NATIONAL CONSUMER LAW CENTER®

Using Nontraditional Credit Information: Boon or Bane?

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Do Alternative Credit Scores and Credit Reports Really Help Low-Income Consumers?

During the past decade, a number of "alternative" credit reports and credit scores have been created, supposedly to help low-income and other underserved consumers who do not have traditional credit histories. Many alternative credit reports and scores use information such as utility and rent payments.

Creating credit records for the estimated 50 million consumers who have little or no information in traditional reports at the major credit bureaus (Equifax, Experian, Transunion) is a laudable goal. However, using these types of information may carry risks for some consumers.

Utility information. Using utility information could hurt consumers in states that prohibit gas or electric companies from shutting off the heat in winter months to vulnerable consumers for failing to pay their bills. Financially distressed consumers could (and should) be prioritizing payment of their bills knowing their utilities cannot be shut off, so that they can afford to pay for food or other critical items. Also, Low Income Heating Assistance Programs (LIHEAP) in some states actually require consumers to receive a shut-off notice before they can get assistance. Reporting utility information means that these consumers won't be able to access LIHEAP assistance without damaging a credit record.

Rental payments. Many states permit tenants to withhold rent payments when there is a problem with the condition of their apartments. Using rental payment data in credit histories may undermine this right. It could discourage tenants from legally and legitimately withholding rent for fear of showing up on a credit report.

Reporting Predatory Credit. Some nontraditional credit reports rely on information from high cost lenders, such as rent-to-own stores, finance companies, and payday lenders. These credit reports could be used to market more predatory credit to these consumers. Also, traditional credit bureaus have admitted that reporting high cost credit actually decreases a credit score because, the high interest rates on those loans hamper the consumer's ability to repay. Thus, using high cost loans as a source of credit reporting information could simply mean bad credit scores instead of no credit scores.

Examples of Nontraditional Credit Reporting

Payment Reporting Builds Credit (PRBC) is a credit reporting agency that compiles credit histories using rent, utility, insurance, and even daycare monthly payments.
www.prbc.com

FICO Expansion Score is credit scoring giant Fair, Isaac's effort to create credit scores using nontraditional credit information, such as bank accounts, telephone utilities, bankruptcies, liens, and membership club records.
http://www.fico.com/en/Products/Scoring/Pages/FICO-Expansion-Score.aspx

Teletrack is a specialty credit bureau that provides credit histories to payday loan companies, rent-to-own stores, finance companies, and subprime auto lenders and credit unions
www.teletrack.com/company