

Tenant Screening

Now more than ever, tenant screening is a crucial part of property management. Tenant screening is another facet of asset protection to help safeguard your rental investment. Don't put yourself, your property, and your good tenants at risk by being in a hurry to fill a vacancy and not properly screening applicants. Failure to conduct adequate tenant screening often results in very serious problems for both landlords and neighborhoods. One bad tenant in your rental unit can cost much more than all costs associated with a continuing vacancy.

Inadequate screening may result in having tenants who pay late, don't pay at all, damage the property, disturb neighboring tenants, and/or cost the landlord time and money in some other way. Studies show that 90% of tenants who violate their lease agreements will do so repeatedly. Repeated tenant violations are expensive, time consuming, and frustrating for the landlord. It is much more cost effective to put time and energy into tenant screening rather than into tenant removal.

Application and Interview

Some landlords consider their initial interview with the applicant to be sufficient to determine whether the applicant is a good candidate to fill the rental vacancy. Oftentimes the landlord bases his selection of an applicant from the "gut feeling" he gets during the interview. Can the landlord be sure the applicant is really who he/she claims to be? The applicant may have a good story to tell, but a prudent business owner will want more than a story. Consider also the specter of identity theft. The applicant presents an impressive application, but is it really his information or someone else's?

The completed rental application and the applicant interview provide the landlord with a place to start his investigation of the applicant's qualifications to fill the vacancy, not serve as a conclusion to the process. Taking the time to investigate the information provided by the applicant is in the best interest of the landlord. It is essential to making an informed decision on the person to whom you will entrust your valuable investment property. The tenant you select can have a significant impact on your income and your future level of stress. You must choose wisely.

Identity Verification

Before accepting an application, it is very important to verify each applicant's identity. Landlords should require each applicant to produce two forms of identification. One document should be a government issued photo identity document and, while preferable that the second document also be a form of photo identification, it should at least be a document that includes personal information including a current address.

Identity verification is the first opportunity to begin screening. Compare the data on the identity document to the information shown on the application. Compare the photo on the identity document to the applicant presenting himself. If there are discrepancies, what explanation does the applicant provide? You should note the applicant's answers to your questions and file the document in the applicant's file.

Screening Fees

If there are no discrepancies or the applicant's explanation of variances is satisfactory, the next step is usually to accept the application for processing along with collecting any screening fees. As applicable under your state's laws and as part of your rental policy, collecting a screening fee from the applicant helps to offset part of the cost of filling a vacancy. Collecting a screening fee provides an additional incentive to utilize tenant

screenings in filling your vacancies. Many times landlords are reluctant to spend money on tenant screenings thinking that perhaps the screenings are too expensive or difficult to understand. Perhaps they rationalize that for just that one vacancy, it really isn't necessary. That one vacancy for a single family rental may be the landlord's entire business. Trying to pinch pennies or skimp on time and effort is false economy. By not screening tenants, landlords are taking on considerable risk. The few dollars spent on a screening report is worth every cent in the event that the nice-looking applicant who interviewed so well turns out to be a recently evicted, unemployed, and/or disruptive individual with poor credit management history, all issues that could have been discovered through adequate screenings.

Tenant screenings should not be considered a potential profit center for the landlord. Profit in part comes from successfully installing a good tenant and adequate property management, not from making \$5.00 from each screening report. In many states, screening fees cannot be more than the actual out-of-pocket costs for the screening reports. The landlord's rental policies should clearly state how tenant screenings will be handled and the amount of applicable fees. The applicant will usually know if he/she will have satisfactory reports. Those applicants that suspect the outcome will not be favorable may "prescreen" themselves by declining to complete the application process, thereby avoiding waste of time and money.

Fair Housing and Discrimination

A key point to remember is that any information you request from one applicant should be requested of every applicant to avoid charges of discrimination. The same types of screening reports should be utilized for each applicant. Landlords must be familiar with all applicable fair housing laws including Title VIII of the Civil Rights Act of 1968 (the Fair Housing Act), as amended by the Fair Housing Amendments Act of 1988, which prohibits discrimination in housing and housing related transactions based on race, color, religion, sex, national origin, disability or familial status. In addition, Fair Housing laws of some states or local jurisdictions cover additional protected classes and/or provide even broader coverage of certain protected classes.

Types of Screenings

Tenant screening reports in general can include verifications of (1) applicant identity, Social Security number, prior addresses, employment and other income sources, credit grantors, banking or financial institutions, personal and professional references, and/or previous landlords; (2) consumer credit reports; and (3) records searches for bankruptcies, liens, judgments, eviction filings, criminal history, sexual predator/sex offender history, and OFAC/Patriot Act listing of restricted individuals or entities.

In evaluating the rental applicant, the landlord will want to determine that the applicant (1) is financially stable, that is, has sufficient income to meet rent and other obligations, (2) has been a good neighbor, that is, considerate of other tenants; (3) has no history of damage to rental property; and (4) has no history of criminal activity that could be considered a danger to others. Some landlords will also include in their selection criteria that the applicant has not been previously evicted.

After the initial screening of the applicant's completed application and landlord interview, the next step in the screening process may be dependent upon the landlord's policies and procedures. Some landlords will prefer to immediately screen for verification of employment and previous rental history; others prefer to run a credit report to evaluate the applicant's credit risk.

There are some screenings, such as employment verification, landlord references, and searches of public records, that an individual landlord or his direct employee can perform if the landlord has the inclination to do so. There are some screenings for which the landlord will either want to or need to utilize a third-party tenant screening service. A credit report is the best example of needing a third-party vendor to perform a screening.

The landlord is free to choose a third-party vendor to perform all screening tasks the landlord wants done. Reasons that a landlord would want to have a tenant screening service conduct all applicable screenings might be that the landlord (1) is unable to devote time and energy to the tasks, (2) may be inexperienced or lack confidence in conducting verifications, (3) prefer to shorten the time interval to selection in order to fill the vacancy quickly, and/or (4) wish to transfer certain liability risks to others.

Tenant screening products, bundled or unbundled, may differ from vendor to vendor. It is beneficial for a landlord to research vendors of interest prior to an immediate need for a screening report to determine vendor requirements for membership, product pricing, report turnaround time, sample reports, hours of client services, etc.

A credit report from a qualified third party vendor is the bare minimum screening that should be utilized to evaluate an applicant. A credit report should be run for each adult applicant. A credit report not only shows an applicant's credit history, but also provides information about creditors, and information that will be useful in the event of a lease default, particularly when a tenant skips.

The bottom line is to obtain adequate information utilizing a variety of sources – consumer credit reports, background screenings, and applicant-supplied data – so that the landlord can determine if the applicant is qualified to fill the vacancy under the landlord's selection standards.