



Overview: Access to Utility Data for Underwriting Credit*

Kelly Thompson Cochran, Michael Stegman, & Colin Foos

Surveys suggest that about 90 percent of renters also pay separate utility bills, such as electricity. But utility payment history is potentially easier to access than rental payment history for credit underwriting because the number of utility companies is much smaller than the number of landlords. At the same time, the risk of seasonal surges in utility bills have raised concerns that routine data reporting could have negative effects on some consumers' credit scores.

CURRENT ACCESS

Overdue utility payments are one of the most frequent sources of collections items in consumer credit files, ranking as the fourth-largest category. But only about 3 percent of consumers with utility accounts are estimated to have tradelines reflecting routine payment history in their credit files with Equifax, Experian, or TransUnion.

A few utility companies furnish information to the National Consumer Telecom and Utilities Exchange (NCTUE), which is used in a specialty credit scoring model called FICO XD for underwriting applicants for credit cards, education loans, and other unsecured credit who cannot be scored by traditional FICO models. But most NCTUE data come from telecommunications accounts.

Consumers can also sign up to have their utility payments reported to one or more of the three main credit bureaus through various services, such as platforms that pull payment history from bank accounts or utility companies' websites. Lenders can also sign up with services that pull information from bank account records or utility companies where individual applicants consent to the data transfers. Consumers may have to pay fees and/or provide log-in credentials to make the data available through these channels.

CURRENT USE

Where utility data are available in a consumer's credit file, FICO and VantageScore models will factor them into the consumer's credit score automatically. Different lenders use credit scores in different ways, such as by establishing a minimum score below which they will not lend or by using scores as an input into their own proprietary underwriting and pricing models.

Specialty credit scores or services that provide information from bank accounts or utility companies directly to lenders generally require the lenders to pay additional charges, separate from obtaining consumers' main credit scores and credit files. Lenders vary as to their willingness to pay such costs and adapt their underwriting models to use utility or

other nontraditional data sources. Some lenders are expressing more interest in using the data or specialty scores, particularly so they can underwrite consumers who may struggle to access credit because they lack traditional credit history.

RESEARCH

Research is limited about how the inclusion of utility data affects credit scoring, but two studies have analyzed consumer credit files that contain such information, including both on-time and late payments. They found that the data substantially reduced the number of consumers who could otherwise not be scored under an early VantageScore model and reduced the number of thin-file consumers with fewer than three tradelines.¹ Among consumers who could be scored even absent the utility data, roughly 70 percent experienced changes of fewer than 10 points in either direction with the additional data added. About 10 percent experienced changes of 25 points or more overall with the addition of the data, split evenly between score declines and improvements.

The studies also found that the predictiveness of the credit scoring model increased by a substantial amount for the full population, including consumers who could otherwise not be scored at all. The predictiveness increase from inclusion of the additional data was more modest when the model was applied only to consumers who could already be scored without the information.

These studies have also estimated that the inclusion of utility payment history in credit files could allow credit card lenders to increase their acceptance rates without increasing defaults and that the increases would particularly expand access to credit among Black and Hispanic consumers, consumers younger than 25 and older than 65, renters, and low-income households. One simulation that focused on the inclusion of positive utility payment history for consumers who already had credit files estimated the information would increase credit scores for more than 70 percent of such consumers, though a small share would see scores decline.²

MARKET AND POLICY ISSUES

Collecting utility data potentially involves working with a few thousand companies, as compared with millions of landlords. But regulatory and public relations concerns and fear of higher customer service volumes appear to have discouraged many utility companies from regularly reporting such data. Some state laws restrict reporting of energy payment history without consumer consent on privacy grounds, and reports indicate that regulators in some jurisdictions have informally discouraged or simply failed to provide clear guidance on whether such reporting is permissible. Legislation to override laws that might be construed to prohibit reporting has repeatedly failed to advance in Congress.³

Some consumer advocates have also expressed concern that automatic full-file utility reporting would penalize low- and moderate-income families who fall moderately behind on their bills in peak seasons. They argue that such a result would be particularly unfair given that some state and local laws protect consumers from cutoffs during peak months and that some assistance programs are available only to consumers who have become delinquent. These concerns have deepened recently, given the unequal effects of the COVID-19 pandemic, growing disparities in energy efficiency for low-income households, and the increasing effects climate change has on energy consumption.

Guidance for how to report utility payment history to credit bureaus is limited, and stakeholders report variations in practices. Industry actors are working to develop more consistent and detailed standards for rent reporting, but those efforts have not yet focused on telecom or utility data. Standardization in reporting and further research to determine what factors or patterns regarding utility payments are most predictive of future credit defaults could increase the consistency and effectiveness of scoring and underwriting models.

* For more information, see Kelly Thompson Cochran and Michael Stegman, [Utility, Telecommunications, and Rental Data in Underwriting Credit](#) (Washington, DC: Urban Institute and FinRegLab, 2021).

¹ Michael Turner, Patrick D. Walker, Sukanya Chaudhuri, and Robin Varghese, [A New Pathway to Financial Inclusion: Alternative Data, Credit Building, and Responsible Lending in the Wake of the Great Recession](#) (Chapel Hill, NC: Political and Economic Research Council, 2012); and PERC and Brookings (Political and Economic Research Council and Brookings Institution Urban Markets Initiative), [Give Credit Where Credit Is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data](#) (Durham, NC: PERC; Washington, DC: Brookings, 2006).

² Experian, [Let There Be Light: The Impact of Positive Energy-Utility Reporting on Consumers](#) (Costa Mesa, CA: Experian, 2015).

³ See, for example, [Credit Access and Inclusion Act of 2021](#), S. 2417, 117th Cong. (2021).