

THE IMPACT OF CREDIT ON SECURING HOUSING

INTRODUCTION

Securing safe and affordable housing is a necessity for everyone in Guelph and Wellington County. Recently, however, some frontline workers have noted that people with poor credit are being turned down for housing regardless of whether they have first and last months rent, security deposits and/or steady incomes. In many cases, a credit check is used by landlords to assess the financial stability of a potential renter. Unfortunately, this can negatively affect families and individuals that have poor or no credit when trying to secure housing. This report highlights the impacts of credit checks on housing attainment for people living in poverty and what can be done to help those with poor credit.

WHAT IS A CREDIT CHECK?

A credit check is one tool used by landlords to assess a potential tenant's ability to pay their rent on time. Prior to conducting a credit check, the tenant will sign a consent form authorizing the landlord to obtain a credit check and provide access to their credit report by giving either their social insurance number or driver's licence number (Canada Mortgage and Housing Corporation, 2012). A credit report is a "snapshot" of your credit history. You build a credit report when you borrow money and pay it back. An individual automatically creates a credit report once they get a credit card, a loan, and/or enters into a contractual

financial agreement with a utility company, telephone provider etc (CMHC, 2012).

A poor credit report is normally the result of late or failed payments of monthly bills, credit cards, and/or loans. This information remains in an individual's credit file for upwards of seven years (CMHC, 2012; FCAC, 2008).

If you have never had a loan or a credit card, prospective landlords will have little or no information to review in your credit file. Although an empty file is not as bad as a poor credit file, an empty file tells prospective landlords nothing about any possible financial risks of renting to you.

That's why establishing a good credit file is crucial (CMHC, 2012).

ACCORDING TO THE HUMAN RIGHTS CODE..

According to the Ontario Human Rights Code (2009), people cannot be refused housing based on the following grounds: race, colour or ethnic background, religious beliefs or practices, ancestry, place of origin, citizenship, sex, family status, disability, sexual orientation, and receipt of public assistance. When assessing prospective tenants, landlords are allowed to use a number of criteria including credit checks. However, Regulation 290/98 restricts landlords from using this in an arbitrary way to screen out prospective tenants based on the grounds listed above, outlining that "the criteria must be used in a *bona fide* and non-discriminatory way (OHRC, 2009)." In cases of poor



credit, the tenant must be allowed to clarify their situation and explain any extenuating circumstances to the landlord (OHRC, 2009). Alternatively, no credit should not be a barrier when obtaining housing and should not be equated with a bad credit rating (OHRC, 2009).

IMPACTS OF CREDIT CHECKS ON LOW-INCOME INDIVIDUALS

Those most affected by credit checks are individuals with minimal economic means, which normally include racial and ethnic minorities, recent immigrants, women, persons with a disability, and those on public assistance (OHRC, 2009). Typically, these individuals have either bad credit or no credit at all (OHRC, 2009). Tenants with a low social and economic status are more likely to be discriminated against by prospective landlords, making it much more difficult to secure housing. Often, landlords will screen out potential tenants with bad/no credit based on misconceptions regarding poverty, impose illegal rental requirements (like a security deposit), provide inadequate housing services, engage in harassing behaviours, and/or scrutinize the tenant's behaviour in the hopes of an early eviction (OHRC, 2009). These actions make it extremely difficult for low-income individuals to secure and maintain safe and affordable housing long term. This can negatively affect the individual in a number of ways as it can lead to substandard housing arrangements and homelessness (Chisholm, 2003; OHRC, 2009). For women in particular, it may make them more vulnerable to harassment by their housing provider or prevent them from leaving abusive relationships (OHRC, 2009). Inadequate housing is also associated with the apprehension of children by family services (OHRC, 2009).

HOW TO IMPROVE CREDIT RATINGS

In general negative credit information remains on your file for seven years (CMHC, 2012; FCAC, 2008). It may take a significant period of time (months, even years) to improve bad credit; however, there are some steps an individual can take to work towards good credit. For example, an individual wanting to improve their credit rating should consistently pay any loan, bill, or credit card payments on time, pay any debts off as quick as possible, stay well below their credit card limit, and have minimal credit cards

(CMHC, 2012; FCAC, 2008). For those who have no credit, a good credit rating can be established by obtaining and using a credit card with a low credit limit and paying it off on a regular basis.

A LOCAL PERSPECTIVE: NICK'S STORY

While on Ontario Works, Nick was living independently in shared accommodation for three months. Following a disturbance with the other tenants, Nick and his roommates were asked to leave immediately, leaving Nick homeless.



Nick is currently residing at the Wyndham House Youth Emergency Shelter. He's started working full-time as a bouncer at one of the downtown bars and part-time with landscaping company. Despite his employment, Nick has not been able to secure housing for over a month.

