

---

**SENATE COMMITTEE ON  
BANKING AND FINANCIAL INSTITUTIONS**  
Senator Steven Bradford, Chair  
2019 - 2020 Regular

---

**Bill No:** SB 619 **Hearing Date:** April 24, 2019  
**Author:** Hueso  
**Version:** March 27, 2019 Amended  
**Urgency:** No **Fiscal:** Yes  
**Consultant:** Eileen Newhall

**Subject:** Promise Zones: credit reporting pilot program: educational services

**SUMMARY** This bill requires the owners or operators of eligible rental housing developments located in Promise Zones to report the rental payments of their tenants to a major credit bureau and requires the Department of Business Oversight to analyze the rent reporting data, as specified.

**EXISTING LAW**

- 1) Requires the Governor's Office of Business and Economic Development (Go-Biz) to develop content on its Internet website and otherwise, to provide information and resources informing the general public about place-based and other geographically targeted economic development programs, including federal Promise Zones designated by the United States Department of Housing and Economic Development and Opportunity Zones designated by the United States Treasury, as specified. Requires the information and resources to include, but not be limited to, how the zones were created, where local residents and investors may get additional information about the zones, and updates regarding federal programs (Government Code Section 12097.5).
- 2) Requires Go-Biz to convene, at least annually, representatives from various programs and agencies across the state and from various federal programs and agencies to discuss how California can leverage Promise Zones and Opportunity Zones to meet state and local community and economic development needs. Requires convention topics to include, but not be limited to, discussions on enhanced engagement opportunities and targeted outreach to aid designated areas in their efforts to access state resources and services (Government Code Section 12097.5).

**THIS BILL**

- 1) Defines an eligible rental housing development as a rental housing development located within one of California's four existing Promise Zones, which receives financial assistance from the state or which contains at least fifty units.
- 2) Defines a consumer credit reporting agency as TransUnion, Equifax, or Experian.
- 3) From January 1, 2021 through December 31, 2024, requires the owner or operator of each eligible rental housing unit to furnish information to a consumer credit

reporting agency regarding rental payments made by tenants who opt in to rent reporting or to authorize a third party to furnish that rental payment information to a credit reporting agency on its behalf. Identifies this rent reporting project the “pilot program.”

- 4) Requires tenants who wish to have their rent payments reported to a consumer credit reporting agency to submit a written request to the owner or operator of an eligible rental housing development, and requires an owner or operator of an eligible rental housing development or an authorized third party to obtain written consent from a tenant before reporting that tenant’s rental payment data to a credit reporting agency.
- 5) Provides a mechanism for use by tenants who wish to revoke their authorization for rent reporting, as specified.
- 6) Requires the Department of Business Oversight (DBO) to do all of the following:
  - a) Inform the director of each Promise Zone regarding the rent reporting pilot program and encourage each director to provide educational resources to tenants who opt to have their rental payments reported, as specified.
  - b) Collect and analyze data on the pilot program to assess its effectiveness in achieving the purposes of the bill.
  - c) Submit a report to the Legislature within six months of the conclusion of the pilot program which describes the number of residents who opted into the pilot, the average number of months a resident participated in the pilot, resident dropout and enrollment rates in the program, the average change in credit score for a resident at each property, and recommendations regarding program procedures, including whether the program should be continued or expanded.
- 7) Requires Go-Biz to assist with educational partnerships as part of its annual convention to discuss how California can leverage Promise Zones and Opportunity Zones to meet state and local community and economic development needs.

## **COMMENTS**

- 1) Purpose: This bill is sponsored by Credit Builders Alliance to study whether rent reporting can help Californians living in Promise Zones establish and/or improve their credit scores.
- 2) Background: According to the author’s office, “Access to credit is a necessity in today’s economy. An individual’s credit score can be the deciding factor for everything from interest rates, loan terms, the size of their security deposit, and whether a rental application is approved or denied. Statistics show that a lack of credit impacts a large segment of our population and disproportionately affects those with low income and communities of color. Approximately 60 million US adults have credit scores lower than 650, and 53 million have no credit scores at all due to little or no borrowing history. According to the Consumer Financial Protection Bureau, 45% of individuals in low-income neighborhoods are ‘credit invisible’ or ‘unscorable.’”

This bill's sponsor has published reports stating, "A good credit score can save a person a significant amount of money in interest and fees over the course of a lifetime. Landlords and utility companies often require a large security deposit from individuals with no or poor credit scores... Many auto and property insurers price their products, in part, based on credit histories. And a mortgage or small business loan applicant's credit history could be the difference between obtaining a loan that allows him or her to build a major asset and getting no loan at all...."

