data, such as rent-payment data, could help bridge this information gap by providing a fuller picture of people’s payment behaviour.

The social housing market perspective

The social housing market is made up of 4.3 million properties in the UK. We estimate around 5.2 million people could be affected by improvements in credit decisions if social housing rent-payment data were shared (and a further 3.5 million if private rent-payment data were included).

Social landlords approached during this project were generally supportive, and the research team worked with two – Affinity Sutton and the Riverside Group – to obtain rent-payment data for analysis.

Focus group interviews revealed that many tenants find mainstream bank relationships difficult. Tenants felt that banks overcharge for being overdrawn for very small amounts and have a lot of hidden charges. Some tenants found credit hard to get and others were used to being declined. Low-income people are disproportionately hit by bank penalty charges and are often on high-interest products, limiting the benefits of banking to them.

Tenants were cautious but potentially open to the idea of rent-payment data sharing if it could improve their

chances of accessing affordable mainstream credit and other services, such as mobile phone contracts or better deals with utility providers. Respondents became more positive when asked how they felt if a known and trusted organisation, such as The Big Issue, was involved as a partner either alone or with a credit reference agency.

The credit market and lender perspective

The project team sought the views of the mainstream lending industry throughout the project, and three high street banks provided lending data for analysis. Data provided by these banks revealed little difference between credit application levels from tenants and owners. However, in general, bank data revealed that a tenant is twice as likely to be declined as a homeowner, and despite this screening is twice as likely to default. This makes lenders wary of the tenant market. However, they remain interested in the potential of new data to improve their tenant credit assessment process.

Experian’s analysis of the value of rent data in credit scoring

Following a tender process, Big Issue Invest worked with credit reference agency and credit scoring specialist Experian to analyse rent-payment data in depth and to create a credit-scoring model from it.

Experian found that nearly 30 per cent of social housing tenants had thin/empty credit files (i.e. they had limited or no information recorded with a credit reference agency), which is very high – nearly twice the UK average for the credit active population. The proportion of tenants with a history of default and adverse credit history is also high, at 34 per cent compared to 20 per cent for the UK average population.

Experian created a credit scorecard out of the rent data, which proved to be quite predictive of whether or not a tenant would go into credit arrears. Significantly, adding in the rent-payment data to Experian’s generic

application score resulted in a significant improvement in the predictive power of the generic scorecard for the thin and empty file population.

The analysis also found that rent-payment data sharing would significantly improve tenants' ability to pass electronic authentication tests commonly used within the private and public sector, e.g. to open a bank account. Adding in rent information would provide an additional proof, and up to 40 per cent of tenants who currently don't have adequate identity records for such services would then pass an identity check.

Benefits of rent data sharing

Having established the predictive power of rent data, it was important to gauge the impact of the rent-payment data upon the levels and nature of future credit decisions in the UK, and the benefits to tenants. In order to assess these impacts, George Wilkinson, a recognised consumer credit expert, built a model to estimate the number and nature of lending decisions on a national basis.

Based on the findings of Experian's analysis and the analysis of bank lending data, the estimated benefits from rent data sharing are as follows:

- increased access to banking services for low-income tenants;
- a potential increase in new credit applicants of up to an estimated 75,000 a year;
- previously declined applications from people with thin/empty files could be reconsidered;
- a relatively modest 'reduction in losses' due to better credit decisions, with an estimated loss avoidance of about £20 million a year;
- improvement in credit 'risk-based' pricing, which would benefit some social tenants in terms of lower interest rates (this is hard to quantify but most personal loans and some credit cards apply higher rates to those judged to be higher risk);
- better electronic identification for financial and other services;

- fraud reduction due to more comprehensive data, enabling better corroboration of personal circumstances.

Conclusions

This study set out to test whether sharing social housing rent data with credit reference agencies and the lending industry would have benefits for low-income social housing tenants. The answer is 'yes'.

Rent-payment data was proven to provide significant uplift from typical credit risk scores for the thin file/empty file population. Sharing rent data would improve credit decisions for 30 per cent of social tenants, an estimated 1.56 million people.

Integration of rent data into credit scoring models and/or decision systems would make mainstream credit more accessible and affordable to a significant number of social housing tenants. It would also result in less lending to those that cannot support more credit and so reduce over-indebtedness, supporting more responsible borrowing.

Rent-payment data is of high value for enabling electronic identification, which would give tenants easier access to full banking services as well as a range of non-financial public and private services. Two million people could benefit in this way.

Lenders would see an important reduction in bad debt losses of about £20 million a year, as well as an estimated 6 per cent annual increase in new lending.

There could also be particular benefits for the housing market, with some tenants potentially being able to access mortgages and shared ownership schemes more easily as mortgage lenders' underwriting criteria could be refined and improved. Detailed and up-to-date rent-payment histories coupled with traditional credit referencing could facilitate more objective and faster decisions for those seeking a mortgage.

Government initiatives would also benefit from such data sharing. It would help bring tenants into mainstream markets and help tackle problems of social, financial and digital exclusion.

Recommendations

Rent-payment data on about 5 million social housing tenant accounts and a rent credit-scoring model should be routinely shared and used to improve the fairness and effectiveness of credit decisions. Other associated uses, such as improving identification, should be developed and applied to further enhance the benefits to tenants. Bringing such data into the marketplace would help address the information gap that leaves many low-income people living in a more expensive and seemingly unfair economy.

1 INTRODUCTION

SUMMARY

People on low incomes are regularly denied access to mainstream credit, often due to lack of a credit history. But how does one build a credit history in such circumstances? This study examines whether sharing non-traditional or ‘alternative’ data could provide reliable information on which to assess their creditworthiness. The researchers identify social housing rent data as a good potential source of information.

Policy context

The problem of financial exclusion

An important focus of Government policy for the past ten years has been to bring low-income people into the mainstream banking and credit system – part of the so-called ‘financial inclusion’ agenda. Accessing mainstream financial services is seen not only as the gateway to wider financial inclusion, but also as bringing significant social justice and poverty alleviation benefits.

A particular policy concern is the need to address the ‘poverty premium’ whereby the poor pay more for essentials such as utilities and credit, primarily because cheaper payment channels and products are not available to those without banking facilities. The cash-based channels used by people on a low income to pay bills – such as payment meters and fuel keys

– are significantly more expensive per unit than direct debits (Ellison et al. 2010). Low-income people also rely disproportionately on high-cost sources of credit, such as credit cards and home credit. When low-income people try to access mainstream credit they are more likely to be declined or to pay a higher price, as credit providers frequently ‘price for risk’ and judge those with a limited mainstream credit history as high risk.

To date, the Government’s financial inclusion policy has focused on increasing access to high street banking services (primarily through basic bank accounts), scaling up access to affordable credit from non-bank sources, such as credit unions and community development finance institutions (CDFIs), and increasing access to free face-to-face money advice.¹ However, the ‘information gap’ or ‘information asymmetry’ in the credit market between higher-income and lower-income consumers is an issue that has received little attention until this study.

The information gap in a changing context

Over the past 25 years, credit has taken on an increasingly important role in the UK economy. Lenders have frequently been criticised for lending too much, and more recently for lending too little. At the heart of many issues in consumer credit is the *lending decision*.

This study looks at how lending decisions affect social tenants who borrow, or aim to do so. The lending process and the degree to which social tenants are accepted and declined for credit are examined. If the lending process can be improved – and better and more informed credit decisions are made – then low-

1 See the Financial Inclusion Taskforce website for details: http://www.hm-treasury.gov.uk/fit_index.htm.

income tenants will gain. Social housing households generally have very little disposable income, so the credit decision is a fine one but also one where additional positive and negative data can be of importance to improve credit decision-making.

This study was started in 2007 when policy focus was on increasing access to affordable credit for low-income consumers who are financially excluded. The study sought to support this objective. However, the context has since changed. The recent financial crisis has highlighted the high levels of dependency on consumer credit in the UK and there is far greater awareness of the problem of over-indebtedness.

The Office of Fair Trading's new Irresponsible Lending Guidance and the Consumer Credit Directive place far more responsibility on lenders to check creditworthiness before offering or increasing credit. This changing context has made this study even more relevant, as checking creditworthiness requires having accurate and complete information. However, it also highlights how the credit decision-making process is both about providing credit, when appropriate, but also declining credit when not affordable.

In the area of responsible lending and borrowing, two main questions arise:

- Are credit-granting institutions making sure people can accommodate regular repayments without getting into financial difficulty?
- Are consumers providing relevant, complete and accurate information on their financial situation, and making informed and manageable borrowing decisions?

Answers to both these questions require an exchange of information on the current debt and income situation of applicants to determine and assess the potential for them to make loan repayments. The sheer size of consumer credit granting – probably close to 65 million new and over 6 million continuing credit

decisions are made each year – has led to a high degree of automation in the information collection and analysis process and the lending decision itself. Lenders use computerised 'credit-scoring' techniques to assess the probability that customers can and will meet their financial commitments.

The underlying analysis behind credit decisions relies on the lender's own records of previous experience, increasingly supplemented by data received from a credit reference agency and information provided by the applicant. Credit decision-making and scoring models also incorporate applicant credit behaviour – both current and past repayment histories – across competing lenders thanks to the sharing of data by lenders on a reciprocal basis using a credit reference agency.

Credit scoring and decision-making has become accepted as a practical, cost effective and fair method of making credit decisions, as it can make appropriate use of all relevant data. Increasingly, credit reference agencies have become powerful third party collators of data. Many of them also provide additional services such as the provision of generic scores designed to predict a variety of possible outcomes, such as the future creditworthiness of consumers applying for credit.

Credit scoring statistical models have evolved during the past four decades in the UK and this has advantaged many – but concerns have been raised that this might disadvantage certain groups. What about those with little or no credit experience or without a history of credit provision from providers that share data with a credit reference agency? This is a significant population. Such people, who are typically on lower incomes, are more likely to be declined or to pay a higher price for their credit as they are viewed as higher risk.

Effectively, those outside the credit mainstream are trapped in a ‘Catch 22’ situation. How does one build a credit history when denied access to mainstream credit and banking services?

One solution is to look at new data sources. This is the focus of this study, which examines whether sharing of non-traditional or ‘alternative’ data could help bridge the information gap and increase low-income consumers’ access to mainstream banking services and affordable credit provision by providing more complete information on which to assess their creditworthiness.

Why new sources of data?

Credit scoring increasingly captures and relies upon previous credit experience for its core statistical analysis. For those without such a credit history, other information sources could be used to make more rounded credit decisions.

The term ‘alternative data’ is sometimes used to describe those data sources that typically can demonstrate a reliable payment pattern, such as rent data, utilities, telecoms, council tax and even insurance payments. Progress has already been made with alternative data sharing. The largest energy provider in the UK now files data with Experian, and others are likely to follow suit soon. The major mobile Telecoms providers already file with all the credit reference agencies. This project focused on a new alternative data source – rent-payment data.

Why social housing rent data?

There are three main reasons to focus on social housing rent-payment data:

- First, rent-payment data has the characteristics that make it likely it will be of predictive value in assessing creditworthiness. It accounts for a relatively high proportion of household expenditure, within this population. There is also sufficient length of time and frequency to demonstrate a payment pattern, and there is the potential to retrieve rent data electronically from social landlords and incorporate it into automated credit-scoring models.
- Second, the social benefits of social housing rent data sharing are potentially large. Social housing tenants are significantly poorer than the population average, with 54 per cent of social renting households earning less than £10,000 per year and 70 per cent earning less than £20,000 (Hills 2007). Furthermore, financial exclusion is concentrated among this population – the majority of un-banked households (79 per cent) are social tenants (Ellison et al. 2010).
- Third, housing associations (HA) and local authorities (LA) that manage social housing were supportive of the project, particularly seeing the proof of concept as being important. Many housing associations have taken a lead in combating financial exclusion amongst their tenants and residents. Throughout England, associations are offering financial services and impartial financial advice to tenants. They are also supporting community financial institutions, such as credit unions, through partnership working and investment.

LEARNING FROM US EXPERIENCE

This project was inspired by work done in the United States on the role of increased alternative data sharing for the benefit of underserved consumers, particularly the work of Shorebank's Center for Financial Services Innovation, and the Political and Economic Research Council together with the Brookings Institution. Similar studies in the US have shown the value of alternative data. They suggest that 'credit-like' data that demonstrates financial responsibility have predictive power in credit scoring and can increase credit access (see, for example, Turner 2006).

