



THE RENTAL EXCHANGE

Helping social tenants build a positive credit history to gain equal access to financial services

INTRODUCTION

The majority of people on a low income manage their limited money extremely carefully and yet they are often discriminated against by banks, utility companies and other retail providers. An estimated 2 million people – the majority of them social housing tenants – take out high cost loans because they cannot access more affordable credit. Those on low incomes pay a ‘poverty premium’ of £1,300 for basic necessities – paying more for gas and electricity to heat their homes, for mobile phones and for purchasing white goods and furniture.¹

Research carried out in 2009/10 by Big Issue Invest supported by Friends Provident Foundation and the Joseph Rowntree Foundation identified that one cause of such financial exclusion is an information gap.²

There are millions of low-income people who are excluded from affordable credit because they don’t have a credit history. For the financially excluded, this is a Catch 22 situation: without a credit score applicants are declined by mainstream providers and are considered riskier customers, but the only way to build a credit score is to access some form of credit, such as a mortgage or credit card.

Big Issue Invest formed a partnership with Experian, the UK’s leading credit reference agency, to prevent low-income people being caught in a vicious circle of no-credit-score-no-lending. By accepting regular payments of rent as evidence of a good credit history, in the same way mortgage payments build a credit history for homeowners, The Rental Exchange set out to tackle the financial, digital and social exclusion faced by social housing tenants head-on.³

THE BIG ISSUE GROUP

Created as a business solution to a social problem The Big Issue is one of the UK’s most instantly recognisable brands and best known social businesses. A powerful blueprint for social business and social change, sellers buy The Big Issue for £1.25 and sell it on the street for £2.50.

The Big Issue currently works with around 3000 homeless and vulnerably housed people across the UK, circulates over 82,000 copies of the magazine every week, and is read by 418,000 people (National Readership Survey, Dec 2014). In 2014 alone we put more than £3 million in the pockets of our vendors, releasing them from a dependence on hand-outs.

Founded in 2005, Big Issue Invest (BII) is the social investment arm of The Big Issue. BII extends The Big Issue’s mission to **tackle poverty and create opportunity** for all by financing the growth of sustainable social businesses. BII offers loans and investments – not grants – from £25,000 to £1.7 million, from early stage to growth capital. It has invested over £30 million in 330 organisations benefiting 1.8 million people in the UK’s most disadvantaged communities.

- ¹ *Financial Inclusion: Improving the Financial Health of the Nation*, Financial Inclusion Commission, March 2015
- ² *The impact of social housing rent payment data on credit scoring*, Sarah Forster and George Wilkinson, Big Issue Invest, 2010.
- ³ See www.experian-co-uk/rental-exchange/

This paper considers the Rental Exchange's progress five years on and shows how this initiative can bring real benefits to tenants, landlords and companies serving the tenant market. It addresses the concerns that have arisen along the way and shows how realising the promise of rent data sharing requires action from all stakeholders.

THE RENTAL MARKET CONTEXT

There are three main housing tenures in the UK: owner occupation and the private and social rented sectors. The percentage of households renting has increased rapidly over the last decade. Rising house prices and the tightening of mortgage lending criteria since the 2008 recession has meant that many families are now unable to afford to buy their own home and have no alternative but to rent.⁴

Today more than one-third of UK households live in rented accommodation. Among the 8.3 million people living in rented accommodation in England, 3.9 million are in social rented housing and 4.4 million in private rented accommodation – an increase in the proportion of people in the private rented sector over the previous five years.⁵ In Scotland, out of the 2.5 million households, 23 per cent (595,000) lived in social rented accommodation and 15 per cent (368,000) lived in private rented accommodation.⁶

Rents are rising and more working households are dependent on receiving Housing Benefit. In 2013–14, average monthly private rents in England were £580 (£1124 in London) and average monthly social rents stood at £348 (£500 in London). Almost twice the proportion of working households received housing benefit in 2013–14 than in 2008–09, rising from 19 percent to 32 percent for the social housing sector and 7 percent to 14 percent for those in private rented accommodation.⁷

ABOUT THE RENTAL EXCHANGE

Since its launch in 2010, Big Issue Invest and Experian have been working with registered social housing providers to incorporate tenants' rent payment history into their credit file, with no cost to either the housing provider or the tenant. The scheme is called The Rental Exchange and allows tenants with a history of little or no credit, to build a credit score in the same way that mortgage holders do.