"Companies and landlords may report accounts in collections to one or more of the three major credit bureaus. Far fewer, however, report on-time payments. Credit reports and scores that do not recognize on-time rental payments as creditworthy behavior present an incomplete and negatively skewed assessment of the credit risk many renters pose, impeding their ability to successfully join the financial mainstream. This is especially troubling for low- and moderate-income renters in today's economy. Given that a good credit history is an increasingly important financial asset, denying renters the opportunity to build their credit through on-time rent payments may exacerbate already high levels of wealth inequality....By reporting their residents' rent payments to the credit bureaus, responsible, mission-driven landlords can offer individuals with poor or no credit an often rare and valuable chance to build their credit history with a payment they already make regularly and without having to assume any additional debt, apply for a new product, or remember to make another monthly payment."

This bill is focused on rent reporting within California's four Promise Zones as a means of helping people in high-poverty areas of the state establish and improve their credit scores.

- 3) What are Promise Zones? First announced during President Obama's 2013 State of the Union address, the Promise Zone program is administered by the U.S. Department of Housing and Urban Development (HUD). According to the HUD website, Promise Zones are high poverty communities where the federal government partners with local leaders to increase economic activity, improve educational opportunities, leverage private investment, reduce violent crime, enhance public health, and address other priorities identified by the community. Promise Zone designations last for ten years. Three rounds of Promise Zone designations have yielded four Promise Zones in California: one in Sacramento, one in San Diego, and two in Los Angeles. Together, these California Promise Zones house nearly 600,000 residents, experience poverty rates ranging from 35% to 46%, and experience unemployment rates ranging from 12% to 16%. As noted above, existing law requires Go-Biz to identify information and resources available to individuals, investors, and communities wishing to leverage the Promise Zone program.
- 4) Not All Credit Scores Are Equal: Even though many people colloquially refer to their "credit score," none of the big three credit reporting agencies (Experian, Equifax, and TransUnion) maintains a single credit score for each consumer. Most consumers have several different FICO scores and VantageScores. The specific score a creditor receives for a specific consumer is dependent in part on which credit reporting agency furnishes that score and in part on which FICO score or

VantageScore the creditor requests. FICO has released several updates to its score models over the years, and different lenders use different versions (FICO 4 versus FICO 8, for example). There are also different types of FICO scores tailored to different types of creditors. Most auto lenders, for example, use a FICO “auto score” that more heavily weights a consumer’s prior experiences with auto loans. Credit card issuers use a “bank card” credit score (see “Your FICO Credit Score: Actually, There Are Many,” AnnaMaria Androtis, *Wall Street Journal*, June 26, 2015).

These distinctions are important in the context of rent reporting, because, while rent reporting *can* help a tenant establish or improve a credit score at one or more of the big three credit bureaus, rental data are not included in the calculation of *all* credit scores provided to creditors by the big three. At the present time, rental data are only included in the FICO 9 credit score, VantageScore 3.0, VantageScore 4.0, and in proprietary scores developed by the credit reporting agencies. The amendments described below are drafted to reflect these distinctions.

- 5) Discussion and Summary of Recommended Amendments: This bill was heard and passed by the Senate Judiciary Committee on April 9, 2019 on a 7-0 vote. The Senate Judiciary Committee analysis focused on the value of rent reporting to individuals’ credit scores and on the importance of protecting tenants’ rights in relation to the warranty of habitability. The Judiciary Committee analysis did not focus on the study that this bill requires DBO to perform. That study is the focus of the remainder of this analysis and is the focus of several recommended amendments.

The current version of the bill tasks DBO with collecting and analyzing data to assess the bill’s effectiveness in achieving its purpose. However, the bill fails to include a stated purpose, fails to clarify how DBO is supposed to obtain the study data from the credit reporting agencies, fails to acknowledge DBO’s lack of analytical expertise in the area of credit reporting, and lacks specificity regarding which questions are most important for studying the credit-building power of rent reporting.

Committee staff has worked with the bill’s sponsor and author to suggest a series of amendments, which do all of the following:

- a) Strike the reference to a pilot program. DBO already administers one pilot program, and giving the department a second one to administer may lead to confusion. Furthermore, the term “pilot” typically suggests that a new idea is being tested. The use of rent reporting as a tool to help individuals establish and improve their credit scores is not new. This bill can be implemented as the author desires without referring to the data reporting and analysis as a pilot program.
- b) Revise the definition of “consumer credit reporting agency” to more accurately reflect the way in which Experian, TransUnion, and Equifax are defined under federal law.
- c) Add a definition for the “operator” of a rental housing development and tailor the bill’s rent reporting requirements to those operators.