In the United States credit reference agencies and specialist companies such as L2C Inc. and PRBC (Pay Rent, Build Credit) are already collecting and modelling alternative data to help improve the credit risk assessments of under-banked consumers. Big Issue Invest worked closely with another of these specialist companies, the Atlanta-based Rent Bureau, in the early stages of this project to collect and process sample data and to understand some of the practical data exchange and use issues. The United States has a relatively smaller social housing sector than the UK, and Rent Bureau specialises in rent payment history data collection from comparatively short-term renters, to support private landlords (known in the US as the 'multi-family industry'), albeit with a social benefit.

Objectives

Big Issue Invest launched this project in September 2007. The original aim was to improve access to appropriate mainstream credit among low-income people by tackling asymmetries of information in the credit market. The immediate objective was to gather new sources of information and analyse their economic and predictive value in improving the credit scoring of those who are financially excluded, with an initial focus on social housing rent-payment data.

This was achieved by undertaking a proof of concept study to assess – statistically and practically – whether including new alternative sources of data in consumer credit-scoring models and credit decision-making could:

- increase the ability of mainstream lenders and other lenders to better assess the credit risk, credit capacity and credit-worthiness of the 'thin file/empty file' population (i.e. those with limited or no information recorded with the credit reference agency);
- increase access to affordable mainstream credit and other financial services for this population (particularly those living in social rented housing);
- increase fairness in lending, especially for low-income communities.

At the outset of the project there was awareness that those social tenants who could not identify themselves – particularly at point of sale – could be disadvantaged. This became clearer in early discussions with tenant groups and with banks. Lenders seek to properly and efficiently verify identities and will decline an application if they are not satisfied. Hence, an additional objective was added to the terms of reference for the data analytics provider:

- to assess whether new data sharing would improve name and address verification and identification, especially where electoral register information is not available.

Methodology

The study was a mix of quantitative and qualitative analysis, in five phases:

- 1 **Quantification and analysis of tenants' credit usage.** This involved quantifying the potential size of the social housing tenant market that would benefit from rent payment sharing, as well as establishing attitudes towards sharing rent and other data for credit-scoring and decision-making purposes among tenants.
- 2 **Social landlord buy-in and collection of rent-payment data.** Meetings were held throughout the UK to gain the buy-in and support of housing associations, local authorities and arm's-length management organisations, and to explore the operational challenges and benefits of rent-payment data sharing across the social housing sector.
- 3 **Analyse rent-payment data.** We carried out a competitive tender process to select a suitably qualified organisation to analyse and determine the predictive value of the data in credit-scoring models and decision-making, including developing a rent scorecard² and adding rent-payment data to credit reference agency data to assess the degree of 'uplift' on individuals' credit scores. Experian was selected as this partner organisation.
- 4 **Assess market demand and benefits from a lender perspective.** Meetings were held with the high street banks to gauge reactions to the potential value and usage of rent-payment data, and ultimate demand. Estimates were also made of the impact of rent data sharing on lending decisions UK-wide and benefits to tenants, lenders and social landlords.

- 5 **Develop business case and plans.** This phase is currently ongoing and beyond the proof of concept work outlined in the stages above. A business development plan is being drawn up, and suitable operational options and the financial feasibility of developing a social business to share social rent-payment data are being explored.

Throughout the project, Big Issue Invest consulted closely with the supporting social landlords and other stakeholders and provided regular updates on the project. This report is the concluding report on the 'proof of concept' phase of this project and sets out the research findings, as well as the operational challenges for bringing rent-payment data to market, together with a set of steps to achieve this.

² A scorecard is a statistically based model for attributing a number (*score*) to a customer (or an account) that indicates the predicted probability that the customer will exhibit a certain behaviour, e.g. loan repayment. In calculating the score, a range of data sources may be used, including data from an application form and from credit reference agencies.

BIG ISSUE INVEST

Big Issue Invest has a longstanding interest in the issue of financial exclusion. The work of its parent company, The Big Issue, effectively tackles financial exclusion among the homeless by providing them a legitimate means of earning a living. The Big Issue also works with vendors to support them to open bank accounts and start to save the money they earn on the streets.

Since its launch in 1991, The Big Issue has grown to become a household name. Today, it is read by over 670,000 people and provides an income for over 2,500 homeless and vulnerably housed vendors. For vendors this can be the first step out of re-offending, loneliness, mental breakdown and getting off the streets.

Big Issue Invest is a specialist provider of finance to social enterprises. One of its core investment areas is financial exclusion. Big Issue Invest spotted a gap in the market to examine the potential of alternative data focused on low-income consumers and hence launched this study to see if a viable business model could be developed to bring such data to market.

Historically, The Big Issue has always had a close affiliation with housing associations. The Big Issue and housing associations are structured as social enterprises. That is, businesses ‘with primarily social objectives whose surpluses are principally reinvested for that purpose, rather than being driven by the need to maximise profit for shareholders and owners’.³ Hence, Big Issue Invest was in a good position to develop relationships with these stakeholders and to look at rent-payment data sharing from both a social and a business perspective. Big Issue Invest also talked to and involved local authority landlords and arm’s-length management organisations in the project, such that all three types of social landlords were represented.

³ This is the government’s current official definition of social enterprise. See, for example, Office of the Third Sector, 2006.

Structure of the report

Chapter 2 provides an overview of the social housing market and the size of the tenant population that could be potentially affected by rent-payment data sharing. It describes the housing associations that participated in the project, and tenants’ experience of credit and views on rent-payment data sharing.

Chapter 3 provides the high street bank perspective and gives a broad description of the mainstream credit market place.

Chapter 4 details an analysis of 50,000 rent accounts by Experian and summarises their results and conclusions as to the value of rent data in improving the predictive power of credit decision-making and credit scoring for those with limited or no information recorded with a credit reference agency.

Chapter 5 examines the potential benefits to social housing tenants, lenders, landlords and government policy makers of bringing rent-payment data into the mainstream credit sharing market.

Chapter 6 concludes with a discussion of the implications of the findings of this study, and the operational challenges for rent-payment data sharing. We put forward a set of proposals for bringing this data to market.

2 THE SOCIAL HOUSING MARKET PERSPECTIVE

SUMMARY

The social tenant market is made up of 4.3 million properties in the UK, and around 5.2 million people could be affected by improvements in credit decisions if social housing rent-payment data were shared (and a further 3.5 million if private rent-payment data were included).

Social landlords approached during this project were generally supportive, and the research team worked with two – Affinity Sutton and the Riverside Group – to obtain payment data for analysis.

Focus group research with tenants found that although most used a range of mainstream and non-standard credit sources, the non-standard sources were most regularly used. Many had experienced difficulties when using mainstream credit, such as high charges and penalties, which had caused them significant problems. They were initially cautious about the idea of rent-payment data sharing but were more open to it once the potential benefits were outlined.

Size of the social tenant market

A key part of this work was to quantify the likely number of tenants that could benefit from the collection and sharing of social housing rental data. Large amounts of data would facilitate both worthwhile benefit levels and commercial interest in such data sharing.

Tenants represent a significant proportion of consumers and properties within the UK. Home ownership has increased in the UK, but peaked in 2003 at 71 per cent and has eased towards 69 per cent since then. Nearly one-third of all properties – 7.2 million – are rented rather than owned (Table 1).

Table 1: Number of UK properties by tenure (2009).

Tenure	No. of properties	%
Tenancy	7.2 million	31
Ownership	16.0 million	69
Total	23.2 million	100

Source (Tables 1 and 2): Tables 1 and 2 were derived from a variety of sources – principally from ONS data which represents the core of the numbers above. Some sources use slightly different figures or only provide data for England or Wales. Ownership numbers vary but combined social ones – of concern here – seemed more stable. The estimates are for the UK as a whole.

Table 2: Breakdown of types of tenancy and ownership.

Tenure	No. of properties
<i>Tenancy</i>	
Private	2.9 million
Social: housing association	2.3 million
Social: local authority/ ALMO	2.0 million
(Subtotal)	(7.2 million)
<i>Ownership</i>	
Outright	7.0 million
Mortgaged	9.0 million
(Subtotal)	(16.0 million)
<i>Total</i>	23.2 million

Source: See Table 1.

Within the tenancy market, the majority of properties (4.3 million) are social housing – that is, affordable housing for those whose needs are not met by the market (Table 2). These properties are owned by three types of housing providers:

- local authorities – as owners and managers of social housing;
- arm's length management organisations working on behalf of local authorities;
- independent, not-for-profit registered social landlords, commonly known as housing associations, which have grown significantly with the advent of large-scale voluntary transfers of housing stock, and now own and manage over 50 per cent of all social housing stock.

Although there are over 2,300 social landlords in the UK, in England alone about half the housing stock is owned by the 75 largest housing associations (5.3 per cent of total).⁴

4 Data provided by the National Housing Federation.

Commentators suggest that tenant numbers will gradually rise as home ownership growth levels off, first-time buyers find it harder to meet higher mortgage deposit requirements and a shortage of properties prevails. Current demand is high for social tenancy in particular.

The number of social tenants that could benefit

This study is concerned with social tenants, who make up 60 per cent of all tenants and almost 20 per cent of all households.

This population could be as high as 7.7 million adults if the ONS adult average of 1.8 per household is used. However, for the purposes of this study we have used instead a more cautious ONS figure for the economically active of 1.2 adults per household, as these are judged to be the most 'credit active' segment of the population. Retirees are excluded from this figure, although it is recognised that some may be moderately credit active.

This suggests that potentially some 5.2 million people could be affected by improvements in credit decisions if rent-payment data were shared.

A further 3.5 million 'private' tenants could potentially also be helped if private rent-payment data were shared. This population is not the subject of this study and has significant demographic differences. For example, private renters tend to be younger, with higher incomes, and live at a particular address for a shorter period. However, it is recognised that the viability and benefits of rent-payment data sharing would likely be maximised if it covered both the social housing and private rented sector. This is discussed in the final chapter.

Social landlords

Social landlords approached during the project were supportive of this proof of concept project. Many social landlords spoken to saw evidence of their tenants

being denied credit whereas on average at least 70 per cent were up-to-date with rent payments (this representing over £3,000 per annum on average paid by tenants).

A total of 34 housing associations, two local authorities and one arm's length management organisation, which together own over 600,000 properties, were approached and committed their support for the project and interest in sharing rent-payment data for analysis. This includes some of the largest social landlords in the UK (see Appendix I for a full list). In addition, the National Housing Federation, which represents 1,200 not-for-profit housing associations, was supportive of the project and became a member of the advisory board set up to provide feedback and guidance to the project team. The Tenant Services Authority, the social housing regulator, was also supportive and a member of the advisory board.

Big Issue Invest approached and reached agreement with two of the largest housing associations – Affinity Sutton and the Riverside Group – to provide rent-payment data for analysis. Together, they provided records for 50,000 rent accounts.

Two key issues needed to be addressed and agreed prior to the data transfer:

- **Data protection:** Data protection issues were thoroughly checked and addressed through independent advice from Clifford Chance and the Office of the Information Commissioner. Data can be processed for research purposes under Article 33 of the Data Protection Act, provided the data is exclusively used for research purposes and sufficient safeguards and controls are put in place to prevent its loss or misuse or it being publicly shared. Experian provided assurances regarding data security and once the data was transferred all personal information was purged from the dataset.
- **Treatment of housing benefit payments:** A large proportion of tenants – typically at least

50 per cent according to published figures and Experian's analysis – has all or a proportion of their rent paid by housing benefit. Sometimes benefits are paid late and can place tenants in arrears. HA were keen to ensure that only tenants' payments, and not housing benefit payments, were used to assess rent payment performance. This was agreed and the data processed by Experian in such a way that tenants' own payments were clearly identifiable and used for the payment performance analysis.

Tenant experience and perspectives

As part of the project, focus group research was carried out to better understand tenants' experience of banking and borrowing, and their attitudes towards sharing rent-payment data and its possible benefits. Policis' forthcoming research report, *The New Demand Landscape for Credit Provision for Those on Low Incomes*, ties in with the focus group results and is integrated into this analysis.

For this study 56 housing association tenants were interviewed in five locations: Cirencester, Glasgow, Liverpool, Manchester and Sheffield. These tenants were on the low-income spectrum of social housing tenants, with the majority (89 per cent) having an income under £200 a week, which is less than £10,000 a year. Only 1 in 5 was in full- or part-time employment. All except one had a bank account, and 60 per cent had borrowed money in the past year (see Appendix II for a summary of findings).