All information is held by Experian and treated in accordance with the Data Protection Act, in a secure and compliant way. Data cannot be used for marketing purposes and can only be made available to a company or organisation if the tenancy information is relevant and if the tenant has agreed to a credit check (or where it is strictly necessary for an organisation to check information about a tenancy e.g. in the case of fraud).

As part of The Rental Exchange, the Steering Committee on Reciprocity (SCOR), the body that oversees data sharing within the credit industry, has agreed that social housing providers can access credit performance data to enable them to gain a better understanding of tenants' financial situations so that they can identify and support vulnerable individuals and families under financial stress.⁸ The data is shared between The Rental Exchange members and credit performance data providers on a reciprocal basis. Credit performance data providers (including banks, finance companies and energy companies) are therefore able to access the social housing rental data when making credit and affordability decisions.

4 Source: Office of National Statistics, *A Century of Home Ownership and Renting in England and Wales, Part of 2011 Census Analysis*.

5 English Housing Survey Headline Report 2013–2014

6 Housing Statistics for Scotland: Key Information 2013–2014.

7 English Housing Survey Headline Report 2013–14

8 See www.scoronline.co.uk for further information.

PROGRESS MADE BY THE RENTAL EXCHANGE

As of June 2015, over 150 registered housing providers, including housing associations, local authorities and Arm's-Length Management Organisations (ALMOs), have signed-up to join the Rental Exchange, representing 1.5 million tenants across the UK.

Experian first tests out the value of adding rent data to tenants files for each housing provider that comes on board and then works with the provider to ensure the rent payment data is cleansed and all records are accurate before transferring it to live data sharing.

As of June 2015, there are 39 social landlords sharing rent payment data on a live (monthly) basis for 550,000 tenants and the number is increasing every month.

Test data has validated the original research thesis and demonstrated the following benefits to tenants:

- Creating an on-line proof of identity** – increasingly important when applying for goods and services. Test data shows an increase from 39 per cent to 84 per cent in digital identity authentication rates for social tenants when rent data is included in credit files. This in itself can make life simpler e.g. signing up at a GP's surgery or accessing benefits without having to find paper proofs of identity – as well as getting better deals when shopping on-line.

- Building a positive credit history** – in over 70 per cent of cases, tenants with no significant arrears see a positive increase in their credit score. This results in increased access to, and affordability of, credit and other basic goods and services.

Twenty per cent of tenants are on *full* Housing benefit and therefore would see no effect on their credit score, but digital authentication would still benefit them.

