

**Social Rental Payment Data –
Its value in improving credit decisions and
scoring processes**

**‘Moving from proof of concept to
implementation’**

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Context (Financial Exclusion)

- Significant tenant numbers are excluded – pay more for credit – find mainstream credit hard to get – ‘feel excluded’
- The OFT/FSA/European Directives are increasingly expecting lenders to lend responsibly, treat customers fairly and use appropriate data
- Credit scoring models drive the lending decision – now dominated by credit reference data - though there are essential needs for certain credit products
- Tenants are mystified by credit referencing and the rationale for credit decisions though some are stretched! (Lower incomes/capacity)

Context & BigIssue (Financial Exclusion)

- Those with high numbers of good status credit accounts have a very **high probability of acceptance**
- Conversely – those with thin or empty credit reference files – have a very **high probability of decline** (especially if they cannot identify themselves easily)
- This – to an extent – prevails whether the applicant is an owner or a tenant - making credit histories for the latter quite important
- BigIssue initiatives in social improvement/finance saw more and more potentially good social tenants trapped in an exclusion mode – some 70% are up-to-date with their rent payments

Scope & Size

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

Scope & Size

Breakdown of types of tenancy and ownership

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

Project & Conclusions

- The study covered 3-years of socially-orientated research into the value of rent payment data for improving credit scoring and credit decisions.
- This was a **proof of concept study** and the results can be viewed by using the links below
- A major study of some 150,000 accounts was made – including an Experian analysis of the value of the data – based on linking tenants to their credit histories
- **Rent-payment data was shown to provide significant (and usable) uplift from typical credit risk scores for the thin file/empty file population.**

Report Summary

- Data from a sample of banks revealed that:
 - tenants are **twice as likely** as homeowners to have their credit applications declined...
 - despite this credit screening are **twice as likely** to default
- Such data sharing could make mainstream credit more accessible and affordable to a **small but significant** number of social housing tenants, potentially over 1.5 million people in the UK
- Lenders would see an important reduction in bad debt losses, as well as an increase in new lending to social housing tenants

Report Summary

- Rent-payment data sharing would also result in - **less lending** to those that cannot support more credit - and so reduce **over-indebtedness** and support more **responsible borrowing**
- Tenants' ability to pass electronic **identity authentication** tests, which are routinely used today to access financial and other services, would also be significantly improved (low ER, passport/driving license!)
- Some tenants may be more able to access **mortgages** and shared ownership schemes
- Data could be integrated into models that look at **public service needs** and help improve targeting of them

Volumes of consumer credit applications – by tenure (extrapolated confidential information from significant players)

	Applications	Rejects	Accepts	Not Taken Up	Taken up	Good	Bad
Owners	34.2	10.5	23.7	2.3	21.4	20.4	1.0
Social Tenants	14.6	8.6	6.1	1.0	5.1	4.6	0.5
Private Tenants	9.7	5.6	4.0	0.6	3.4	3.1	0.3
Sub Total	58.5	24.7	33.8	3.9	29.9	28.1	1.8
LWR	6.1	2.9	2.8	0.4	2.4	2.3	0.1

	Applications	Rejects	Accepts	Not Taken Up	Taken up	Good	Bad
Grand Total	64.6	27.6	36.6	4.3	32.3	30.4	1.9

	Rates	
	Decline	Bad
Owners	31%	5%
Social Tenants	59%	10%
Private Tenants	58%	9%
Sub Total	42%	6%
LWR	48%	4%
Grand Total	43%	6%

Perspective, context, scale – application volumes*

Millions of applications pa	Social	Private	Tenant Total	Percentage
Banks	10.0	6.7	16.7	53%
Retail Credit	2.1	1.4	3.5	11%
Mail Order	1.9	1.3	3.2	10%
Credit Card (mono) Companies	1.5	1.0	2.5	8%
Finance Companies	1.1	0.8	1.9	6%
Other	1.1	0.8	1.9	6%
Home Credit	0.8	0.5	1.3	4%
Building Societies	0.4	0.3	0.7	2%
Total	18.9	12.8	31.7	100%

Unsecured credit - bad debt write-offs – by tenure (GW estimates and Bank of England figures)

£bn	Owners	Tenants	Total
Outright	1.9		27%
Mortgaged	3.1		44%
Private		0.8	11%
HA		0.7	10%
LA		0.5	7%
Total	5.0	2.0	7.0
	71%	29%	