There is a high degree of crossover between mainstream and non-standard borrowing amongst people on a low income. Mainstream credit users with a bank account, credit card and overdraft are also accessing home credit and payday loans. Likewise those who mainly use non-standard credit, such as catalogue credit, borrowing from friends and family or home credit, may also have a mainstream credit card. However, among the focus group sample the majority were borrowing from friends and family (45 per cent) and home credit or pawn shops (25 per cent). One

in three had a credit card and only 14 per cent had borrowed from a bank or building society.

Focus group interviews revealed that many tenants find mainstream lender relationships difficult. Tenants felt that banks overcharge for being overdrawn for very small amounts and have a lot of hidden charges. Some found credit hard to get and others were used to being declined. The Policis survey (Policis, forthcoming) found that the lowest-income credit users have been disproportionately exposed to delinquency charges on overdrafts, which significantly outweigh any savings from cheaper credit. Over 50 per cent of Policis interviewees had had penalty charges, with this rising to nearly 70 per cent for home credit users and 90 per cent for payday users. Overall, the most disadvantaged of the newly banked have not only suffered financial losses but have also experienced risks to their financial security and well-being (Ellison et al. 2010).

Credit refusals are rising across the board, with a significant minority of users of non-standard lending and higher risk borrowers experiencing refusals in the last year (Policis, forthcoming). Generally, those on the lowest incomes were very cautious about borrowing but were also those most likely to need to borrow.

Tenants were cautious about the idea of rent-payment data sharing, but appeared open to it, particularly when they understood that it could potentially improve their chances of obtaining mainstream credit or, say, switching from pre-paid fuel cards or PAYG mobile phone contracts. Respondents became more positive when asked how they felt if The Big Issue was involved as a partner either alone or with a credit reference agency. This highlights how tenant education and awareness-raising would be an important aspect of any plan to share rent-payment data for credit industry use at a national level.

3 THE CREDIT MARKETPLACE AND LENDER PERSPECTIVE

SUMMARY

The number of credit applications that are turned down differs markedly by tenure. Data from three large banks indicated that twice as many applications from tenants (private and social) were turned down as for homeowners. Default rates were twice as high amongst tenants as homeowners.

Tenants were less likely to have some credit records or to be on the voters' register. Both these factors weighed heavily against them in credit decisions.

Lenders were open-minded to the idea of using rent data in credit scoring. Rent data could be made to fit within the credit-scoring process, and would add a new level of assessment for applicants who are tenants.

The market for credit

The UK market for consumer credit is a substantial one – probably the largest outside the USA. For decades, the demand for credit cards and overdrafts has been high – particularly for the former. The demand for personal loans and other forms of finance has also been strong. Even ongoing credit provided by mobile phone companies through contracts has grown substantially – though this facility tends to be obtained by homeowners rather than tenants.

In order to develop a picture of the market, the current level of lending by mainstream lenders to tenants was looked at in detail. We found that the number of applicants for mainstream credit differed by tenure, but not markedly so – over 70 per cent of economically active homeowners, and just under 60 per cent of social tenants. However, as presented below, the rate at which tenants are declined by mainstream lenders is substantially higher than for homeowners. This reinforced the relevance of this study in examining whether lack of data is part of the reason why tenants are so often refused credit.

Overall, economically active social tenants make an estimated 14.6 million credit applications a year. This equates to a ratio of 2.8 applications per person. But as decline rates are high this only results in 1.0 application per person becoming an account. Economically active homeowners, in comparison, make an estimated 34 million credit applications a year, equating to 3.0 per person. But their success rate is almost twice as high, at 1.9 accounts opened per person.

Lenders' experience of lending to tenants

We developed close working relationships with the lending industry during the project. The UK Cards Association, a mainstream credit industry trade association, facilitated two round-table meetings with credit risk specialists from high street banks. In addition, we worked with two high street banks, with which we discussed specific issues. Both banks provided us with credit profile and performance statistics, and an additional bank provided us with

some specific and comprehensive data on their lending activities. These three banks represent about 40 per cent of mainstream unsecured lending.

The data provided by lenders are for both social and private tenants; lenders do not capture sufficient detail on tenure to classify tenants in a more detailed manner.

- **Credit cards:** Two lenders provided decline rates. For homeowners these were 42 per cent and 38 per cent, and for tenants 85 per cent and 87 per cent. In terms of default rates, these were 2.7 per cent and 4 per cent for homeowners, and 9 per cent and 11 per cent for tenants.
- **Personal loans:** Three datasets were available. Decline rates for homeowners were between 38–50 per cent, and for tenants between 75–93 per cent. Serious defaults ranged between 4–9 per cent for owners, and 9–17 per cent for tenants.
- **Current accounts:** Data came from one source. Decline rates were 37 per cent for homeowners and 68 per cent for tenants. Basic bank accounts were not included in these figures. The serious default rate was 2.5 per cent for homeowners and 6.2 per cent for tenants.

These figures show that decline rates amongst tenants were almost double those of homeowners, across all three products. Despite this, tenants' serious default rates were more than twice those of homeowners. Social tenants therefore experience high decline rates and high default rates.

Brief discussions with mail order companies suggested that they too found tenants more likely to be declined – and to go bad – though there was a tendency not to be as strict as banks.

The problem of identification for tenants who made applications was noted; significant numbers have thin/empty credit files, and large numbers of them are not on the voters' register.

Other findings on credit applications

Data from one large bank provided further, more specific information about the contrasting experiences of tenants and homeowners.

It indicated that almost 30 per cent of tenant applications had 'thin or empty' files at the credit reference agency, compared to less than 10 per cent amongst homeowners. Decline rates for those with thin/empty files were over 90 per cent.

Between 9–15 per cent of accepted tenants were not on the voters' register, depending on product. The comparable figure for homeowners was about a third lower, at between 3 per cent and 6 per cent. All customers who were not on the voters' register had higher rates of bad debt than those who were, implying that they had been hard to identify, which would affect the banks' ability to carry out satisfactory anti-money laundering checks and meet credit policy criteria. At the application stage about 40–50 per cent of tenants did not have voter register confirmations, about three times more than homeowners. In combination with the above, this implies a high underlying decline rate and expensive processing.

Income levels were not the ultimate factor in making the credit decision; the credit score and policy rules were the main decision-making factors. High decline rates were seen across the income ranges.⁵ A credit score derives much of its statistical value from the credit reference component, which shows how paying bills and keeping credit up to date is more predictive than what you earn.

Income is, however, crucial in determining the amount to lend or the credit or overdraft limit to set. Strict minimum income rules, especially if incorporated with

⁵ See Tingay and Wilkinson, 2002. The article addresses the real but counter-intuitive issues of using income as a substantial and reliable credit scorecard variable. Copies are available from the author at geowilkassoc@aol.com.

minimum loan sizes, have an impact on application levels and acceptances – and could be judged as a form of financial exclusion.

For example, a bank or other lender may decide that a minimum income of £12,000 is required to be eligible for a personal loan. Also, there may be a minimum loan size of say £5,000. The monthly payments on the £5,000 loan and the minimum income requirements mean that an applicant can be ineligible on either of two grounds. The lenders may well be setting these limits on the grounds of economics and default experience, but it makes it harder for those on lower incomes to obtain the smaller size loan that they need. This is where home credit providers and more recently community development finance institutions have played a role in providing small loans to low income people, the latter at more affordable rates. Some social applicants are affected by this type of policy, but others are generally put off from applying for credit.

Credit scoring models, or scorecards, were dominated by credit reference data and this trend is likely to continue.

It was clear from the data provided by this lender that those with credit experience over time and with a good payment history were virtually certain to be accepted.

The role of data – such as rent-payment data – in better identifying a tenant applicant and assisting lenders in making more informed credit decisions would appear to address a real need.

Lender attitudes to rent-payment data sharing

Most lenders were open minded about the value of rent-payment data sharing, and keen to see the results of the proof of concept and the predictive value of the data, as well as the size of any financial improvements possible.

Some stated that they found it difficult to make lending to tenants economically worthwhile, due to high decline rates and high default rates.

All lenders would prefer any new data to come through the existing channels of a credit reference agency. This would minimise the need for internal system changes, which are expensive and often take time to prioritise and implement. The credit reference agencies typically make changes quickly and consistently – as has been the case when past cross-industry changes were made (for example, to share data on student loans).

Several lenders were interested in the factors that would drive financial benefits. We identified these as:

- the mix of applicants between homeowners and tenants, especially social tenants;
- the volume of applications and average credit amount;
- the accept and reject rates;
- not taken up levels;
- the arrears and write off numbers and amounts;
- the incidence of thin and empty files in applications;
- the percentages not on the voters' register;
- cost and income per 'good' and 'bad' account.

One major lender thought there could possibly be a moderate improvement in the Basle models used by his organisation for capital adequacy calculations. (The amount of capital held by financial institutions is reviewed/managed by the FSA and the EU, and is affected by the provision for bad debts. Lenders have to calculate this for specific parts of their portfolios – so splitting owner and tenant tenures could enable better classification of the level of debt and associated capital required.)

The lending process

In this project, we are primarily concerned with the creation and testing of a rent model/scorecard incorporating social rent-payment data and how this might improve both lending decisions and the identification of individual applicants. A generic lending process might be as follows:

- 1 Applications are received – mainly in electronic form – with pre-set questions and answers, and applicant name and address details.
- 2 Those with clear-cut ineligibility are declined – ‘under age’ is an example.
- 3 The application is credit scored using a scorecard, and declined if its score is too low (see box).
- 4 The application can have a credit reference check taken – sometimes the data from this is part of the credit score.
- 5 Credit policy rules are applied, and declines can happen at this stage. Those with county court judgments, excessive outstanding credit, slow payments and that fail affordability rules are the most affected.
- 6 Applicants who are not on the voters’ register can easily be declined – especially if identification cannot be established.
- 7 The applicant is potentially accepted, subject to fraud prevention, anti-money laundering and other automated and clerical checks.
- 8 Though the credit is granted the potential borrower may decide not to take up the credit offer.

Credit decline decisions can therefore be made on policy and identification grounds alone, but the credit score has a large part to play. Applicants are advised as to the reason for a decline and may appeal the outcome by providing more information, but many do not.

Challenges in constructing and using a ‘rent’ scorecard

For this project Big Issue Invest worked with credit reference agency Experian to test the value of rent data in the lending process, including credit scoring. In simple terms, Experian was asked to treat the rent data as a new additional credit risk scoring

characteristic and add this to the data within its generic scorecard to see how this affected different segments, especially those with limited numbers of existing accounts or those with so-called thin or empty files. The results of Experian’s analysis are presented in the following chapter.

Although we did not build a rent scorecard that predicts if someone is more or less likely to pay their rent on time, the scorecard developed in this analysis, using only rental payment data to predict credit risk, would suggest that a rent scorecard could have been built and would be worthy of consideration. The construction of a specific ‘rent’ scorecard to predict those who are more or less likely to pay their rent on time would have to go through the above stages. Such a scorecard could lead to its direct use by social landlords for the management and improvement of rent arrears. However, the goal in this scorecard construction was to match rental payments to credit payments. *Any references to rent scorecard in this paper therefore refer to a credit scorecard built using rental payment data.*

SCORECARDS

A scorecard is a statistically based model for attributing a number (score) to a customer (or an account) which indicates the predicted probability that the customer will exhibit a certain behaviour, e.g. loan repayment. There are well-tested analytical and statistical techniques that enable scorecard constructors to clearly see which elements of an applicant's demographic and payment details are individually predictive (or not) of future payment. The impact of a scorecard on a lender's 'accepted' and 'declined' levels and potential losses can be vast.

The steps in developing a scorecard are:

- 1 Decide what is to be predicted (e.g. the likelihood of going three months into arrears within the first 18 months of the loan).
- 2 Define, objectively, what is a good, bad and indeterminate account.
- 3 Design and generate a large sample of these accounts, including past declined accounts, with a small separate sample of these set aside for later validation and checking.
- 4 Codify all relevant characteristics relating to the samples.
- 5 Compare good and bad accounts – and accepts and declines – by characteristic to determine which can differentiate.
- 6 Infer the outcome of past decline decisions by thorough analysis and comparison of 'declines' to 'accepted' and 'good' accounts.
- 7 Create a draft scorecard and test its consistency when compared to the small validation sample and its ability to select good and bad accounts.
- 8 Produce management information to suggest the power of the card to discriminate between 'good' and 'bad' and between accepts and rejects.
- 9 Recommend a cut-off point based on the risk appetite of the lender – essentially deciding upon the amount of acceptable bad debt risk.
- 10 Determine the degree of change to past accepts, rejects, goods and bads by tabulating and assessing the level of potential improvement.

