



Even the Catch-22s Come with Catch-22s: Potential Harms and Drawbacks of Rent Reporting¹

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Rent payment data has been aggressively promoted as a form of [alternative data](#) to supposedly help consumers who are either credit invisible or have poor credit histories. Spreading rapidly the past few years, rent reporting has been embraced by [industry](#), [policymakers](#), and some [nonprofits](#) as one of the primary ways to [help Black and Latino](#) consumers, given the stark [racial disparities](#) in credit scores and credit invisibility.

Rent reporting is supported by initially appealing arguments such as, “Why should homeowners get the benefit of reporting their housing payments to credit bureaus but not renters?”, and, “Why is negative information about rent reported but not positive information?” (Note that the latter argument is somewhat misleading as only a limited set of negative rental information — mostly debts referred to collection agencies by housing providers — is sent to the credit bureaus.)

However, rent reporting actually carries huge risks for renters, especially the most vulnerable families who struggle with housing costs. Many landlords refuse to rent to applicants if their record shows any past late rental payments, often without considering the reason or the applicants’ ability to pay currently. At-risk renter households are also disproportionately Black and Latino. Rent reporting risks helping some better-off credit invisible consumers at the cost of literally making other renters homeless.

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For mortgage lending, there are better alternatives to capture rent payment data, such as programs already developed by [Fannie Mae](#) and [Freddie Mac](#) that use bank account transaction data. Those not ready (or not financially able to) purchase a home, or who already have a good credit history, should not be forced to pay for rent reporting to the credit bureaus as a service.

To the extent that advocates and policymakers want to pursue rent reporting programs despite the significant drawbacks, they should follow certain critical guidelines and beware of the pitfalls discussed below.

Positive-Only Reporting is Key

The most important consideration is that rent reporting should be limited to positive payment information only. Programs that report negative or “full file” information will most certainly harm vulnerable, struggling families. *This is because landlords use credit reports and scores*, either independently or through bundled [reports](#) that also include criminal history and eviction records. Many landlords will not rent to a consumer with any record of a late rent payment, or will charge

them a prohibitively high security deposit, risking locking families out of the housing market. Further, the threat of negative reporting can keep tenants from exercising their legal rights to withhold rent payments because of poor conditions in a unit, such as lack of heat.

Unfortunately, many rent reporting programs do involve reporting of negative information. In California, [a law](#) requiring subsidized housing providers to offer rent reporting has been [interpreted to require full-file reporting](#), including negative information.

This type of reporting can have potentially devastating consequences, as illustrated by the following example that a consumer lawyer providing *pro bono* services at a homeless shelter sent to NCLC:

I was shocked to find out that most of the problems had to do with credit reporting – right down my alley. Of the 10 or so folks I’ve met with so far, at least 6 were living in the shelter solely because a rent-related credit reporting issue had shut them out of the housing market. These are folks with enough income to pay market, non-subsidized rent, but were nevertheless forced to move their families into a homeless shelter simply because their credit history disqualified them from renting. And, it’s not a credit score problem. Folks with decent credit scores were automatically disqualified because of a past rent delinquency (even a single 30-day late). ... I’m keenly aware of the outsized role credit reporting can play in keeping folks in difficult financial situations in general, but I was shocked to see a direct connection to something as extreme as homelessness.²

The pandemic has heightened the potential harm of rent reporting. At various times during the pandemic, between [6 million](#) and [13 million](#) households were behind in rent but likely were able to stay in their homes due to various eviction moratoriums. These households are disproportionately renters of color; for example, [in September 2020](#), about 1 in 4 Black and Asian renters and 1 in 5 Latino renters said they were not caught up on rent, compared to just 1 in 9 white renters. The [Urban Institute](#) has found even starker statistics, reporting that 45% of Black renters missed or were late on at least one rent payment during a one-year period beginning in July 2020.

With full-file rent reporting, these millions of tenants who missed rent payments would have negative information on their credit reports, which could keep them from obtaining new shelter for their families for up to seven years if they have to move from their current housing for any reason, including an unaffordable rent increase. While efforts to address credit invisibility and closing the racial homeownership gap are certainly important, helping some consumers obtain a mortgage should not be at the expense of risking homelessness for vulnerable tenants.

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Landlords have also used negative rent reporting as a cudgel against renters who exercise their statutory rights. In Harlem, New York, [Guardian Realty used rent reporting to retaliate](#) against tenants who withheld rent because of terrible conditions in their buildings, including broken elevators, rats running through the walls, and frequent shutoffs of heat and hot water. One tenant [described](#) how, when Guardian Realty began rent reporting, “my credit took a huge hit” and that the practice “ensures it squashes out everyone [from rent withholding] except for the extremists...” The journalist who reported the story characterized the practice as “[a savvy way to basically soft blacklist tenants from getting apartments.](#)”

The weaponization of rent reporting is especially problematic in places like New York, because it circumvents [protections against eviction or displacement](#) when tenants complain about sanitary code violations or exercise their housing rights. Legal services attorneys expressed concerns that rent reporting would have “[a chilling effect on people’s willingness to withhold rent,](#)” which is especially harmful when exercising this legal right is the only way a tenant can get a landlord to make repairs.

