

Rental Exchange

Meeting:

Author:

Introduction

In 2010 Big Issue Invest introduced the concept of using rental payment information to help social housing tenants improve their credit profile and qualify for more affordable credit and other services.

Many organisations rely upon credit scoring to decide whether to give customers access to financial products such as a mobile phone contract, a bank account or a loan at an affordable interest rate.

Research indicates that many social housing tenants are excluded from affordable credit and services due to the lack of a credit history and this means they are more likely to be refused or pay more, putting extra pressure upon already challenging finances.

In the same way that mortgage information counts towards a credit profile, rental payment history can be used as proof of a tenant's financial standing and reliability. By sharing rental payment history it will help tenants to create an online proof of identity and a good credit history will make it easier for tenants to open a bank account, receive better gas and electricity rates, or obtain cheaper credit.

Proof of Concept Study

A sample (c 162,000) of the rent payment records already shared with the Rental Exchange, from social housing providers, have been added to a version of Experian's credit scoring tool in a simulated credit bureau environment in order to assess the impact the information would have on credit scores and digital authentication.

Digital Proof of Identity Analysis

To be eligible for mainstream credit the general authentication requirements is two online proofs of identity. Without the rent data only 39% of tenants hold two or more electronic proofs. Once Experian includes the rent data this increases to 84%. Improving electronic identification rates will give tenants easier access to full banking services as well as a range of non-financial public and private services.

Credit Score Analysis

Incorporating rental data into a typical generic credit score will increase the credit score for tenants that do not have significant rent arrears (defined as anything over 2 months' of non-payment) by around 45-55 points.

72% of tenants have no significant arrears on their rent and their credit scores would improve as a result of incorporating rental data. Around 8% of tenants have serious arrears on their rent so would have their credit score reduced by something in the order of 90-140 points. 20% of tenants are on Full Housing Benefit so would see no effect to their credit score.

Benefits to tenants

The majority of tenants pay their rent on time, so this information will enhance their credit score. The Rental Exchange also provides an opportunity for tenants to improve their credit rating without having to take on any further debt. The Rental Exchange also enables tenants to build an online proof of identity and this is important when applying for a utility supplier, a mobile phone provider or when online shopping.

If a tenant is unable to pay their rent, it is unlikely they are suitable for a loan or other payment agreement, therefore the Rental Exchange supports responsible borrowing and lending and helps people avoid becoming over indebted.

Benefits to Registered Providers

We would be able to reward your tenants for paying rent on time and help tenants to access cheaper and more affordable credit and services.

Data Protection Considerations

Big Issue Invest and Experian have worked very closely with the Information Commissioner's Office on this project. The ICO considers Rental Exchange as an example of best practice for the sharing of information and has been very supportive. It recognises that tackling social, financial and digital exclusion issues through enabling tenants to use their information in a way that helps them is not something that should be prevented by the Data Protection Act, subject to tenants being provided with a very clear explanation of how this will benefit them via a Fair Processing Notice.

Rental payment information will be kept secure and will not be shared with any third parties for marketing purposes and the data will be accessed when a tenant applies for goods or services where a credit or identity check is made through an organisation using Experian's database.

Rules of Reciprocity

We would implement the Rental Exchange primarily to benefit our tenants; however we do recognise that there could be an added benefit to Registered Providers as well. Because we would be sharing data with Experian, under the Rules of Reciprocity we would be entitled to access the credit data of our tenants and prospective tenants and this will give us a much better overview of a tenant's financial situation and payment behaviour, enabling us to take appropriate action and put in appropriate support. There are costs associated with accessing this data.

Recommendations

The Board agrees to:

1. Participate in the Rental Exchange and issue a fair processing notice to tenants.
2. Set up a regular data feed to Experian.