In the early days of credit scoring, credit-scoring models could result in a high level of loss reduction and potentially increases in accepted applications – with a 5–15 per cent loss reduction coupled with a growth in business of about 5 per cent regularly seen.

Such improvements are harder to achieve with subsequent scorecards unless new and relevant data – such as rent data and additional credit reference data – becomes available. Only then are credit-scoring related improvements in losses and extra business really likely to be achieved. See Appendix III for further information.

4 EXPERIAN'S ANALYSIS

SUMMARY

Credit reference agency Experian was recruited to analyse the predictive value of including social housing rent data in credit-scoring models. Data from over 50,000 social housing tenancies across England were used in the analysis.

The analysis showed there was a significant improvement in the predictive power of Experian's generic scorecard for tenants with thin and empty files if rent data were added. The combined score also significantly improved the ability to pre-identify rent payers likely to go into credit arrears. Furthermore, adding in rent data to a credit scorecard would enable tenants to have their identities authenticated electronically. This could benefit as many as 40–50 per cent of tenants.

Big Issue Invest carried out a competitive tender to select a qualified firm to carry out a credit industry-standard analysis of the predictive value of the rent data. This was then used to assess the impact on credit access industry-wide for social housing tenants (see Chapter 5).

Experian, the UK's largest credit reference agency, was selected as the analytics partner for the project from nine tenders received. Experian was selected because of its substantial credit reference agency and credit

decision-making and scoring expertise worldwide, and the high volume of data it currently holds on UK consumers.

Experian was asked to assess whether including social housing rent-payment data in its own consumer credit profiling and credit-scoring models would achieve the following results:

- increase the ability of mainstream lenders and other lenders to automatically assess the credit risk, credit capacity, and credit-worthiness of the thin file/empty file population (i.e. those with limited or no information recorded with the credit reference agency);
- increase access to mainstream credit and other financial services for the creditworthy segment of this population (particularly those living in social rented housing);
- increase fairness in lending, especially for low-income communities;
- improve name and address verification and identification, especially where electoral register information is not available.

The data for the analysis

Big Issue Invest provided access to data sets from two social landlords for the analysis:

- The first dataset was from the Affinity Sutton Group and consisted of approximately 11,000 addresses based in London and the South East. This data was accessed with the support of Rent Bureau, Atlanta, which did the initial data transfer and formatting.

- The second dataset was from Riverside and consisted of approximately 40,000 addresses mainly in North West England, but also had sufficient numbers across the North East and Yorkshire, Midlands and London and the South East for reasonable geographical coverage. This dataset was transferred directly to Experian.

The basic data comprised tenant name, address, date of birth and weekly rental payment transaction records covering several years. From this, three years' worth of data was extracted.

Experian's approach

Once verified and formatted, Experian matched data from their bureau database with the individual tenant data. It then purged all identifying information from the file to ensure the privacy and data confidentiality of all sampled individuals and created a combined and non-personal database.

Three types of data analysis were then carried out:

- **Segmentation analysis:** This initial analysis provided an overview of what proportion of tenants already have access to an Experian created profile of mainstream credit and what proportion do not use mainstream credit despite having a good credit history (this latter group represents the potentially underserved market and/or those individuals who do not want credit).
- **Credit risk score analysis:** Creation of the scorecard and analysis of the impact of rent-payment data on the predictive power of existing generic credit scores, particularly for people with thin or empty files.
- **Electronic authentication analysis:** An assessment of the impact of rent data on the electronic identity authentication rate for tenants.

Profile of the tenant sample

The sample population was fairly stable with a high proportion of elderly tenants, single people and lone parents. The majority of people were on low incomes (less than £12,000 per year), and only 50 per cent were employed (see Table 3). For many, benefits were an important part of household income. More than 50 per cent of the sample was fully funded by housing benefits.

Bureau data analysis

The matching of Experian's bureau data to the tenant files revealed two main findings:

- **The thin/empty file population is very high among the social housing population, as originally hypothesised.** Nearly 30 per cent of the sample had thin or empty files compared with a UK average of 15 per cent for the credit active population.
- **The proportion of tenants with a history of default and adverse credit history is high** at 34 per cent compared to 20 per cent for the UK average population (Table 4). As noted in the Policis study and other research, a significant proportion of tenants accessing mainstream credit are getting into financial difficulty repaying. This suggests that rent-payment data could be of value in improving responsible lending decisions as past decisions have been made in ignorance of good or bad rent payment experiences.

Segmentation analysis

A segmentation analysis was carried out based on the flow diagram in Figure 1 to identify the potential size of the market that could benefit most from rent-payment data sharing. These individuals have existing credit that may be at higher interest rates or are unsuccessful in seeking credit despite having no previous payment problems.

Table 3: Characteristics of social housing tenants – Experian sample.

Demographic characteristic	Social housing sample (%)	UK average (%)
Aged over 75	18	8
Stable (not moved in 10 years)	43	
Single	82	58
Incomes less than £12,000	63	
New households		
Single	42	
Lone parents	22	
Working age population		
Unemployed	50	8
Employed	50	73
Part-time employed	20	Included in 'employed'

Table 4: Bureau characteristics analysis.

	Social housing	Private rented	UK average*
Voters' roll confirmation	70%	45%	65%
Proportion with mainstream credit	53%	74%	81%
Average number of credit lines	3.2	4.2	4.6
Average loan balance for active accounts	£3,100	£5,400	£7,000
Proportion with CCJ/bankruptcy	9%	6%	6%
Proportion with significant credit arrears	34%	17%	20%
Proportion with credit searches within the last 6 months	22%	42%	55%
Proportion with thin file**	30%	17%	15%

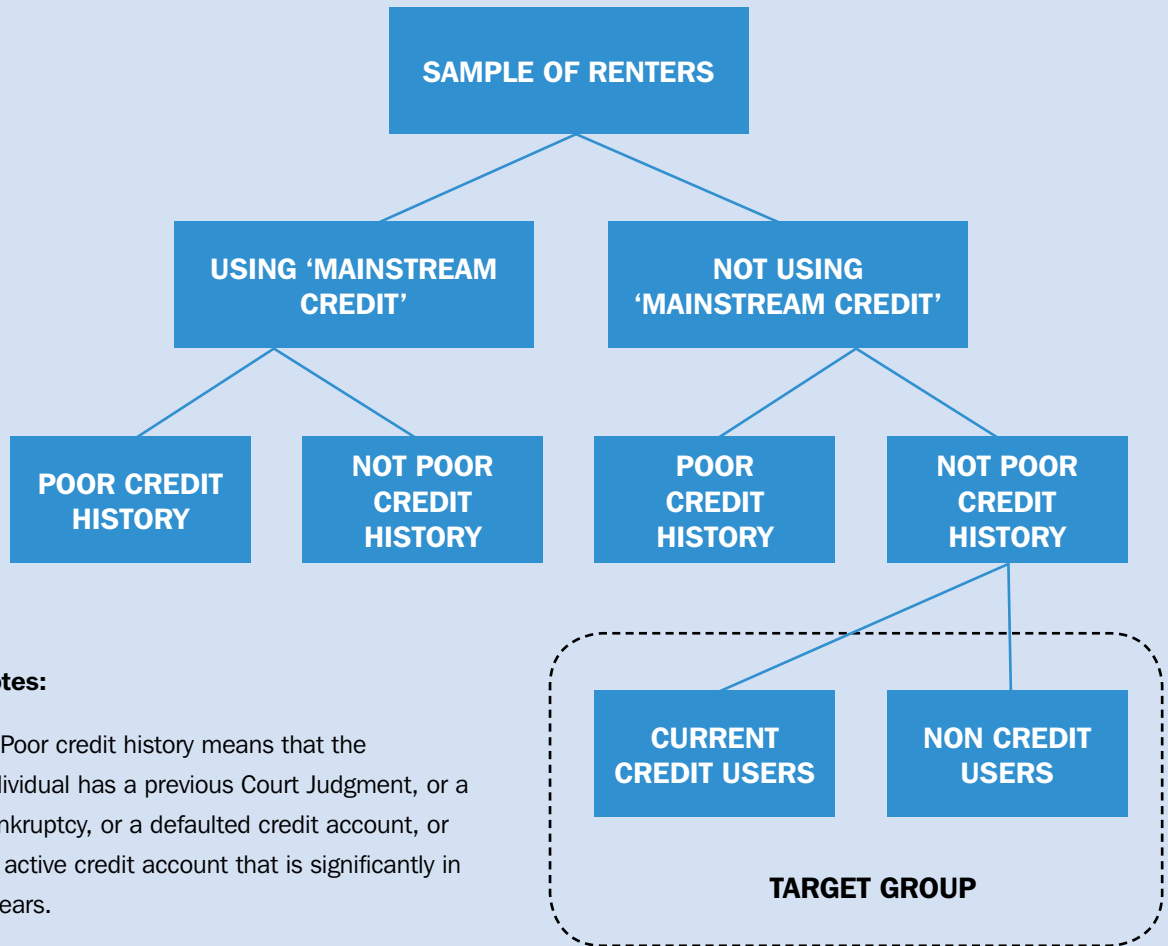
Notes:

* UK average credit active population.

** Thin file definition is one credit line or less.

Overall, the analysis showed that nearly one-third of tenants are not using mainstream affordable credit, despite having a good credit history (Table 5).

Figure 1: Renters' use of credit.



Notes:

1. Poor credit history means that the individual has a previous Court Judgment, or a bankruptcy, or a defaulted credit account, or an active credit account that is significantly in arrears.
2. Non credit users means that the individual has no active credit accounts and has made no credit applications in the previous 12 months.

Of this group, more than half are in the older (60+) population. This age group typically makes less use of credit and hence may not be using mainstream credit, or indeed any credit, by choice.

A total of 4.5 per cent had applied for credit in the past 12 months, and are therefore classed as actively seeking credit. Based on the initial analysis, we believe this group would benefit the most from rental payment data being shared. Those who are under 60 years of age and not actively seeking credit may also benefit from rent-payment data sharing.

Over 50 per cent of social housing tenants are already using mainstream credit, closer to 60 per cent in some regions. The segmentation analysis further underlined how tenants have more debt problems than average, with over one-third having a poor credit history. This underlines the importance of segmenting the good and potentially bad applicant and thus improving responsible lending (and borrowing) decisions, particularly in this segment.

Credit scoring analysis

Experian then assessed the potential improvement in predictive power of a typical credit score if rent data

Table 5: Access to mainstream, affordable credit amongst tenants, by credit history.

Using mainstream affordable credit		Not using mainstream affordable credit	
53%		47%	
Poor credit history	Not poor credit history	Poor credit history	Not poor credit history
18.8%	34.2%	15.5%	31.5%

were added into the credit-scoring model. The first step was to create a rent data only scorecard to predict credit risk using key rent data variables, such as rental amount, current and past payment status, length of tenancy and payment method.

The rent data only scorecard was found to be quite predictive of whether or not a tenant would go into credit arrears. This was based on analysis of the scorecard's Gini coefficient, which measures the power of a scorecard. A scorecard with no discrimination would have a Gini coefficient of zero; a perfect scorecard would have a Gini coefficient of 100. A coefficient in the range of 30–80 is considered good. For rent data alone, the Gini coefficient was 32. This was increased to 45 with the addition of data on age and electoral roll confirmation (Table 6). Many usable scorecards have a coefficient in the 30–60 range, with

figures over 60 being considered exceptional. Small but important improvements are still possible as the scorecard was designed to meet proof of concept standards only.

Even more significant was the fact that more than 50 per cent of 'bads' (i.e. rent payers who are likely to go into credit arrears) could be pre-identified within the highest risk 30 per cent by using the rent scorecard. Despite being developed to predict credit arrears, it is highly likely that this data and scorecard would be of value to social landlords. Used in its own right, it could help them pre-identify potential problem payers and better direct any support to these people to prevent an arrears situation, as well as to refine collection processes and better prioritise accounts so as to achieve greater efficiency and improvements in collections.

Table 6: Predictive value of rent only scorecard.

