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Full Utility Credit Reporting: Risks to Low-Income Consumers

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Background

In the past few years, there has been an aggressive effort to promote monthly reporting of all customer utility payments, including late payments, to the "Big Three" nationwide credit reporting agencies (CRAs), Equifax, Experian, and TransUnion. Currently, the vast majority of electric and natural gas utility companies only report to those three CRAs when a seriously delinquent account has been referred to a collection agency or written off as uncollectible.

Supporters contend that full utility credit reporting will assist thin file or no-file consumers to build credit histories and gain access to credit. At the same time, at least one consultant has promoted full utility credit reporting as a way for utility companies to improve their bottom lines by getting consumers to move utility bills to the "top of the payment pile."[1]

Issues for Consideration

Will full utility reporting help low-income consumers build positive credit histories?
A 2008 national study of utility arrearages found that over 22% of electric utility and almost 20% of gas utility accounts were overdue at year's end in 2007.[2] Yet, only 1.3% of electric utility and 4.3% of gas utility accounts were written off as uncollectible during the entirety of 2007.[3]

Under full utility credit reporting, many low-income customers would receive negative credit reporting marks for a 30- or 60-day late payment during months when costs are high, even though they will eventually catch up when utility expenses are lower (e.g., in summer months for cold winter states). These negative marks would have an adverse impact on their credit scores. A single 30-day late payment damages a credit score by as much as 60 to 110 points.[4]

Full utility credit reporting of accounts that are 30 or 60 days late will result in millions of new negative reports in instances where late utility payments currently go unreported.

Is a credit score, even a low credit score, always better than no credit score?
A low credit score can often be worse than no credit score. A low credit score will make consumers the target of predatory lenders, such as fee harvester credit cards, which are products with high and often hidden fees that extend little actual credit to consumers.

Furthermore, credit scores and reports are not solely used for lending decisions. Many employers use credit reports in hiring and other employment decisions, and insurance companies use credit scores when determining whether to approve applications and what prices to charge consumers. In the case of employment or insurance, not having a credit history is much less harmful than having a bad history. Full utility credit reporting could result in consumers being denied employment or forced to pay higher insurance rates.

Will full utility credit reporting affect established state regulatory policies?

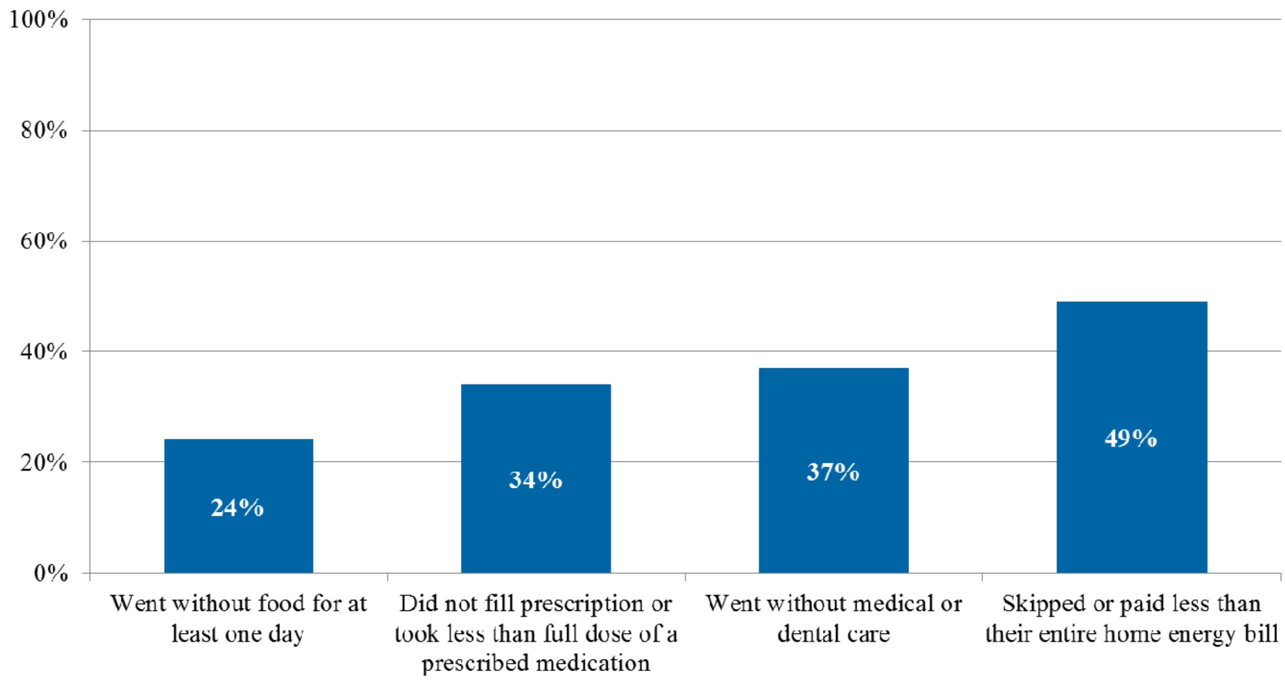
States across the country have adopted consumer protections intended to shield vulnerable populations, including the elderly, disabled, and households with young children, from loss of electric and natural gas utility service during high cost months and times of illness or financial hardship. These consumers may sometimes defer full payment of utility bills, knowing they are protected from shutoff. Enacting full utility credit reporting would undermine these health and safety protections.