Nick had his heart set on a particular apartment in the downtown area, but didn't have enough money to pay first and last month's rent. He applied for a credit card, knowing he would be able to pay the credit off with income from his two jobs. However, Nick's application was denied because of his lack of credit.

Seeing few options and knowing his time at the shelter was limited, Nick went back on Ontario Works. When he approached the landlord to let him know he would be going on assistance, the landlord then asked Nick for a credit check and a co-signer to accompany his application. Unfortunately, Nick does not have a good relationship with his parents and therefore did not have anyone to co-sign his application.

Desperate to get out of the shelter, Nick borrowed money from an unknown source to secure housing. However, due to his lack of credit and no one to co-sign for him, Nick has still not been able to secure housing and continues to reside at the shelter.

A LOCAL PERSPECTIVE: WOMEN IN CRISIS

Service providers at Women in Crisis shared the following points on how credit ratings impact securing housing for their clients:

- If women are just above the poverty line and have a bad credit rating, it is almost impossible to find market rent housing due to credit checks that the landlords perform. In these cases, women might not qualify for subsidized housing due to their income being “too high.”
- Women we support often enter poverty after leaving their partners. During that time they accumulate debts, hurting their credit rating. They are often denied loans by the banks and they might be forced to declare bankruptcy.
- Many women that are able to secure credit often do so at a high interest rate that they cannot afford.
- If women need to get a market rent apartment and they have a bad credit rating, they are asked to have a guarantor or co-signer to secure a place. Often women don't have anyone who will help them in this way.



CONCLUSIONS

Adequate housing is a necessity for all individuals living in the Guelph-Wellington area, including people with low

incomes. The use of credit checks by landlords negatively affects individuals with low incomes, particularly racial and ethnic minorities, recent immigrants, people living with a disability, women, and those on public assistance. Although the Ontario Human Rights Commission allows landlords to obtain a credit check to assess a prospective tenant, Regulation 290/98 restricts landlords from using this in an arbitrary way. It also mandates that landlords allow potential tenants to explain any extenuating circumstances in the event of a bad credit rating, prompting them to consider additional criteria such as rental history and references. In any event, credit checks have the ability to lead to homelessness and inadequate housing for many individuals when not properly considered by landlords.

RECOMMENDATIONS

For tenants:

- If you have bad credit, get someone (ideally a past landlord) to provide you with a recommendation/reference letter that will showcase financial responsibility. If possible, be ready with your rental history as well.
- Be willing to explain any extenuating circumstances and highlight any positive changes to your situation (such as a new job, education upgrade etc.) that will provide additional assurances to a potential landlord that you will pay rent on time.
- Know your rights. Tenants are protected under both the Ontario Human Rights Code and the Landlord Tenant Act. Yet, despite evidence of widespread housing discrimination in Ontario, housing cases make up less than 6% of all human rights applications filed with the Human Rights Tribunal of Ontario (Centre for Equality Rights in Accommodation, 2009).

For landlords:

- Use a variety of criteria when screening tenants as opposed to just a credit check. Often times, a credit check is not the best determiner of whether a potential tenant will pay rent on time.

- Carefully evaluate the entire credit report. A poor credit score for not paying a credit card, for example, should not be an indicator of whether a potential tenant will pay rent. Look at essential services such as hydro when making judgements based on monthly rent payments.
- Allow a potential tenant the opportunity to explain any extenuating circumstances that may explain a poor credit score.

For the provincial government:

- Make housing services and rent supplement programs more available by standardizing eligibility criteria across the province of Ontario.
- Dedicate more long-term funding for rent subsidies, supportive housing, as well as funding for other forms of housing such as shelters and transitional housing.
- As recommended by the Centre for Equality Rights in Accommodation (2009), the Government of Ontario should help fund housing discrimination audits in communities like Guelph-Wellington County that target private housing providers. These audits could be a collaborative effort between the provincial government, the Ontario Human Rights Commission, and appropriate community-based organizations.

For the federal government:

- The federal government has a role to play by investing more rental housing by providing incentives to lower rental costs, low-interest loans to finance construction, and removing barriers in the tax system (i.e. deferral of capital gains, GST/HST exemptions). This strategy will help increase the supply of housing, as a tight rental market (low vacancy – below 3%) contributes to a tightening of screening for potential clients.

For the municipal government:

- Provide more information within the community that highlight tenant rights under the Ontario Human Rights Code and the Landlord Tenant Act.
- Offer informational sessions for landlords that outline appropriate tenant screening tools based on the

Ontario Human Rights Code and the Landlord Tenant Act, and how to build positive relationships with tenants.

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Principal Organization: Guelph & Wellington Task Force for Poverty Elimination, Research & Policy Working Group

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Authors: Rachel Schumann, Randalin Ellery

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