Rent scorecard	Gini coefficient	'Bads' identified in 30% highest risk cases
Rent data only	31.9	46.4
Rent data, and age, and electoral roll confirmation	45.0	52.5

The rent data score was then combined with Experian's Delphi generic credit model/scorecard, which is widely used by high street banks and large-scale lenders as a component in their decision systems.

A critical outcome was that adding in the rent data to the generic score resulted in a significant improvement in the predictive power of the scorecard for the thin and empty file group (Table 7). The combined score also significantly improved the percentage of bads identified in the empty file group (9 per cent increase). The potential impact of this result on credit access is discussed in Chapter 5.

Table 7: Improvement of generic scorecard with rent data added.

Sample segment	Degree of 'uplift' (Increase in Gini compared to Delphi score alone) (%)
No credit use	13
No accounts (empty file)	12
1 or 2 accounts (thin file)	2

To a large extent, the impact on existing account holders (those with 2+ accounts) was marginal. Existing credit scores work well for this group, which is not surprising as they will have sufficient bureau data available on their credit repayment history. However, there was a marginal increase in 'bads' identified, which could still have a material financial benefit for lenders.

Electronic authentication analysis

The final analysis was an assessment of the degree to which the addition of rent-payment data would enable more people to meet automated identity checks. Lenders typically require either one or two bureau data based proofs for identity validation. Five data proofs were considered: voters' roll confirmation; active credit accounts; public information recorded in the last six years; settled non mail order credit accounts in last 12 months; and defaulted credit account over one year old.

Significantly, the results showed that currently up to 40 per cent of tenants would fail an electronic identity check (Table 8). Hence, adding in rent data (name and address data only) would have a significant benefit, allowing these people to have their identities authenticated electronically. On a regional basis, Experian found that this could benefit as many as 45–50 per cent of tenants.

Adding in rent-payment data to the databases held by Experian and other credit bureaus would enhance tenants' ease of access to a range of public and private services, including opening basic bank accounts and claiming tax credits. Increasingly, companies from financial service providers to utility companies to government departments are relying on electronic data as opposed to paper-based documentary proofs, such as passports, driving licences or utility bills, to confirm a customer's identity. Clearly, producing a large number of paper proofs is cumbersome and sometimes difficult. Data that is online and verifiable by using a source such as a credit reference agency is quicker and easier to locate, and should facilitate improvements to the speed and effectiveness of mandatory and lender required checking.

Such data could also be valuable for anti money laundering checks and for fraud prevention. In the US, one of the largest credit reference agencies recently reported that 11 per cent of homeowners are actually tenants claiming to be homeowners to increase their credit acceptance chances. Rent data can highlight such issues at the application stage.

Conclusions

Would access to social housing rental payment data enable lenders to better assess the credit risk, credit capacity and credit-worthiness of the thin file/empty file population? The answer, on this evidence, is yes. Rent-payment data was proven to provide significant uplift from typical credit risk scores for the thin file/empty file population. An analysis and quantification of the benefits of rent data sharing is further examined in Chapter 5.

Experian's analysis also demonstrated that more than half of all social housing tenants are not financially excluded, i.e. they are using mainstream credit, and that many tenants not using mainstream credit appear to do so out of choice, particularly in the older (60+) population. It also highlights how existing systems to assess applications still result in lenders providing social tenants with mainstream credit who go on

Table 8: The impact of rent data on electronic authentication.

Number of proofs currently held with Experian	% records
0	16.2
1	22.8
2	30.8
3	21.2
4	7.5
5	1.5

to have more debt problems than average. Clearly more data is needed to identify those that are able to support credit and those that are not.

Finally, Big Issue Invest's analysis showed that sharing rent data for electronic authentication would have major benefits, potentially bringing at least 2 million tenants (including pensioners) into the automated systems typically used by the mainstream market and facilitating access to a range of private and public sector services, including full banking services.

5 BENEFITS OF RENT DATA SHARING

SUMMARY

In order to assess the impact of the inclusion of rent-payment data on credit provision, a model was built to estimate changes in the number and nature of lending decisions on a national basis. This model found: a potential increase in legitimate new credit applications; applications that have been declined in the past could be reconsidered for those with thin/empty files; there would be a reduction in lender losses due to better credit decisions; credit risk-based pricing would be improved; previously 'unidentifiable' credit applicant declines would be reduced; anti money laundering identification would improve; and applicants who claimed to be homeowners but were tenants could be identified.

In the previous chapter we reported how Experian's analysis looked at the impact of rent-payment data on the predictive and electronic authentication value of its existing credit-scoring models. The results were broadly positive in terms of the added value for those with thin or empty files, and for all tenants in terms of identity checking.

This chapter looks in more depth at the potential outcomes of rent data sharing that would benefit social

tenants, lenders and social housing landlords, based both on Experian's results and additional analysis of national lending data.

It was important to gauge the impact of the inclusion of rent data on the levels and nature of future lending decisions in the UK as a whole, and the benefits to tenants. In order to assess impacts, George Wilkinson, a recognised consumer credit expert and analyst, built a model to estimate changes in the number and nature of lending decisions on a national basis. This embraced the volume of applications by tenure and product, reject and accept decisions, not taken ups and bad debt rates.

The model is based on information provided by two high street banks specifically for the study, as well as already published data. By necessity assumptions have been made and refinements continue. However, a reasonable UK picture emerges and helps put any rent-data-sharing benefits into perspective. These findings have been shared with the lending industry and are accepted as robust and reasonable.

In the UK (in 2009) about 65 million consumer credit applications are made each year with over 37 million accepted and almost 28 million rejected (see Appendix IV). There are 34 million applications from homeowners and 24.3 million from tenants.⁶ Social housing tenant applications are an estimated 14.6 million.

The decline rate for homeowners is 29 per cent, and for tenants is 55 per cent. The tenant decline rate for mainstream bank products is found to be even higher and exceeds 70 per cent, whereas other product

⁶ The remainder are applications made from those living with parents.

decline rates are at about 30 per cent. There is much anecdotal and publicised evidence that decline rates are on the increase, with the higher risk borrowers such as tenants being the most affected.

Almost 1 million accepted credit accounts are not proceeded with by borrowers, and an estimated legitimate but unapplied-for demand for credit of just under 500,000 applicants exists. Over a third of the 14.6 million applying for credit – say, just under 4.9 million applications – have thin or empty files and are highly likely to be turned down.

Overall, about 70 per cent of accounts used by tenants are variable in nature – notably overdrafts and credit cards where the borrower makes drawdown decisions and has available funds to meet his/her needs, albeit that borrowing must be within predetermined credit limits. For homeowners this approaches 60 per cent. These levels create a dependence on the individual to manage their credit limits carefully. Also, over a quarter of both variable and fixed accounts are subjected to some form of risk-based pricing.

Because of the high decline rate and the ‘not taken up’ rate, tenant accept volumes are low at almost 12 million, compared to about 21 million for homeowners. Given that loans, credit cards and overdrafts are generally set in relation to (lower) tenant incomes, the financial exposure per account is less. But this increases for serious bad debts, where levels are higher due to poorer payments and fewer available personal funds.

Over a third of social tenants have serious arrears. About 260,000 accounts booked in a year will ultimately be written off with a loss provision to lenders approaching £0.7 billion. This should be seen in the context of the Bank of England unsecured loss figure for 2009 of £8.3 billion. (Before 2004 this was under £4.0 billion annually but thereafter has been between £5.8 billion and £6.8 billion, until 2010 when it leapt to £8.3 billion.) Tighter lending policy and a reduction in demand implies a more typical 2010 figure of

£5.0bn, suggesting that social tenants represent about 14 per cent of losses.

Potential impacts of rent-payment data sharing at a market level

The estimated benefits, based on the above scenario, are summarised as follows. The sources of data and assumptions have been extracted from the numbers and percentages expressed in Appendix V.

- **A potential increase in legitimate new credit applicants:** 50,000 to 75,000 new applicants are possible. This is based on 10–15 per cent of an estimated pool of 498,000 previously discouraged applicants being encouraged to make applications. Reject rates may still be quite high, so only some 30,000 to 40,000 new accounts are expected. (The pool size was estimated by relating it to ‘not taken ups’ and patterns of rejects and overall demand levels.)
- **Previously declined applications reconsidered for those with thin/empty files:** Only an estimated 10 per cent of these are currently accepted, and about 30 per cent are in this category according to lender feedback and Experian data. If applied to the estimated 14.6 million total applications, this represents some 4.9 million thin/empty file applicants. An initial improvement of 5 per cent in the acceptance rate, or an extra 245,000 accounts, is anticipated.
- **A relatively modest ‘reduction in losses’ due to better credit decisions:** About a third of tenant accounts opened each year are likely to be seriously in arrears. Though more advanced scoring models and tighter policy are already achieving bad debt improvements, additional benefit is still possible. Based on experience, an enhanced rent scorecard should cut ‘seriously’ bad accounts by 3 per cent to 5 per cent. A cautious 3 per cent was applied to the 260,000 forecast write-offs resulting in a reduction approaching

8,000 bad accounts but with an estimated annual loss avoidance of about £20 million.

- **Credit risk-based pricing can be improved:** This could benefit social tenants in terms of lower interest rates. However, it relies on lenders' credit scores. A rent score can improve precision but the quantum of the net gain to social borrowers is difficult to establish. About one in four credit agreements are risk priced, but lenders use different and complex risk parameters, hence it is not possible to estimate improvements in interest rates at an industry-wide level.
- **Previously 'unidentifiable' credit applicant declines can be reduced:** This can be achieved by the application of better identification checks. There can be some overlap with the above so a cautious increase in those accepted of 86,000 is estimated, or about 1 per cent of declines. A significant number of improved electronic identities have been highlighted by Experian. Credit policy – naturally and for legal reasons – is quite robust on those otherwise good applications that do not pass muster on the identification checks.
- **Better anti money laundering identification, for financial and other services:** The Experian analysis suggested that about 40 per cent of the social tenant sector can be better identified electronically when applying for non-credit financial services and other purposes. As the use depends upon the purchase patterns of tenants and the availability and use by vendors of the facility, it is hard to quantify the volumes involved. It could be several hundred thousands of uses each year. For reasons of caution a precise estimate has not been made here.
- **Soft fraud applicants – 'misuse of owner status' reduced:** A USA credit reference agency recently reported that 11 per cent of homeowners are actually tenants trying to improve their acceptance chances. Rent data can highlight such

issues at the application stage. Anecdotally, from a major UK credit card issuer, we understand this to be less prevalent in the UK but still significant at 6 per cent of applications from owner-occupiers. If we assume this happens in the UK to a lesser extent, we arrive at a very modest 300 bad accounts reduction, relative to the accepted accounts of over 6 million – or a loss avoidance of £0.75 million using estimated loss figures of £2,500 per account.

- **General 'fraud reduction' – due to fuller/better data:** It is estimated that 520,000 social renter accounts go bad by reaching the three months in arrears point. In practice these cases can turn into some 260,000 write-off cases. An estimated 1,925 of these – a cautious 0.75 per cent of the sector write-off cases – are judged to be avoidable frauds. This represents a loss avoidance estimate of £4.8 million. (2008 industry figures indicate that avoided fraud cases yielded annual savings of just under £0.85bn from 214,000 attempted frauds. This is an average of £3,970 per case compared to the £2,500 used here – and the ratio of this to the Bank of England national unsecured loss of £6.7bn is 12.7 per cent.)

Summary of benefits by stakeholder

By stakeholder, the potential benefits of rent-payment data sharing are as follows.

Social housing tenants

For social housing tenants who currently have no or minimal credit histories, the benefits could include:

- Easier access to full banking services and other non-financial products and services for up to 40 per cent of the tenant population – 2 million people – by enabling this population, which includes pensioners, to be identified using the automated identification systems used by the mainstream market, including banks and government agencies. It is hard to estimate the demand for these services and quantify the

volumes involved. It could be several hundred thousand users each year. Overall, there would be a benefit in terms of contributing to tackling the social, financial and digital exclusion that a significant proportion of low-income social housing tenants face.

