



FSIC Housing Task Force FSIC Blog Post January 7, 2022

GAO: Alternative Data Is Rare but Could Improve Mortgage Terms for Disadvantaged Communities



One issue our Task Force aims to address is the lack of credit too many consumers face due to the limited information that credit bureaus collect. A recent report from the U.S. Government Accountability Office adds some fresh findings that illuminate the problem.

Credit bureaus analyze loans and credit card information to determine consumers' credit scores, which influence the ability to obtain a mortgage with reasonable terms. But 45 million Americans don't have a credit score from one of the three major consumer reporting agencies. These consumers have not previously needed to obtain a loan and tend to rely on cash and debit cards.

The GAO notes that these consumers tend to be low-income and minorities, citing a [report](#) from the Consumer Financial Protection Bureau's Office of Research. The CFPB found that about 15 percent of Blacks and Hispanics are credit invisible (meaning they are without credit records from nationwide credit reporting agencies) compared to 9 percent of Whites. Additionally, almost 30 percent of consumers in low-income neighborhoods are credit invisible compared to only 4 percent of adults in upper-income neighborhoods. That means traditionally disadvantaged communities are being disadvantaged further when seeking a mortgage due to our imperfect credit-reporting system.

A solution to this problem is expanded use of what the GAO calls "alternative data," which includes payment histories for telecom, utility, and rent bills. A consistent record of on-time payments for these kinds of bills demonstrates a financial responsibility that credit agencies and lenders should consider when determining credit scores and ability to pay.



The GAO found in its report that mortgage lenders' consideration of alternative data has been [rare](#). Legislation, like the Credit Access and Inclusion Act, [could change that](#) by enabling utility and telecom providers to report on-time payments to credit reporting agencies.

This additional information would allow consumers to establish a credit score or improve their existing ones. With the expanded consideration of alternative data, consumers – especially low-income and minority ones – will have a fairer shot at receiving a loan with minimal interest payments.