

## Pay Rent, Build Credit: A nontraditional approach to credit

Traditional credit bureaus obtain payment information from mortgage lenders, credit card companies, and others that report voluntarily. Intermediate companies use this information to develop credit scores, which are then used to determine the availability and cost of credit to consumers. Credit scores may also be used by landlords, employers, and insurance companies in evaluating whether to offer housing, employment, or coverage—and at what price.

Pay Rent, Build Credit, Inc. (PRBC) is a new national credit bureau that employs technology to gather nontraditional credit information. Michael Nathans, PRBC's founder and CEO, explains how it works. "Consumers use a secure Internet connection to log on to PRBC's website. They set up payment accounts for their rent and other regular expenses, such as utilities and childcare." Users can list up to 36 months of prior payments. PRBC does not charge consumers for this service, nor does it sell mailing lists. It makes money by selling credit reports for permissible purposes to organizations such as CitiMortgage. Fannie Mae is interested in using PRBC's data for research and modeling.

PRBC's most important innovation is in making it possible for renters to demonstrate their creditworthiness. Aggregated data from PRBC could ultimately be used to develop new loan products. It could change how investors evaluate rental housing. It could influence the pricing of mortgages and insurance. In the meantime, Nathans points out, consumers who use PRBC have "reliable and portable credit histories that any lender or insurance company can score for permissible purposes under the Fair Credit Reporting Act." Nathans says "this is about enabling individuals who are simply assumed to be high-risk to demonstrate otherwise."

In a February 2004 article in the *Washington Post*, columnist Michelle Singletary observed that PRBC "would especially benefit black and Hispanic consumers, who lag significantly behind whites in homeownership but often have rent-paying histories that are not included in credit-scoring models."

PRBC recently announced its own scoring products, Bill Payment Scorecard (BPS) and the PRBC Achievers 100+ scale. BPS "allocates points based on the timeliness of recurring payments over the past 36 months." The scorecard allots greater weight to larger payments such as rent and mortgage, and lesser weight to smaller payments. Payments for child support, remittances, and student loans get greater weight than those for utilities, phone, and cable, an order of priority that Nathans describes as an attempt to "encourage desirable outcomes." PRBC Achievers 100+ scale allocates points for such things as owning an insured bank or credit union account, participating in financial and homeownership education, and paying bills electronically. Both products make it possible for consumers who have a low credit score—or no score at all—to demonstrate their fiscal responsibility without going into debt.

Participation in the PRBC service qualifies as a "community development service" under the Community Reinvestment Act. Recognizing the broader potential of PRBC's work, the Ford Foundation recently granted the for-profit company \$250,000 to work with local housing organizations to expand access to the network.