- Improved credit history information with the credit reference agencies for up to 30 per cent of all tenants – a total of 1.56 million people.
- As a result, mainstream credit would become more accessible and affordable with an estimated 30,000 to 40,000 new applicants being accepted and 245,000 applicants who would previously have been declined for mainstream credit now accepted.
- Improved credit histories will also allow credit to be priced at a level that reflects a more informed assessment of the credit risk of that individual. Hence, pricing may become fairer.
- Some tenants may also be able to access mortgages and shared ownership schemes more easily as mortgage lenders' underwriting criteria could be refined and improved. At present, mortgage lenders often obtain paper rent-payment records from social landlords as part of the underwriting process. Such information provision could be speeded up, more complete and cheaper to provide if rent data were shared with the credit reference agencies.
- Less over-indebtedness and more responsible borrowing, with at least 7,000 applicants who cannot afford to borrow more being declined further credit. For this relatively small group of people, such a decline decision would likely be seen as a negative outcome. The reason they are applying for credit may be to meet an essential financial need and help them cope on a low income. However, if people do not have the capacity to afford to repay a loan and will end up

over-indebted, it is not in their long-term interest to be borrowing. Rather, other action is needed. It may be that some of this population could be served by social lenders offering more affordable interest rates. But such operations would likely require subsidy and significant risk assessment and management skills to be successful. It also raises questions about the role and future of the Social Fund. Further examination of these options is beyond the scope of this study.

Credit suppliers

For credit suppliers, including high street banks, mortgage lenders and retail stores, the benefits could include:

- Increases in accepted applications totalling an estimated 6 per cent increase growth in business based on less declines and extra lending, as analysed above.
- Loss reductions due to better credit decisions in the range of 3–5 per cent.
- Lower cost of acquisition, as a higher proportion of customers can be recruited using an electronic provenance check rather than paper proofs or a home visit.
- A more comprehensive view of an individual's commitments, supporting responsible lending and reducing over-indebtedness.
- Provides input to enable better and fairer pricing and respond to criticism in that particular area.

Social housing landlords

For social housing landlords, the benefits could include:

- If rent-payment data were shared, there would be the possibility to develop services specifically for social housing landlords. For example, the provision of automated access to comprehensive, high-quality prior tenant references, tenant

credit checking and the identification of potential problem payers.

- The data uses and demand for such services needs to be discussed with social landlords. An initial discussion with one major housing association was very positive. The anticipated benefits to this organisation were primarily seen as important business improvements relating to a reduction in voids, better vetting of tenant applications (especially troublesome ones), refined rent collections and improved revenues, meeting goals to improve customer satisfaction and the obtaining and use of more meaningful credit vetting data for small personal loans (this housing association had its own microcredit scheme).

Policy-makers

For policy-makers at all levels of government, the benefits could include:

- Data sharing helps to tackle social, financial and digital exclusion and supports the Government's new consumer credit regulations and focus on more responsible lending.
- Other potential uses of this data should also be explored from a public sector perspective. For example, could this data be used to provide a better understanding of social and demographic trends in the social housing sector? Could it be integrated into models that help understand public service needs and the targeting of services?

6 CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study set out to test whether sharing social housing rent data with credit reference agencies and the lending industry would have benefits for low-income social housing tenants. The answer is yes.

Rent-payment data was proven to provide significant uplift from typical credit risk scores for the thin file/empty file population. This comprises 30 per cent of the economically active tenant population, an estimated 1.56 million people.

Integration of rent data into credit data and analysis for credit decision systems such as scoring models could make mainstream credit more accessible and affordable to a significant number of social housing tenants. An estimated 700,000 people could potentially find it easier to be accepted for mainstream credit. In addition, there may be pensioners, excluded from this figure, who may have a desire for credit, such as a credit card, who might benefit. It would also lead to less over-indebtedness and more responsible borrowing.

Rent data proved of high value for enabling electronic identity authentication, which would give tenants easier access to full banking services as well as a range of non-financial public and private services. An estimated 2 million people could benefit.

Lenders could see an important reduction in bad debt losses of about £20 million a year as well as an estimated 6 per cent annual increase in new lending.

There would be particular benefits for the housing market, with some tenants being able to access

mortgages and shared ownership schemes more easily as mortgage lenders' underwriting criteria could be improved.

Government would also benefit from such data sharing. It would help bring tenants into mainstream markets and tackle problems of social, financial and digital exclusion in Britain.

Recommendations

It is proposed that rent-payment data on about 5 million accounts should be made available for use in credit decision systems. Other associated uses, such as improving identification, should be developed and applied to further enhance the benefits to tenants.

In particular:

- This report should be disseminated and discussed with all affected parties, especially social landlords, tenants' organisations, lenders and government departments to discuss the implications for them and to consider the case for rent-payment data sharing from their perspective and the potential services to be developed.
- At an early stage, any data protection requirements and compliance issues should be clarified and agreed with the Information Commissioner and in particular any consent and/or notification issues addressed. Finding a way of balancing protecting tenants' data with expediting rent data sharing is one of the main operational challenges to be addressed.
- A social housing sector working party should be set up to examine how best to exploit the

- potential provided by rent data sharing, the use of a specially developed rent score and any associated services to optimise the efficiency and effectiveness of rent-collection processes and deliver benefits to tenants. This working party would look in more depth at the potential costs of data sharing for social housing landlords, the technical and implementation challenges and the potential benefits. Initial conversations suggest a series of straightforward options for the regular transmission of rent-payment data and a range of services that could offer business improvements to social landlords and benefits to tenants.
- All major lenders, directly and through their trade associations and including third sector lenders and credit unions, should agree to support the obtaining and use of rent-payment data as part of credit assessment processes, and should measure its impact on future decisions and arrears for social housing tenants.
 - All credit reference agencies should agree to incorporate rent data within their credit-reference provision to lenders and if appropriate add it to their credit-scoring models by appropriate, practical and cost-effective methods and in agreement with each other. A separate rent database should be set up to facilitate this.
 - Big Issue Invest will set out an outline plan to achieve routine access to a critical mass of rent-payment data in a timely and cost-efficient manner. This should be achieved by working closely with social landlords, using best existing market expertise and facilities, and will set out clear objectives and propose an organisational structure to achieve effective implementation.
 - Big Issue Invest will look to set up a separate and properly constituted body as a matter of urgency, on socially driven but commercial grounds, to initiate, manage and oversee implementation, and ensure that appropriate expertise and investment is applied in the obtaining and use of the data from the social housing sector. This body should handle the transition from study to active operation and develop a business plan to bring this data to market.
 - A brief should be given to this body to consider how private rental data or other new sources of alternative data can be used.
 - Indirect, unintentional and non-obvious financial exclusion issues arising from rent-payment data sharing should be routinely considered by this body and in conjunction with lenders, social landlords and tenant organisations. Financial exclusion can be increased by the setting of overly strict credit criteria; minimum income and loan sizes; applying an unduly high interest rate because of an incomplete credit report; and the use of too low an overdraft or credit limit that increases fees and interest payments or too high penalties for minor breaches. Lenders should examine how such examples apply to social renters and thin/empty file applicants and the degree to which the addition of a rent score would help improve fairer pricing and penalty structures. A cross-industry working party should be set up as agreed by trade associations.
 - From a lending fairness perspective, the fairly limited method of capturing and analysing housing tenure should be replaced by a more comprehensive and clearer form of questions to put to applicants and subsequently monitored by lenders and potentially exploited in any revisions in scoring models. Most application forms and online questions do not draw sufficient distinctions between the tenures and their possible differences in risk – nor is it always clear if an owned property is mortgaged or fully paid for. To change this, a non-trivial adjustment will be needed to forms, data capture screens and both Internet and other internal systems, as well as to some aspects of operational credit-scoring software. A process

to achieve this should be set up but with prior working party considerations.

- A communications strategy should be developed and applied to assist tenants to understand what is planned; facilitate an informed tenant view on the nature of any consent to and notifications of data sharing; enable tenant landlords to be a key part of this development; fully involve lender groups, social interest bodies and government and regulatory groups. Any fairness, exclusion or consumer policy matters need to be addressed too.

The findings from this study provide a robust case for social housing rent-payment data to be shared and used to enable more responsible and fairer priced lending for a significant proportion of the 7.2m tenants in the UK. Other associated uses, such as improving identification, should be developed and applied to further enhance the benefits to tenants. Bringing such data into the marketplace would help address the information gap that leaves many low-income people living in a more expensive and seemingly unfair economy. We look forward to working with all stakeholders to take forward this report's recommendations.

APPENDIX I

SUPPORTING SOCIAL HOUSING LANDLORDS

Affinity Sutton
Amicus Horizon
Birmingham City Council
Bromford
Circle Anglia
CVHA
East Thames Group
Family Mosaic
Genesis Group
Harvest Housing
Hyde Group
Joseph Rowntree Housing Trust
Lambeth Council
Leytonstone Community
London and Quadrant (L&Q)
Mercian Housing Association
Merlin
Metropolitan Housing Trust
New Charter
New Gorbals Housing Association
North Devon Homes Ltd
Northern Counties Housing Association
North Glasgow Housing Association
North Somerset Housing Association
Notting Hill Housing Trust
Places for People
Raven Housing Trust
Riverside Group
Sarsen Housing Association
Servite Homes
Sheffield Homes
Shoreline Housing Partnership
Southern Housing Group
Twin Valley
V2C Housing Association
Wales and West Housing Association
Wandle Housing Association

APPENDIX II

FINDINGS FROM FOCUS GROUP RESEARCH WITH SOCIAL TENANTS

A total of 56 housing association tenants were interviewed in five locations: Cirencester, Glasgow, Liverpool, Manchester and Sheffield.

The profile of the focus group participants:

- 32 female (57 per cent), 24 male (43 per cent);
- 34 per cent under 44 years of age; 50 per cent aged 44–64; and 16 per cent over 65;
- 89 per cent with income under £200 a week;
- 18 per cent in full- or part-time employment;
- the majority were either benefit dependent (60 per cent) or retired (29 per cent).

In terms of their use of banking services and access to credit:

- all except one person had a bank account;
- 55 per cent had a current account;
- 25 per cent had a basic bank account;
- 20 per cent had a Post Office card account (POCA);
- 5 (all in Liverpool) were credit union members.

Credit card usage:

- 30 per cent had credit cards;
- 61 per cent had borrowed money in the past year;
- 25 per cent had borrowed from non-mainstream sources.

Borrowing experience over previous 12 months:

- 61 per cent of interviewees had borrowed money;
- 25 per cent had borrowed expensively from home collected credit or a pawn shop;
- 45 per cent had borrowed from friends and family;
- 14 per cent had borrowed from a bank or building society;
- 30 per cent had credit cards.

Attitudes towards banking services were very mixed. Some tenants were happy with their bank and spoke of ‘helpful staff’ and good service. However, the majority had very negative views and felt that they were too heavily penalised for going very small amounts overdrawn with little regard for how they managed their money overall.

Attitudes towards credit were also mixed, with most seeing borrowing as a ‘necessary evil’. Many felt that credit was a good thing to have if you already have money, but if you are poor it is expensive and has to be managed very carefully.

The focus group discussions explored whether people thought they would pass a credit check and their attitudes towards sharing rent-payment data with a credit reference agency. Overall, 45 per cent of people thought they would pass a credit check. However, those over 44 years were far more confident of this than younger tenants. Ninety per cent of interviewees had missed no rent payments over the past 12 months.

In terms of interviewees' attitudes towards rent-payment data sharing:

- When first asked, only 41 per cent were positive about rent data appearing on the credit reference agency and a further 14 per cent were unsure.
- People became slightly more positive when asked how they felt if this could improve their chances of obtaining credit or switching from pre-paid fuel cards and PAYG mobile phones to a regular contract. Given this scenario, 50 per cent were positive and a further 20 per cent were unsure.
- Respondents became significantly more positive when asked how they felt if The Big Issue/Big Issue Invest was involved as a partner either alone or with a credit reference agency. In this scenario, 61 per cent were positive and 20 per cent were still unsure.

This demonstrates how tenant education and awareness-raising would be an important aspect of gaining individual consent for rent-payment data sharing. Furthermore, it underlines the trust that The Big Issue engenders among this group.

APPENDIX III

THE LENDING PROCESS AND CREDIT SCORING

There are a number of variable factors within the credit market. Lenders receive applications from a number of sources and have a variety of systems to vet and approve these. They also have different credit policies and processes, risk appetites and charges.

Prior to the advent of credit-scoring processes the decision on whether to give credit, and at what cost, was subjective. Today the vast majority of lenders use credit-scoring processes to make the credit decisions.

What is credit scoring?