- 2010 figures adjusted for owner and tenant volumes – reflecting smaller average write-offs/different recovery rates. Indicative rather than absolute – can be refined

Mainstream lender - group – reaction/observations

- This credit group met recently – and had previously provided data for the study – representing say a third of bank lending
- All had read the report - agreed the report was excellent/convincing and made the case for both social and commercial benefits
- All would look at how they are impacted – relative to the overall picture of benefits provided but saw ID – bad debt and fraud prevention as very important
- All thought the role of the CRAs was crucial – thought the three CRAs should be highly involved and perhaps assist in funding
- Expressed concern over costs – indicating that severe internal pressures exist and even their community funding may be stretched

Mainstream lender - group – reaction/observations (cont)

- Some queried the quality of the data that might be provided – and were keen to see that its provision was well governed
- Pleased with the initial ICO reaction – wanted to be involved as there could be connected changes to consent clauses in bank applications
- Wanted assurances that social lenders were willing to provide the data quickly – as saw the need for critical mass as being crucial
- Saw many nitty-gritty aspects to be dealt with and feared that implementation could span 2 or 3 years
- Would (ideally) expect private landlords to follow on quickly
- Had experienced new data before – e.g. – student loans, home credit and noted that the provision of the latter was compulsory (CC)

Role of Credit Reference Agencies and outline of possible business enterprise, as means of implementation

- The Credit Reference Agencies have the benefit of experience in processing huge volumes of data in a controlled and well managed fashion – and enjoy the respect of the ICO
- Lenders are keen that they be fully involved and this is recognised by BII in the discussions being held. The ideal is a form of partnership where the social as well as the commercial aspects are managed accordingly
- There is an interest from the CRAs and a lot of groundwork has already been undertaken to help gauge the nature of how this might work and the financial consequences thereof
- Ideally CRAs should see an investment return in making the data available but initial investment can be high/with longer term returns

Recommendations & Progress

Recommendation

a) Discuss with affected parties:

Social landlords	✓
Tenant organisations	✓
Lenders	✓
Government departments	✓
Credit reference agencies	✓

Positive responses from all the above but interested in the practicalities of implementation. There will be a cost and operational aspect for social landlords, credit reference agencies and lenders despite longer term benefit. Fuller discussions with credit reference agencies continue

Social landlords commissioned extra research (see later)

Recommendations & Progress

Recommendation

b) Discuss with Information Commissioner:

Plans discussed with team at Wilmslow ✓

Consent and notification issues covered ✓

There was a need to discuss the balance between expediting rent data sharing with protecting tenants' data

Very positive reaction was obtained but the ICO were looking for us to ensure tenants knew what the implications of sharing their data would be

Recommendations & Progress

Recommendation

c) Discuss with a Housing Sector Working Party:

- Set up working party ✓
- Undertake review meetings ✓
- Fully consider the tenants' perspective ✓
- Consider the value of data to social landlords ✓
- Review the technical and implementation challenges ✓

Presentation and discussions with many of the larger housing associations received positive responses to rent data sharing. It and the working group thought it necessary to be certain that tenants wanted this - given that there would be operational and cost implications for landlords

Recommendations & Progress

Recommendation

d) Discussions with Lenders:

These were ongoing on general issues which have been covered here ✓

There are specific issues on pricing of consumer products, the impact of income and loan sizes on exclusion and the non-capture of sufficiently specific data on tenure – especially differentiating between tenancies and not even properly classifying the difference between those owners with and without mortgages. There seems to be a reluctance by banks to change application forms and processing systems. This can impact on better classification and clarity of credit decisions for certain groups. Future discussions on behaviour scores and the better handling of ID for those not on the voters is needed

Overall Summary

- Rent payments data can be an ideal extra data source. They are frequent – and represent a significant part of household expenditure. Not all sources of data are usable from practical, financial or accuracy viewpoints
- The practical difficulties of obtaining some 5 million accounts from 1,200 housing associations and 400 local authorities are high. CRAs are well positioned to do this but how to achieve a balance between cost and payback in a social context is difficult
- Processing payment data may require non-standard databases (weekly payments) and more complex data handling/cost. The setting up and maintenance of this will not be trivial but can be financially and socially very beneficial, over time