While limiting reporting to only positive payment information reduces these risks, it does not eliminate them. If there are months in which a rental payment is not recorded, or shows a lower amount than the “scheduled payment,” a landlord might make a negative assumption that the tenant failed to pay the rent that month. This is one reason why using bank account cashflow information is preferable to including the data in credit bureau files — the fact that rent is missing from bank account transactions could be attributable to a cash or money order payment, blunting negative inferences by lenders.

One solution to this conundrum would be to [ban the use of credit reports and scores](#) in tenant screening, which was proposed but not passed in at least two states ([Massachusetts](#) and [California](#)). But until there is such a ban nationwide, the reporting of negative rent payment data will always create the risk of shutting people out of the housing market and increasing homelessness.

Consumer Control

Rent payment reporting to the credit bureaus should always be with the consumer’s active permission — it should be *opt-in* only, not opt-out or mandatory. As a basic principle, consumers should always have control over whether their data is shared.

For over half a century, consumers have had no control as our data is harvested, used, and misused by the Big Three credit bureaus, i.e., Equifax, Experian, and TransUnion. The credit reporting system is a broken oligopoly in which there are rampant abuses and little accountability due to lack of competition, where consumers have no choice but to be beholden to the credit bureaus.

This needs to change. Consumers should have a choice as to whether their rent payment information is submitted to the credit bureaus. Not only is it the right thing to do with respect to privacy and consumer rights, but requiring the consumers’ active permission allows them to avoid inclusion of harmful negative information that will hurt their rental housing prospects.

This is a second reason why using bank account transaction information is preferable to including the data in credit bureau files — currently, consumers must give active permission to allow access to their bank account data.

Dollar Dollars and Sense

Feeding rent data to the credit bureaus can cost money. While some third-party platforms do not charge a fee, others charge [significant upfront or monthly fees](#). An important question is: Who pays for the rent reporting — the landlord or the tenant? Many tenants are already burdened with excessive and unnecessary fees, such as [fees for insurance that only benefits the landlord or billing convenience fees](#). The costs of rent reporting could add fees from [\\$2 to a whopping \\$49](#) per “lease period,” with many companies charging around \$7 to \$9 per month.

If a renter is not interested in homeownership or credit building (or if those goals are secondary to simply securing and maintaining housing), a renter should not be forced to pay for an unnecessary service, especially given how many renters are struggling with high housing costs already. Rent reporting is also not useful for the many renters who already have a good credit score. Even worse, renters who have struggled to pay on time should not be forced to pay to supply negative information into their credit reports, where it could prevent them from obtaining new housing.

For mortgage lending, this is a third reason why using bank account cashflow information is preferable to including the data in credit bureau files – it does not cost the consumer a recurring monthly fee.

Feeding the Credit Bureau Oligopoly

The Big Three credit bureaus have promoted the idea of alternative data such as rent reporting as a form of “credit inclusion.” In a [May 2021 Congressional hearing](#), the president of TransUnion Consumer Interactive touted the formation of that company’s Racial Equity Task Force and emphasized how “alternative data is critical for credit inclusion.”

The credit bureaus are data hoarders and data sellers, and rent payment data is a new trove of additional information for them. They are dressing up efforts to tap that data in the language of racial justice and equity, at the expense of vulnerable renters who themselves are more often people of color.

Limited Efficacy

Done right, rent reporting can be somewhat helpful for some people. Pilot studies have found that rent reporting can increase credit scores, ranging from [10 points to 23 points](#) or even [60 points](#). With the exception of the study showing 60 points, these are still relatively limited increases and might not be all that helpful unless the consumer has a credit score that is close to a cutoff for a credit scoring tier (i.e., on the cusp of subprime (under 620) to near-prime (over 620)). Even the

[study](#) showing 60 point increases only had 12% of consumers shifting to a higher score tier with rent reporting.

Indeed, a November 2021 [Government Accountability Office \(GAO\) study](#) noted that while alternative data could “improve or generate scores for [credit invisible or low scoring] consumers, it is unclear whether the increases would be sufficient to qualify many additional consumers for lower-cost mortgages.” Furthermore, the GAO also noted that nearly half (48 percent) of unscorable consumers were under 24 or over 65 years old, which the GAO characterized as “age groups less likely than most to be seeking mortgage credit.”

In general, alternative data such as rent payments will not eliminate racial disparities in credit scores and is not a panacea for credit inequities. Any data that relies on financial information will still reflect racial disparities given the unequal economic positions of households of color and white households. As a [FICO spokesperson noted](#), “It’s important to note that credit scores didn’t create some of the social economic disparities. They simply reflect the social economic disparities that are out there. The conversation should focus on addressing the root cause of these differences.”

Of course, FICO doesn’t address the problem that credit scores do not simply serve as measurement tools or research indicators, but are used as gatekeeping criteria. But FICO is right about the underlying social and economic disparities, and no amount of additional data is going to close the racial credit scoring gaps if the root causes of those disparities are not addressed.

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Endnotes

¹ [From a reply to one of the author’s Tweets.](#)

² [Email from Kenneth Riemer to Chi Chi Wu. April 7, 2022, also discussed in American Banker Lenders’ use of rent data in loan decisions helps homebuyers, but dangers lurk.](#)