There are four main aspects of credit scoring:

- The *overall* process from the initial analysis of good and bad credit accounts through to the ongoing monitoring and management review of the operational credit score decisions made.
- The *analysis* process – the statistical analysis of accounts to compare the profiles of those that pay and those that do not to create a model (or scorecard) reflecting the differences.
- The *operational* process or system of using the scorecard to make a credit decisions.
- The *management* process – makes sure that cut-offs are set/adjusted according to risk appetite, loss experience, income and cost expectations and that credit and other corporate goals are met.

What does the overall credit-scoring process achieve?

Credit decisions become highly automated, the cost is lowered, the 'accept' or 'decline' decision is made

quickly and in a consistent and objective manner; those that fail a particular score level are declined.

A scorecard is created with precision to facilitate this and is used, reviewed and updated to ensure that the right decisions are made. From time to time lenders alter the score cut-off point to tighten or ease lending decisions where economic or financial circumstances and bad debt trends require it. The process works, overall. But, we believe better decisions can be made for those social tenants without a significant number of accounts at a credit reference agency.

How does the credit-scoring analysis process work?

The process is a statistical one, with several key stages – all with the aim of producing a logical scorecard, model or formula that uses at its heart a comparison between those that in the past have or have not paid.

Both standard and proprietary statistical methods are applied to develop and test the final product, though most apply discriminate analysis and logistic regression. These are well-tested techniques that enable scorecard constructors to clearly see which elements of an applicant's demographic and payment details are individually predictive (or not) of future payment. Many of these elements overlap. For example, age is frequently correlated with large numbers of other data items and can be chosen as a proxy for other elements, and the impact of doing this can be measured. There is thus a capability to eliminate double or treble counting. The techniques mentioned enable a smaller number of elements or characteristics to be highlighted that in reality represent many hundreds of others.

How do the operational and management processes work?

Scorecards are embedded in comprehensive information technology systems. It is essential that the score for an applicant is computed correctly – driven by data from the applicant, internal records held by the lender and credit reference data. Embodied in the system is the score cut-off value and policy rules and various checks to detect fraudulent applicants.

Management decides the degree of risk it is prepared to take, the credit loss implications, the anticipated volumes, income and margin levels and the expected operating costs and account acquisition costs. The cut-off point is set in this context but in addition the degree of risk expected from certain groups of accounts can incur different rates of interest based on their credit score. Tools are available to detect any important changes in the scorecard.

Managers are in a position to know the degree to which decline levels and projected losses meet their expectations. Given the significant change in the economy and the impact of extra losses, most lenders have tightened their criteria and raised credit score cut-offs.

The impact of a scorecard on a lender's 'accepted' and 'declined' levels and potential losses can be vast. Errors can be disastrous. Put simply, the core operation is handled by a set of numbers that have to be right.

APPENDIX IV

UK ANNUAL CONSUMER CREDIT APPLICATIONS AND THEIR OUTCOMES FOR SOCIAL TENANTS

Sources used to develop a model of the total number of UK consumer credit applications are listed below. All normal forms of unsecured credit were included and accept and decline rates and numbers of accounts for different housing tenures were estimated for 2009.

The model incorporates adjustments for accounts not taken up, pent up and unsatisfied demand, and arrears and write-off estimates. Social lending assumptions, as reflected in Appendix V and Chapter 5, are considered reasonable but can be refined once lenders ask appropriate tenure questions at the application stage.

The main goal has been to *estimate* the number of social tenant credit decisions that are made each year and to assess how these will be affected by the availability of rent-payment data. No published data is known to exist on the number of applications broken down by accept and reject decisions. Most available data covers the financial amounts and typically lenders do not disclose such information – so it has had to be estimated. Lender volumes have been estimated from published and otherwise known data. Decline rates, bad rates and non taken up rates are based on lender provided data – all cross-checked against other data.

Annual application figures prior to 2009 were higher and 2010 ones are expected to be lower. Other forms of credit such as that provided by utilities have not been included but contract mobile phones have. The volume and nature of enquiries by utilities is not known and has not been studied in this report but given the significance of mobile phones and the obtaining of credit for their use, data has been analysed here by using published data.

Sources

British Bankers Association, Finance & Leasing Association, UK Cards Association, Council of Mortgage Lenders, and other trade associations – press releases and reports.

Office of Fair Trading, Financial Services Authority, Treasury Select Committee, Financial Ombudsman Service, Department for Business, Innovation & Skills, Citizens Advice publications and Office for National Statistics data.

Competition Commission Reports – mail order, retail credit, home credit, payment protection insurance, current accounts Northern Ireland, bank charges.

Bank of England – consumer lending data and bad debt write-off statistics. Consumer Credit Counselling Service press releases and reports, Social Finance Ltd research.

Series of annual and statutory reports from Barclays, Lloyds Banking Group, HSBC, RBS, Co-operative Bank, Provident Financial and several smaller lenders.

Driver and Vehicle Licensing Agency, Society of Motor Traders and other Government published motor car statistics.

Visa and MasterCard Europe, Middle East & Asia and comparative USA consumer credit statistics – principally CreditCards.com.

Equifax, Trans Union, Experian, CallCredit and FICO (Fair Isaac) articles, white papers, press releases.

Lending statistics from three Banking Groups providing assistance on the project, especially covering owner and tenant accept/reject rates.

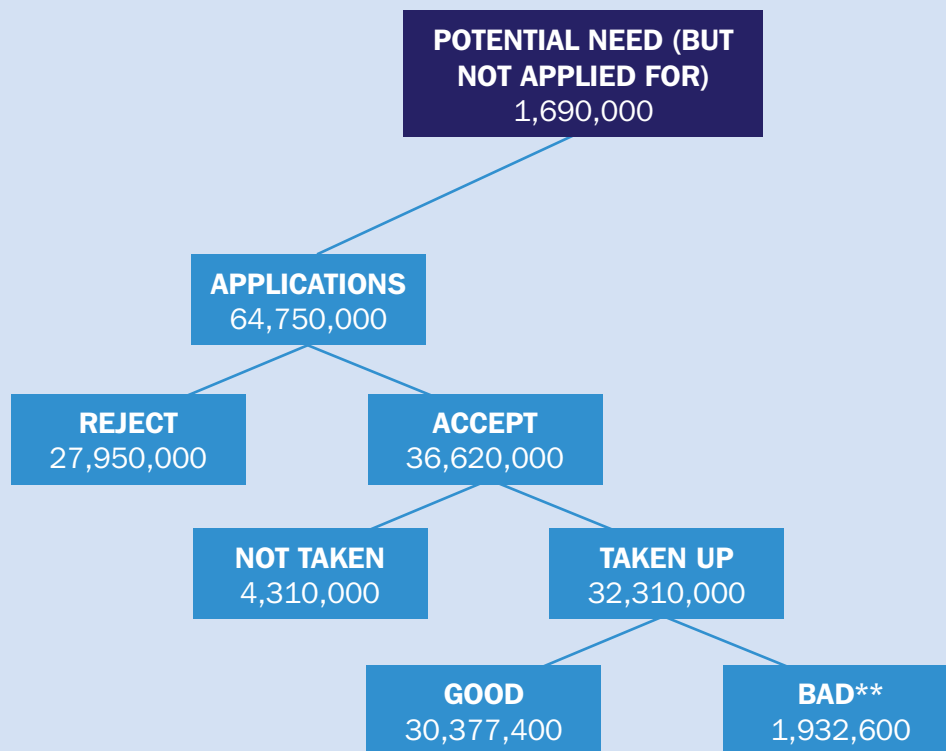
Housing statistics from a wide variety of sources and publications.

A variety of historical articles and publications on low income and financial exclusion – particularly those involving Professor Elaine Kempson, OBE.

Discussions with several widely experienced credit risk managers to sense check emerging factors, relative values and validate estimates within particular business segments.

National trend in unsecured credit impairment charges for 2003, 2004 and 2005 including individual lender comparisons. Completed by George Wilkinson in July 2006 but not published.

Figure A1: UK annual consumer credit application estimates and outcomes – ALL TENURES.*



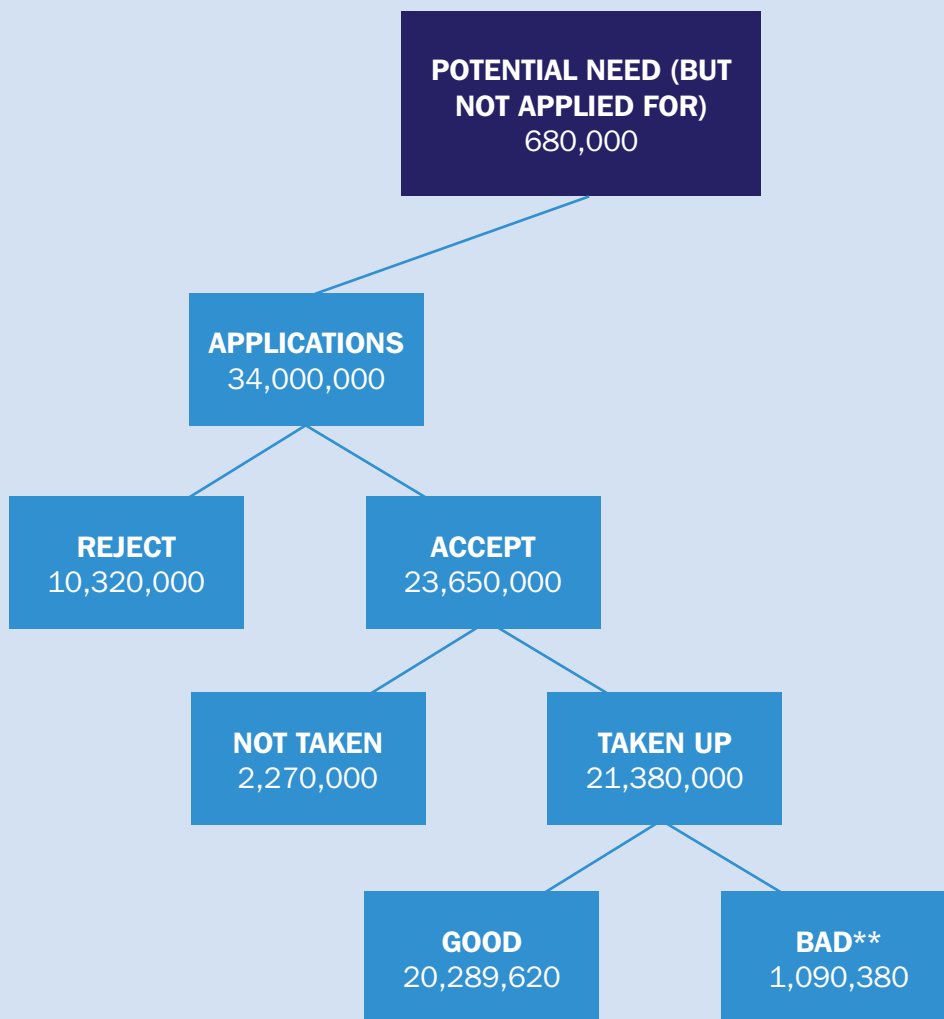
*2009 consumer credit – mainstream inclusive – incorporating mobile telephone contracts and mortgages. Utilities excluded.

**Three or more missed payments.

Application rate – 97% of need	Bad rate – 3% of applications
Acceptance rate – 57% of applications	Bad to accepts rate – 5.3%
NTU rate – 12% of accepts	Bad to taken up rate – 6%

Source: GW/GWA May 2010.

