Trend Watch: Current Applicant Credit Profiles

By Mike Lapsley, President and CEO, RentGrow, Inc.

With almost all property management companies reviewing credit as part of their screening process, resident screening providers get a first-hand look at important credit trends affecting our industry. Through ongoing analysis of applicant profiles and property performance our team has uncovered some interesting credit trends in the current renter applicant pool. Your understanding of these trends will allow you to consider how your property management company can best maneuver in current market conditions.

Bankruptcies on the Rise

The trend is clear: bankruptcies are on the rise while foreclosures remain flat. Since the collapse of the housing market, the nation, and property management companies in particular, have been keenly focused on the growing number of foreclosures in the US. Interestingly, the foreclosure rate observed on apartment applicant credit reports remains relatively unchanged since 2009, while the number of renter applications with recent bankruptcies on their credit reports has increased by 9%, compared to this time a year ago.

Have you reviewed the way you evaluate applicants with bankruptcies on their credit report? Work with your screening provider to understand how these applicants are performing, and whether you think you need to make a change to your screening criteria.

More Applicants with Thin Credit Files

In the past few years, credit has become harder to obtain for consumers, and now properties are receiving more rental applications from prospects with thin credit files. In Q1 2010, over 32% of apartment applicants had thin or no credit history - almost 1/3 of the renter applicant population!

Based on historical data, applicants with thin credit files could be considered high risk. In terms of lease performance, these applicants perform similarly to applicants with moderate credit risk profiles. If you haven't already, you may want to make sure you are adequately gauging and managing the risk associated with applicants in this category. Work with your screening company to understand how these applicants are performing, and whether you think you need to make an adjustment, such as modifying deposit levels or conditional acceptance policies.

Applicants with Medical Debt

Property management companies are processing more applicants with unpaid medical debt than ever before. Many people are stretched financially and often defer medical payments due to higher priority living expenses, such as housing and transportation. Rental applicants with recent medical debt are up 5% from last year, impacting almost 37% of applicants nationally.

Since most property management

Continued on page 14

Collecting Rent Early & Other Tips For Peak Performance

Can you imagine tenants consistently paying on time or possibly even early? Amazing concept, isn't it. While many tenants initially perform well, over time many become lackadaisical with their rental payments, and their adherence to the rental agreement. Try out these five great tips that will help ensure your tenants (and your rental investments) stay in great condition.

Tip 1: Bonus Offer for Early Rental Payments

Who doesn't love a bargain, or a great sale? Offering an incentive for advance rental payments will encourage your tenants to pay their rent early. It could be a $50 break on rent, a discount on the following month's rent, a credit towards their utility bill, or a gift card to Best Buy! Incentives are the way to go and more often than not ensure landlords timely payments.

Tip 2: Late Payment Penalties

Positive reinforcement works, right? Well, so does negative reinforcement! We strongly encourage your rental agreement to include a late payment penalty. Still, the ultimate responsibility for enforcing timely payments is up to you. Filing for eviction over a $40 late fee may seem extreme, but it will send a strong message, and you probably will not have the same problem again.

Tip 3: Don't Accept Rental Agreement Violations

Being a landlord is being in business, and businesses do not simply allow their clients to break their contracts. For example, prohibits tenants from keeping pets, but you discover the tenant has a mastiff, it's time for a swift and effective intervention. If you send your tenant a notice informing them that they must cure or vacate, followed by an eviction complaint, you put yourself in an excellent negotiating position. From there, you may decide to let them keep the pet, but only if they pay an additional monthly fee, or put down an additional deposit, etc. However, it's critical that you send an unambiguous message that you will not tolerate any violation of your rental agreement.

