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The Economics of Rent Credit Reporting

How reporting on time rent payments benefits both residents and PMCs alike

According to a recent survey of renters conducted by Entrata, one of the biggest downsides of renting is not being able to build any economic value by paying rent.[1] Oftentimes, this problem is a catch-22. First, residents aren't able to build credit because their rent payments, which often accounts for the largest monthly expenditure for most renters, are not reported to the three major credit bureaus. In fact, less than 20% of property owners report on time payments, which leads to the second problem.[2] Second, renters are unable to build equity through their payments, but have a hard time moving from renting to home ownership because their credit may be lacking. All of this despite 92% of renters making on time rent payments.[3]

92%

<20%

92% of renters make on time payments, but fewer than 20% of property owners report those payments to credit bureaus.

The good news is this is an easy problem to solve, and it will lead to positive outcomes for both renters and property owners alike. All that needs to be done is for these on time rent payments to be reported to the three major credit bureaus.

1 2023 Entrata Resident Report
2 Rent Reporting Will Motivate Seven in 10 Renters to Make More On-Time Payments
3 NMHC Rent Payment Tracker

Over the course of this ebook, we'll delve into the reasons why rent credit reporting is such an important initiative property owners should get involved in, what problems it can solve for renters and owners/operators, and highlight the benefits achieved by each.

But first, let's review exactly what rent credit reporting is and how it works. Simply put, it is the "monthly reporting of tenant rent payments to at least one of the major consumer credit bureaus for inclusion on a traditional consumer credit report."[4] If reporting to one credit bureau is nice, it's even better if you find a solution that reports to the three major credit reporting agencies (TransUnion, Equifax, and Experian).

Rent credit reporting for the resident

With a vast majority of renters paying their rent on time, it makes sense for them to seek out properties that offer to report those on time payments to the credit bureaus. This is especially true when you take into account the fact that residents are renting longer than they have previously[5] due to a number of factors, including increased interest rates and soaring housing costs. But when the time comes to move from a rental property to an owned property, a lack of credit history can be damaging both for the resident's ability to get approved for a loan and the interest rate they're offered if they do get approved.[7]

In addition, having a thin credit file or bad credit history can lead to an inability to get a good rate on a car loan or even get approved for a cell phone. For approximately ten years, credit bureaus have accepted reports on rent payments, but those have to come via a service that has been approved by the bureaus. Individual properties or individual residents couldn't self report those payments to the credit bureaus.

Currently, only 15% of tenants have their rent payments reported to credit bureaus,[6] that number doubles for Gen Z, who are taking a more active role in building their credit as 60% of residents under the age of 30 would like to have their rent reported to credit agencies.[7]

2X **Gen Z has rent reported at twice the rate of the rest of the renting population.**

4 RENT REPORTING FREQUENTLY ASKED QUESTIONS
5 How Rent Reporting Benefits Rental Businesses And Tips To Get Started
6 How Rent Reporting Benefits Rental Businesses And Tips To Get Started
7 Why Landlords Should Report Rent Payments to All 3 Credit Bureaus

When residents opt to have their rent payments reported to credit bureaus, it puts them in control of their own credit. They're no longer subject to others determining what their credit is, especially when they are making on time payments. Some states have identified the demand and the need for credit reporting for these individuals and have passed legislation requiring properties to report payments to credit bureaus. Chief among them is California.[8]

Another audience that can benefit from this service are students and first time renters. In just a year's time, they are able to build their credit rating if it was thin or non-existent or improve it if they have a bad credit history. In fact, 70% of renters who report rent payments noticed a significant improvement to their credit score.[9]

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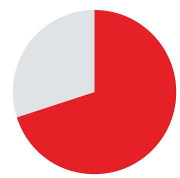
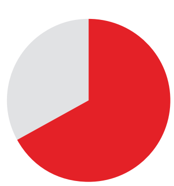


Rent credit reporting for owners and operators

For owners and operators, one of the biggest problems they face and one that takes up a lot of time and mental energy of site staff is late or delinquent payments. However, when there's an incentive for paying rent on time, like building credit, the likelihood of on time payments increases significantly and makes online, automated payments more attractive to residents. When staff don't have to chase down payments, they can focus on building a better resident experience, which in turn helps build better relationships between resident and the property because they aren't constantly being hassled to pay rent.