Figure A2: UK annual consumer credit application estimates and outcomes – HOMEOWNERS.*



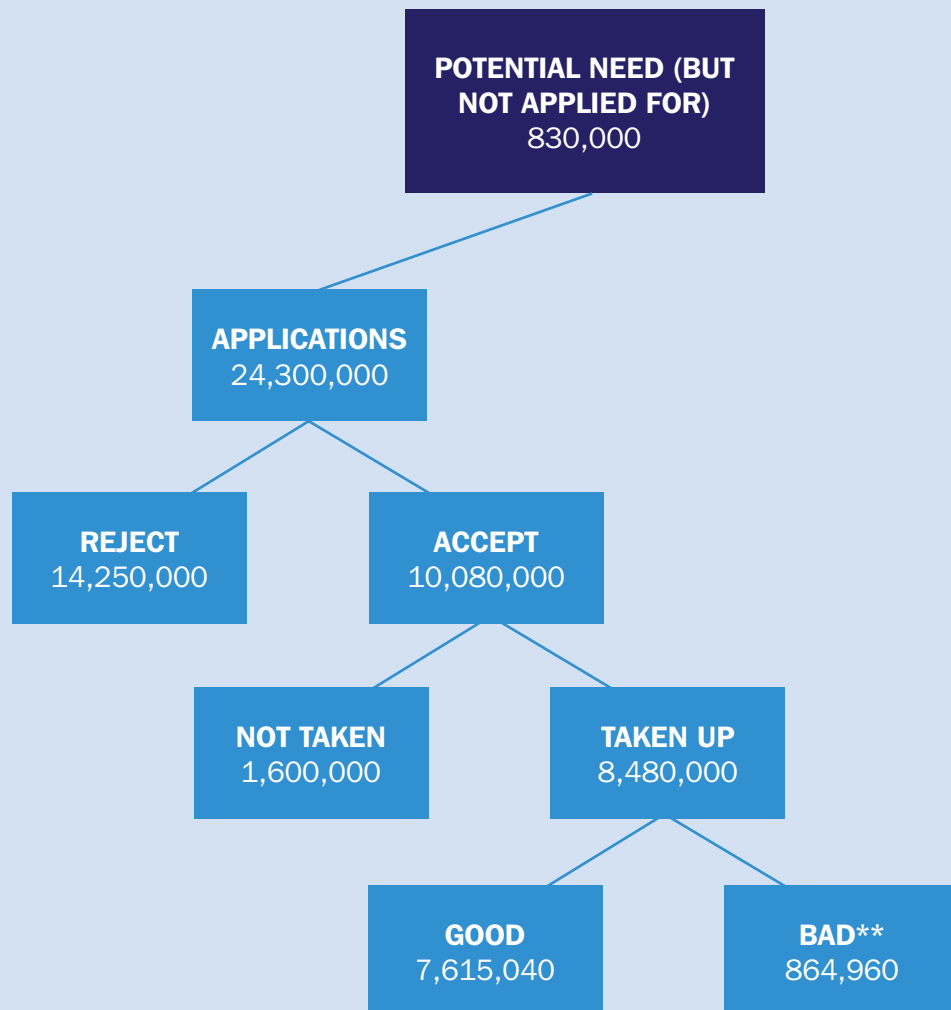
* 2009 consumer credit – mainstream inclusive – incorporating mobile telephone contracts and mortgages. Utilities excluded. Splits for Outright Owners v Mortgagees - not viable.

** Three or more missed payments.

Need to application ratio – 98% of need	Bad rate – 3.2% of applications
Acceptance rate – 70% of applications	Bad to accepts rate – 4.6%
NTU rate – 9.6% of accepts	Bad to taken up rate – 5.1%

Source: GW/GWA May 2010.

Figure A3: UK annual consumer credit application estimates and outcomes – TENANTS.*



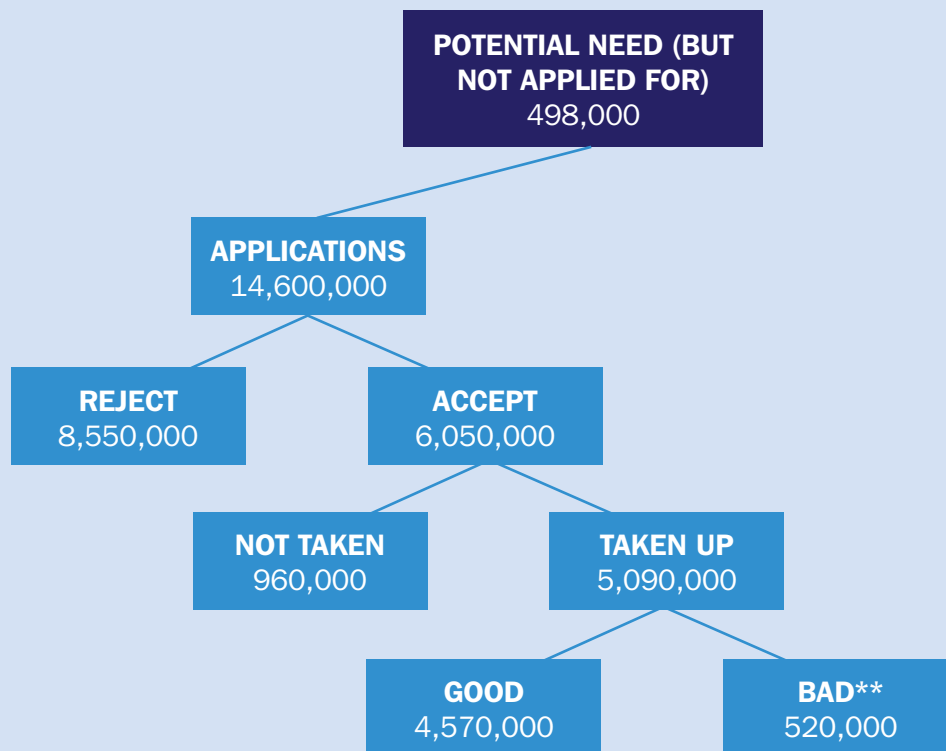
* 2009 consumer credit – mainstream inclusive – incorporating mobile telephone contracts and mortgages. Utilities excluded.

** Three or more missed payments.

Need to application ratio – 97% of need	Bad rate – 3.6% of applications
Acceptance rate – 41% of applications	Bad to accepts rate – 8.6%
NTU rate – 16% of accepts	Bad to taken up rate – 10.2%

Source: GW/GWA May 2010.

Figure A4: UK annual consumer credit application estimates and outcomes – SOCIAL TENANTS.*



* 2009 consumer credit – mainstream inclusive – incorporating mobile telephone contracts and mortgages. Utilities excluded. Splits for social v private not viable, yet

** Three or more missed payments.

Need to application ratio – 97% of need	Bad rate – 3.6% of applications
Acceptance rate – 41% of applications	Bad to accepts rate – 8.6%
NTU rate – 16% of accepts	Bad to taken up rate – 10.2%

Source: GW/GWA May 2010.

The table in Figure A4 applies overall tenant figures to the social tenant segment. We believe this is reasonable given the nature of the overall tenant data and the purpose of this particular analysis. We cannot precisely show differences in application volumes between social and other tenants or the difference in relative bad rates.

However, there are known and balancing differences in likely credit risks. There is a relatively high level of stability for social tenants (long time at address), which is a good credit risk indicator – compared with the short time at address of the private tenants

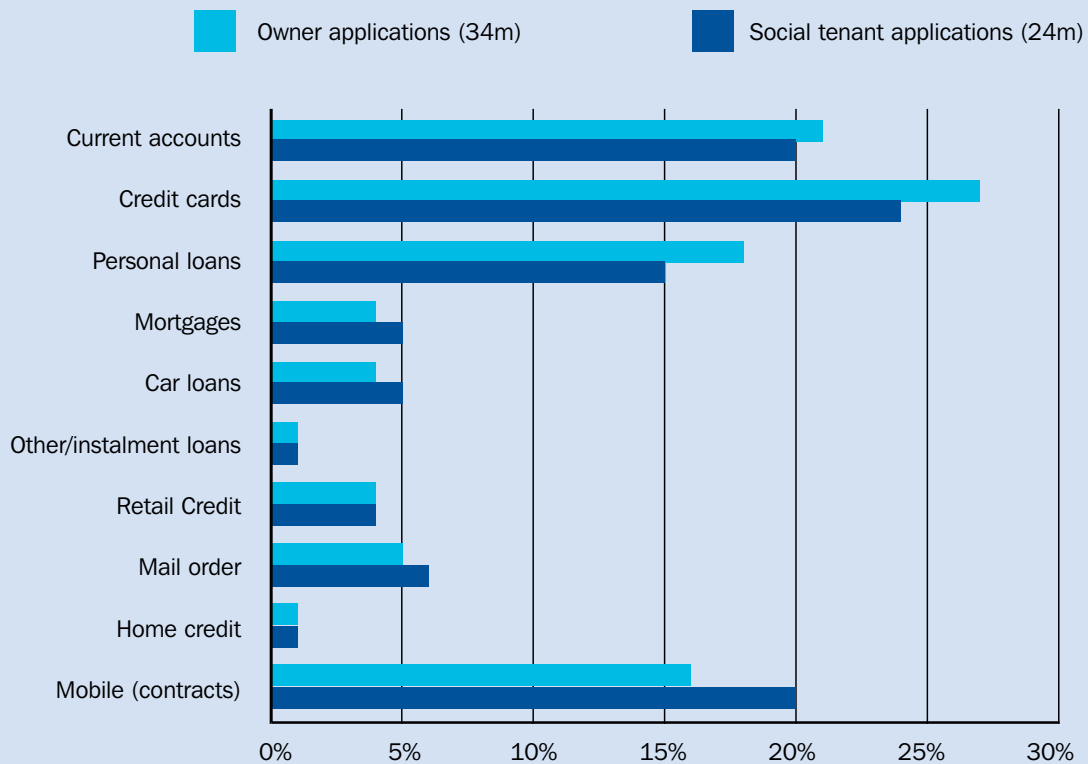
(about a year). Private tenants tend to be slightly better paid, though this is a weak indicator.

The analysis and capture of differences and aligning them to accept, decline and bad rates would be the subject of a major study so estimates here are only indicative of the volumes and decision impacts (lenders do not classify their tenures in sufficient detail). The estimates are considered sufficient to indicate the volumes, given that very high decline and bad rates are used and there is a risk that we may have understated volumes.

APPENDIX V

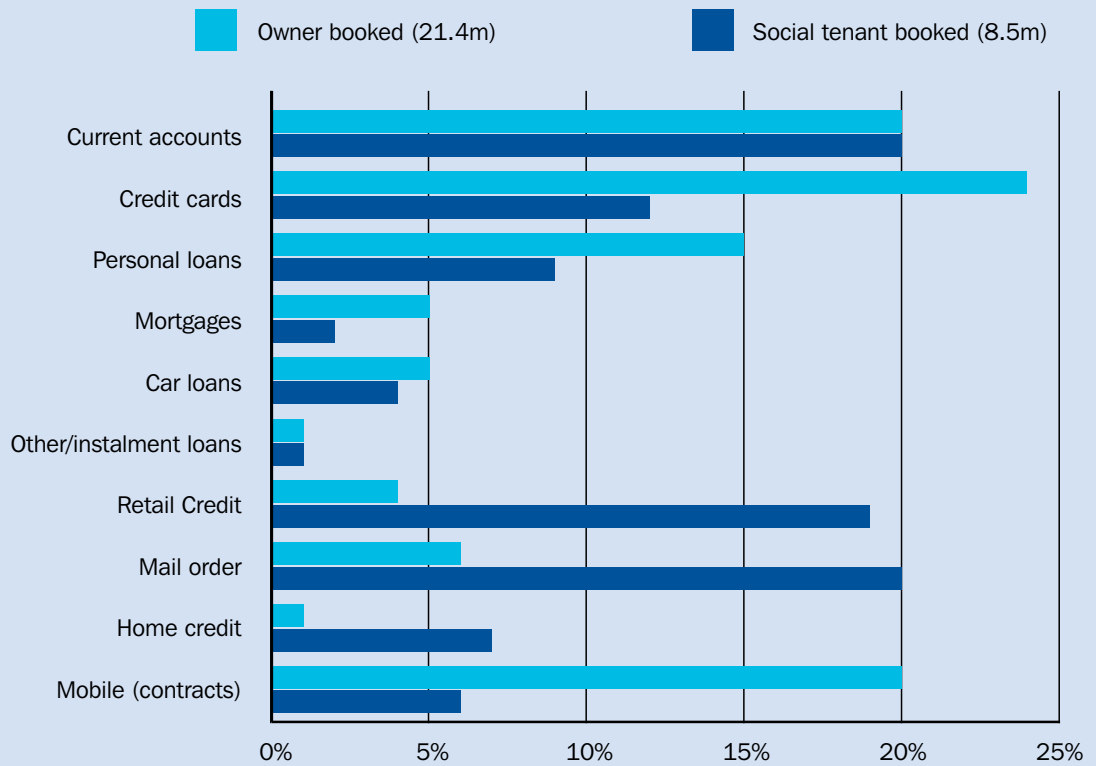
COMPARISON OF HOMEOWNER V. SOCIAL TENANT ACCOUNTS APPLIED FOR AND BOOKED, BY PRODUCT

Figure A5: Comparison – homeowner v. social tenant, applications by product.



Source: GW/GWA May 2010.

Figure A6: Comparison – owner v social tenant, accounts booked by product.



Source: GW/GWA May 2010.

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