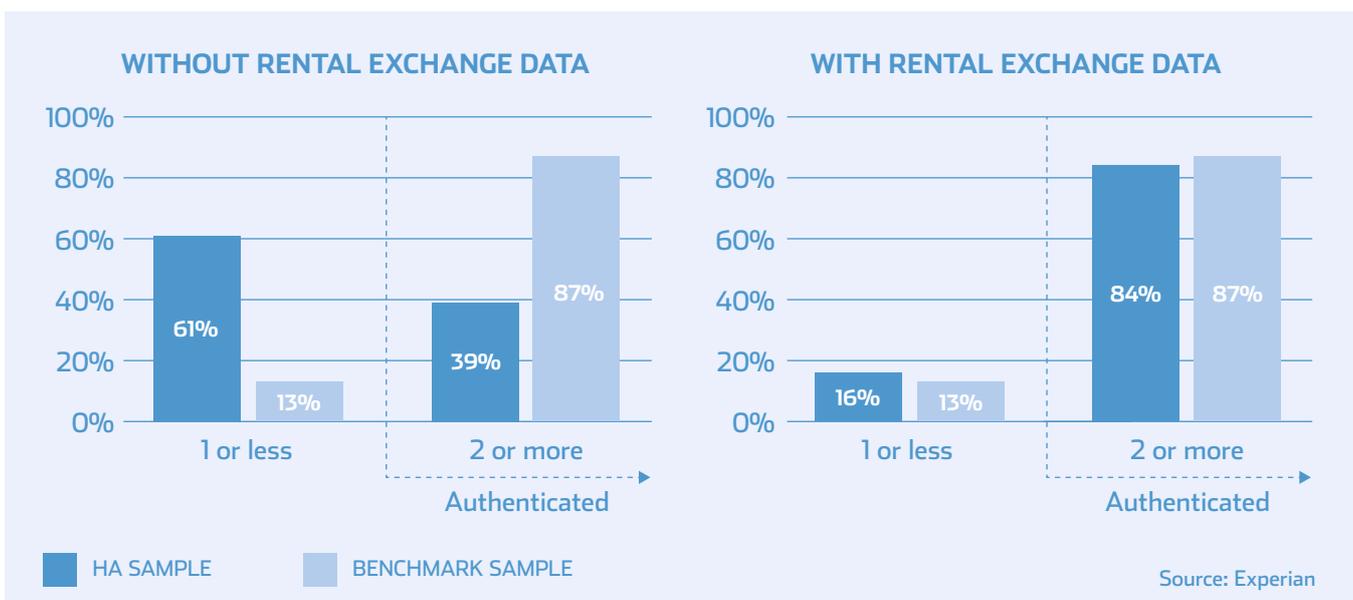
REAL LIFE ON-LINE SHOPPING EXAMPLES

Buying a washing machine

- With a good credit score you can get a 10kg washing machine for £499 or £575 paying 1 year credit at 39% APR
- With no (or a poor) credit score the base price for the same washing machine is £799 or £1,480 based on 3 years credit at 69.9% APR with weekly instalments of £9.49

Car insurance quotes on Money Supermarket

- With digital authentication – 108 quotes from £161 to £177 annually
- Without digital authentication – 98 quotes from £167–£191 annually



From the outset, registered housing providers were understandably concerned that the Rental Exchange could disadvantage vulnerable tenants with a poor payment history. Test data shows that on average only 8 per cent of tenants have rent arrears, which subsequently results in a worse credit score after rent data sharing.

The Rental Exchange provides information that enables landlords to get to know their customers better and manage their support more effectively. The Rental Exchange can help landlords identify these vulnerable tenants so that social landlords can take action to *prevent* them turning to very high interest short term lenders, such as providing debt advice and sign-posting to a local credit union offering loans at low interest rates. For many social housing providers, such support is an integral part of their social mission.

Through it's core business of social investment, Big Issue Invest is investing in the scaling-up of affordable lenders, including Community Development Finance Institutions which provide savings and affordable credit in the most deprived communities.

TENANT ENGAGEMENT AND THE OPT-OUT PROCESS

The Rental Exchange sign-up process includes a high level of tenant participation. In all cases participating landlords consult with their tenants and typically involve them in the decision-making process. Landlords must issue a Fair Processing Notice that explains how data will be collected and used and communicate the purpose of The Rental Exchange to their tenants through e.g. newsletters and tenant meetings.

Tenants are given the opportunity to opt out. Only approximately 1 per cent of tenants on average have taken this option, the majority of whom are older tenants either concerned about sharing data or with no requirement to access finance.

A small number of tenants and organisations have questioned the opt-out approach. Why isn't it *opt-in*

so all tenants have a clear choice? The opt-out approach was agreed after consultation with the Information Commissioner's Office (ICO), the body that oversees data protection. The rationale behind this approach is the benefit of rent data sharing to tenants is recognised by DPA 'legitimate interests' provisions (Data Protection Act 1998 Sch2 paragraph 6). This opt-in approach ensures these benefits can be widely realised. In the future, it is likely that tenants will 'choose' to share data when signing their tenancy agreement in the same way that people do when filling in an application for a mortgage.