Are some low-income populations at greater risk with full utility reporting?

In general, low-income consumers have a much more difficult time paying costly utility bills during heavy use months (e.g., winter months in the upper Midwest and Northeast). In Massachusetts, over 25% of consumers receiving the low-income discount rate for gas heating were more than 60 days late in paying their bills in 2010.[5]

Financial Difficulties Experienced by Low Income Home Energy Assistance Program Participants

The results of a 2011 national survey shows that low-income consumers, who already face extreme difficulties in paying all their bills, often risk going without food, prescription drugs, or medical care, and are frequently at risk of losing access to essential electricity or natural gas service.[6]



Full utility credit reporting would increase the likelihood that vulnerable households would further reduce money spent on food or medical care to avoid negative credit scores. People may also end up lowering thermostats to unsafe temperatures. Sacrificing prescription drugs or compromising indoor temperatures to reduce utility costs would especially threaten the health, safety, and well-being of low-income families, children, and elders.

Will all consumers be treated equally under full utility credit reporting?
Because the cost of utilities depends so much on the weather, consumers generally have little control, as compared to other debts that appear on credit reports. The costs also vary by region of the country. A particularly harsh winter or summer could create significant financial strain for low-income consumers, and full utility credit reporting would exacerbate that harm.

There is also wide variability between states in credit and collection rules, energy prices, and the availability of energy assistance programs. Low-income consumers living in states with unfavorable rules and inadequate low-income bill payment assistance and energy efficiency programming would be unfairly penalized as full utility credit reporting will not reflect these disparities.

Conclusion

Full utility credit reporting will cause disproportionate harm to low-income consumers. The practice will undermine the policy objectives of state utility consumer protections. Additionally, there will be inconsistencies due to varying state utility credit and collection rules, home energy prices, and availability of low-income energy assistance programs. These disparities will unfairly penalize some low-income consumers under full utility credit reporting. Full utility credit reporting should be prohibited by state and federal policymakers absent a consumer opt-in mechanism.

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[1] Michael Turner et al., Political & Economic Research Council, Credit Reporting Customer Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits 9-11 (2009), *available at* http://perc.net/files/bizcase_0.pdf.
[2] Sandra Sloane et al., National Association of Regulatory Utility Commissioners Consumer Affairs Committee, 2008 NARUC Collections Survey Report 6 (2008), *available at* http://www.naruc.org/Publications/2008 NARUC Collections Survey Report.pdf.
[3] *Id.*
[4] Simon, "FICO reveals how common credit mistakes affect scores," CreditCards.com, November 2009.
[5] Compiled by NCLC from Monthly Utility Credit and Collections Reports submitted to the Massachusetts Department of Public Utilities.
[6] National Energy Assistance Directors' Association, "2011 National Energy Assistance Survey Summary Report," November 2011, page ii - iii.