- d) Streamline and simplify the process by which tenants can opt into and out of rent reporting.
  - e) Modify the tasks that DBO is required to encourage the director of each Promise Zone to undertake to ensure that *all* tenants in Promise Zones, not just those who opt in to rent reporting, are offered credit education. Add financial coaching services to the list of services the director of each Promise Zone is encouraged to provide to Promise Zone residents.
  - f) Delete the requirement that DBO collect and analyze rent reporting data. Instead, require DBO to contract with an independent third party to analyze the rent reporting data and to prepare a study for submission to DBO by December 1, 2023. Provide specificity to both DBO and the third party regarding exactly what methods to use to conduct the study and exactly what questions to answer. Require DBO to post the report on its Internet web site and provide it to the Legislature by January 1, 2024 (one year prior to the bill's sunset date). Although the bill is silent on which type of third party could perform the study, it is anticipated that one of the credit reporting agencies or one of the existing third party rent reporting agencies could likely do so.
- 6) Is DBO the Right Entity To Analyze Credit Reporting Data? Under existing law, DBO has broad authority to regulate 24 different financial and securities-related programs and laws. However, the department's jurisdiction does *not* extend to credit reporting agencies, nor to any of the state laws governing credit reporting. Only one law under DBO's jurisdiction mentions credit reporting, and that reference simply requires certain DBO licensees to report borrower payment history to specific credit bureaus. For all of these reasons, it is unclear that DBO is the appropriate entity to analyze credit reporting data or contract out with an independent third party to do so. This Committee may wish to ask this bill's author to initiate discussions with Go-Biz to see whether that entity would be willing to step in for DBO, after the bill is amended and Go-Biz has had time to review the amendments. Although Go-Biz has no more jurisdiction over credit reporting than DBO, Go-Biz does, at least, have some interaction with Promise Zones and might therefore be willing to study the impact of rent reporting as a credit-building tool for Promise Zone residents.
- 7) Do We Really Need Another Study, Or Is It Time to Take the Next Step? In background material submitted to this Committee, the author's office asserts that rent reporting studies performed to date have demonstrated tremendous potential in helping provide low-income individuals access to credit, but that the sample sizes of these studies have been small, and there are limited data specific to California. These statements are used to support the author's proposal to perform a California-specific study.

Without questioning the desire of this bill's author to gather California-specific data, staff does question the need for another study. The following are some examples of studies that have already demonstrated the ability of rent reporting to enable persons who lack credit scores to establish those credit scores, enable persons with thin credit files to establish credit scores, and enable persons with damaged credit to improve their credit scores through rent reporting:

"Making Rent Count," New York City Comptroller's Office, 2018:

<https://comptroller.nyc.gov/reports/making-rent-count/overview-rent-credit/>

"The Power of Rent Reporting Pilot: A Credit Building Strategy," Credit Builders Alliance and the Citi Foundation, 2015:

<https://www.creditbuildersalliance.org/download/3482/>;

"Rent Reporting for Credit Building: Home Forward – A Case Study," Credit Builders Alliance, 2015: <http://www.creditbuildersalliance.org/download/6733/>

"RentTrack Completes Six-Month Review of the Impact of Rent Reporting, RentTrack," 2015, <http://www.renttrack.com/blog/renttrack-six-month-review-rent-reporting-impact/>

"TransUnion Analysis Finds Reporting of Rental Payments Could Benefit Renters in Just One Month," Transunion. 2014:

<http://newsroom.transunion.com/transunion-analysis-finds-reporting-of-rental-payments-could-benefit-renters-in-just-one-month>

"Credit for Renting: The impact of positive rent reporting on subsidized housing residents," Experian RentBureau. 2013

<http://www.experian.com/assets/rentbureau/white-papers/experian-rentbureau-credit-for-rent-analysis.pdf>

This bill is premised on a belief that the aforementioned studies are insufficient for the state to reasonably conclude that rent reporting can help Californians build credit. Will the study proposed in this bill definitively answer that question? At what point is it appropriate for the Legislature to begin debating the next logical questions: Which landlords in California should be permanently required to offer their tenants the option of having their rent payments reported, and when should that requirement be phased in? Although these questions are relevant, amendments of this type are not suggested for this bill at the current time, because of the likelihood that such amendments will require extensive discussions with organizations representing landlords and other real estate interests to negotiate appropriate coverage and implementation dates.

- 8) Support: This bill is sponsored by Credit Builders Alliance, a nonprofit organization that seeks to help move people from poverty to prosperity through credit building. SB 619 will "further the goals of the federal Promise Zone designation by allowing tenants in the four CA Promise Zones to opt into reporting their rental payments to Credit Bureaus as a means of establishing and building credit...By establishing a rent-reporting program targeting the four CA Promise Zones, low-income tenants would be able to build their credit by making on-time payments -- giving them the same benefits that traditional mortgage holders receive." The Unity Council, Mutual Housing California, New Economics for Women, Central City Neighborhood Partners, and TMC Development Working Solutions support the bill for similar reasons.
- 9) Opposition: None received.

- 10) Amendments: As described above, Committee staff worked with this bill's sponsor and author to draft extensive amendments that are intended to further the intent of the author to perform a rent reporting study. These amendments do *not* replace the study with a broad-based requirement that California landlords of a certain size offer their tenants the option of having their rental payments reported to a major credit bureau, although this bill's author may wish to initiate stakeholder discussions to explore the viability such an amendment as the bill moves.

### **LIST OF REGISTERED SUPPORT/OPPOSITION**

#### Support

Credit Builders Alliance (sponsor)  
Central City Neighborhood Partners  
Mutual Housing California  
New Economics for Women  
The Unity Council  
TMC Development Working Solutions

#### Opposition

None received

-- END --