PROTECTING CLIENTS AND RENTAL INCOME – HOW RENT PAYMENT DATA IS HELPING LANDLORDS UNDERSTAND AND BETTER SUPPORT THEIR TENANTS

The Big Issue and Big Issue Invest's interest is primarily in the benefits to tenants. However, The Rental Exchange has also demonstrated valuable secondary benefits for social housing providers.

For housing providers, supporting clients' capability to pay their rent on time goes hand-in-hand with protecting their income and promoting client welfare. This is particularly the case in the context of welfare reform and Universal Credit, under which housing benefit will be paid directly to tenants.

Universal Credit, a single monthly payment for people in or out of work, merges together some of the benefits and tax credits that people on a low-income or out of work get, including housing benefit. Universal Credit has been trialled through a Direct Payments Demonstration Project and is now being rolled out in phases.

Housing providers need to be able to:

- **Predict** – financial vulnerability and therefore target support and intervention better, including helping prepare tenants to have the financial management skills to manage direct payments.

- **Prevent** – intervene at the earliest possible stage to avoid arrears and offer the best type of support.
- **Manage** – ensure processes are ready for Universal Credit.
- **Use data** – to make smarter use of resources.
- **Recover** – provide the ability to recover debts if the customer moves on.

The findings of the evaluation of the Department of Work and Pension's (DWP) Direct Payment Demonstration Project showed an arrears spike after tenants were moved to direct payment. To avoid such arrears in the roll-out of Universal Credit, the evaluation recommends "cautious assessment of tenants' readiness for direct payment" and focused intervention and support.⁹

Having the means to carry out a realistic assessment of tenants' readiness for direct payment can help landlords to avoid non-payment situations which are damaging to both the client and the landlord's business. This is where The Rental Exchange solution fits in.

Family Mosaic, one of the largest housing providers in London, Essex and the Southeast, were both a participant in the DWP Direct Payment Demonstration Project and are a participant in The Rental Exchange. They asked Experian whether they could:

- Use credit data, including the rent data incorporated through The Rental Exchange, to assess tenants' readiness for direct payment, and
- Predict which tenants should continue having their rent paid directly to the landlord (Landlord Direct).

This was a retrospective study. During the trial, having struggled to maintain their rental payment commitments, a sub-set of Family Mosaic's tenants were subsequently moved back to Landlord Direct payment. Family Mosaic wanted to avoid this happening again. As a participant in the demonstration project, they could provide historic outcome data for tenants who were moved on to Landlord Direct payments and test out whether credit data could help Family Mosaic identify this group of tenants better next time round.

Experian, using the Tenancy Sustainability model derived from The Rental Exchange and credit data, showed that the population who defaulted on their rent (and who were subsequently moved back on to Landlord Direct) are significantly different to the tenant group remaining on Direct Payment. The tenant population who reverted to Landlord Direct were identified by Tenancy Sustainability as belonging to 'Stretched Money Manager', 'Vulnerable to Financial Stress', 'Credit Hungry', and 'Current Financial Stress' categories.

Understanding the degree of financial difficulty faced by any given tenant would have enabled Family Mosaic to identify those tenants most likely to fail to meet their rental commitments and would have facilitated early intervention with at risk tenants prior to the move to Direct Payment. Positive intervention could therefore have potentially prevented some tenants falling into arrears, helping them to gain control of their finances, whilst also identifying others that would be better supported through placement on Landlord Direct payment for the rent portion of their Universal Credit. Together these changes would have saved significant time and resource for Family Mosaic.

The Rental Exchange data can therefore facilitate more effective management of resources. By providing information to understand tenants' situations better, landlords can identify which tenants to focus on providing support.

As more tenants become responsible to pay rent directly to their landlord, the relationship between social housing providers and tenants will change. It will become a more 'normal' customer relationship requiring new management practices and customer service orientation – in this changed environment, knowing your customer matters and using customer information well will become increasingly important.