Rent credit reporting is also a good way to build loyalty among residents while also helping you stand out from the competition and become the differentiating factor between choosing your property over another. Research has shown that 67% of renters said they would be more likely to rent from a property that offered rent credit reporting than a property that didn't offer it. There's still time for property owners to be early adopters of this service as less than 20% of properties currently report rent payments.[10]



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8 8 ways rent reporting services benefit tenants and your business and how to get started in 5 steps
9 Why Landlords Should Report Rent Payments to All 3 Credit Bureaus
10 Rent Reporting Will Motivate Seven in 10 Renters to Make More On-Time Payments

"Property managers that offer rent payment reporting are incentivizing residents to pay on time because there is a tangible benefit," said Maitri Johnson, Vice President of Multifamily at TransUnion. At the end of the day, offering rent credit reporting is a win/win for both renters and properties because renters are building their credit more quickly and efficiently than they could have otherwise, and property owners have less bad debt on the books.

According to TransUnion, renters would be 73% more likely to make on time rent payments if that payment would be reported to a credit agency. This means improved cash flow for your business. Additionally, residents could view it as the property doing them a favor by helping them get credit for making on time rent payments.[11]

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Beyond that, it can help you attract the right type of resident. One who cares about their credit and is looking for ways to build and improve their credit rating and are willing to seek out properties that will help them do this. Research has also found that half of property owners say that rent reporting attracts higher quality, more financially responsible renters.[12]

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1/2

One other benefit for properties that are reporting on time rent payments is it reduces the risk for evictions, which can be costly and time consuming for the site teams and can leave a bad taste in the mouth of current residents who have to watch the eviction process up close. According to TransUnion, nearly three fourths of properties would consider reporting rent if it meant fewer late rent payments and less chance of evictions. On the resident side of things, 77% said they would be more likely to pay rent on time if they knew it would impact their credit score.[13]

"Our goal is to educate and motivate more property managers to begin the practice of rent reporting because it's clear that the benefits will not only help them, but many renters as well," concluded Johnson.[14]

11 Rent Reporting Will Motivate Seven in 10 Renters to Make More On-Time Payments
12 Rent Reporting Will Motivate Seven in 10 Renters to Make More On-Time Payments
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14 Rent Reporting Will Motivate Seven in 10 Renters to Make More On-Time Payments

Best practices for implementing rent credit reporting at your property

The key to having a successful rent credit reporting program is to have it be native to the renting process. It should be part of the application when the resident is signing up for insurance, agreeing to background check, etc. During that part of the process, they should have the opportunity to check a box that reports their payments to credit bureaus for a nominal fee.

When deciding what service to choose (if any at all), it's important for you to weigh the benefits against any possible downside of implementing rent credit reporting because it isn't free, however it is also a cost you can pass on to the resident because they're the ones that most directly benefit from reporting payments to credit bureaus.

As mentioned previously, regulations are moving in such a way that reporting rent is going to be a requirement for properties if the resident opts in. This is already the case in California and soon to be in Colorado where a pilot program is running.

Some renters might be concerned about signing up for these types of programs in the event they might make a late payment that could have an adverse affect on their credit, but there's no need to worry because only on time payments are reported.

When evaluating rent credit reporting solutions, your business should consider the cost, what credit bureaus they are able to report to, and how easy it is for residents to sign up for and for you to administer.

Rent credit reporting with Entrata

With its recent acquisition of Rent Dynamics, Entrata has positioned itself as the leader in rent credit reporting for the multifamily industry. Below are just a few of the benefits that can be achieved through RentPlus from Entrata.

What RentPlus does: RentPlus builds economic inclusion for residents through reporting of on time rent payments and providing a clearer path for renters to become homeowners. It allows renters to build and improve their credit by paying rent and utility bills on time. RentPlus also enables residents to backdate on time payments up to 24 months and have those payments reported to the top-three credit bureaus. Customer data shows that residents can improve their credit score by 48 points in the first twelve months just by paying rent on time, which is a significant increase.

In a TransUnion survey, 77% of respondents said they would be more likely to pay rent on time if they knew their rent payment history would be reported to credit reporting agencies.

RentPlus sees 2x more credit score points increased vs competitor properties and an 82% resident participation rate.

How RentPlus benefits PMCs: RentPlus promotes economic inclusion and value through rental reporting for credit building and financial tools, while driving ancillary revenue, resident retention, and ESG initiatives for socially conscious multifamily operators and managers.

What sets RentPlus apart from the competition: With RentPlus, it is also easy to enroll new participants and has a high enrollment rate among properties who have rolled it out and requires no additional fees to set up. Additionally, RentPlus is one of the only FCRA data furnishers that is SOC2 and PII compliant, meaning Entrata assumes full liability and manages residents data with the highest integrity. RentPlus also has flexible revenue sharing options down to the asset level, so PMCs can decide the enrollment model that works best for their portfolio down to a more granular level than other alternatives.

Learn how RentPlus from Entrata can benefit both you and your residents and help you attract residents that meet your criteria, while also helping you drive ancillary revenue by requesting a demo today.

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Entrata powers over 20,000 communities worldwide helping clients achieve and exceed their goals.