For social housing providers, engaging with the Rental Exchange does require a cultural shift. Some housing

9 *Direct Payments Demonstration Projects: Key Findings of the programme evaluation: Final Report, Department for Work and Pensions, December 2014*

providers have not heard of Experian or are wary of such data use. However, those landlords that have signed up can see the value and recognise that with the introduction of Universal Credit, social landlords need to better assess affordability and their tenants ability to pay on-time to protect the interests of both their tenants and their business.

HOW MAINSTREAM LENDERS CAN USE RENT DATA TO SERVE TENANTS BETTER AND PROMOTE FINANCIAL INCLUSION

Lenders too are seeing how rent data provides better customer insight, which can also lead to improved outcomes around financial inclusion and better customer service for tenants. As rental data coverage on the Experian Credit Bureau continues to grow, Big Issue Invest and Experian are now focused firmly on helping mainstream lenders and utility providers understand how they can most effectively use this additional insight to better serve existing and new customers. By comparing the “before and after” picture of the impact of lending strategies when rental data is taken into account, Experian have been able to demonstrate to lenders that existing customers (who are also tenants) could potentially access more favourable credit terms with little or no increase to the level of risk in their portfolio.

Experian have also been able to illustrate the positive impacts of rental data when tenants first apply for credit; a “thicker” credit file on the bureau (including both public information, such as the Electoral Register and evidence of relationships with other credit providers) helps lenders to gain confidence that the applicant is genuine – and a positive rental payment history provides a strong indicator of good financial conduct. Of course, the insight provided by rental payment history does not always tell a positive story: Experian have been able to illustrate to lenders the small number of tenants in their portfolio who are more likely to be suffering financial stress and who should be provided with additional guidance and support in managing their lines of credit.

Experian’s work has tested the impact of rental data across a range of lenders in different sectors and the story is encouragingly consistent:

- A major bank saw how they could provide better credit limits to applicants for credit who were renting their home with the aim of building longer-term customer relationships.
- A major utilities company was able to see how rental data could help them to provide a better service to tenant customers in managing their bill payments.
- A telecoms company saw the value in improved levels of authentication when tenants apply for a new phone.
- A retail finance company saw how better insight from rental data could enable them to offer a broader range of credit products to their customers.

Positive outcomes to date support further engagement in The Rental Exchange with both consumers and lenders – and Experian and Big Issue Invest will continue to work hard with lenders to ensure that social housing tenants get improved access to affordable, mainstream credit and fairer deals on purchases.

Big Issue Invest calls on all banks to live up to their commitments to financial inclusion and engage with The Rental Exchange to provide the best picture of a tenant’s financial conduct and to therefore open up better banking access to social tenants, through offering bank accounts and appropriate products.

CONCLUSION

Today, in Britain, it costs more to be poor. We, at The Big Issue Group, want to stop this. The vast majority of tenants pay their rent on time. The Rental Exchange aims to give tenants the same opportunity as mortgage owners to demonstrate their financial credibility and build a positive credit score.

Big Issue Invest is already working hard with landlords and their tenants to get all social housing providers across the UK on board. We also call on the banking, utility and retail finance industry to engage with the Rental Exchange project to use rent payment data to take a fair view of

tenants' payment performance and offer tenants fair access and better deals.

We also look to the Government to take on board the findings of the Financial Inclusion Commission 2014, including providing an enabling environment for the use of rental and other non-traditional data in credit scoring, to make access to financial services easier for all.

It's time that tenants were given the same access to financial and other services as home owners – the Big Issue's philosophy is helping people help themselves: the Rental Exchange is 'a hand up, not a hand out' but it can only succeed if all stakeholders take action to use such data to tackle the information gap and create fair market access for all.

FURTHER INFORMATION

This report was written by Sarah Forster, Director, Big Issue Invest who led the Rental Exchange until 2014.

For further information on the Rental Exchange, please see www.experian.co.uk/rental-exchange or contact John Montague at Big Issue Invest on john@bigissueinvest.com or 020 7526 3447.

The report is available on the Big Issue Invest website: www.bigissueinvest.com