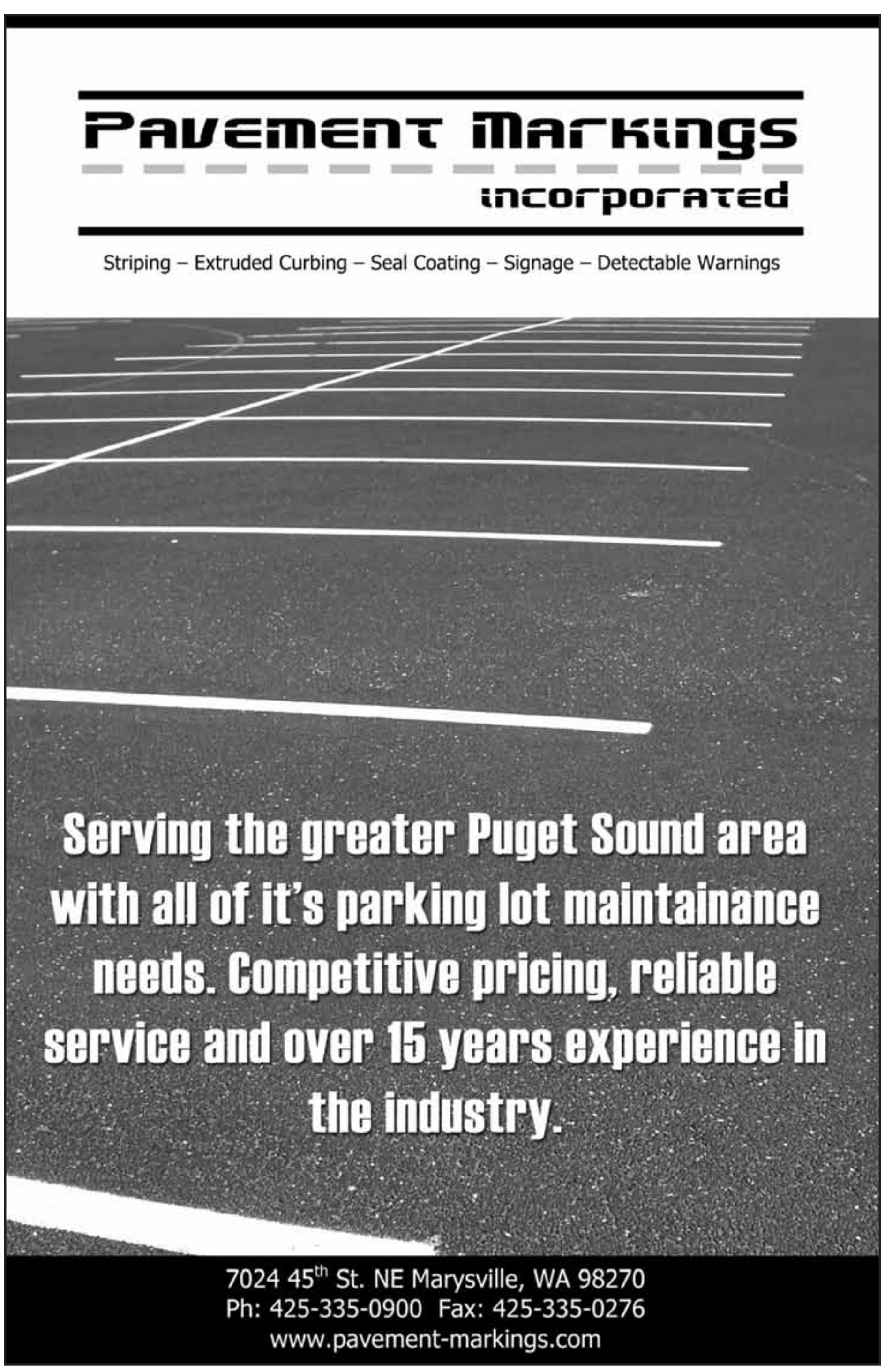
Tip 4: Rental Inspections Are Essential

We suggest checking on your rental properties as often as you can, keeping an eye on how your tenants are treating your investment and verifying there are no rental violations. Once again, this sends a message that you are a serious landlord, and that the rental property is a priority for you. This may also encourage your tenants to keep the property clean.

Tip 5: Report Rental Payments to the Credit Bureaus

Credit is critically important in today's society, and many tenants appreciate this, going to great lengths to protect their credit ratings. People are far more likely to pay bills on time when they know the payments are being reported to credit bureaus, so give your tenants a strong incentive to actually make those payments on time, or even early.

If you want your tenants to perform and your rental property to yield the maximum possible return, you must be aggressive in managing that investment: be proactive, be responsive, and above all, enforce the rules of your rental agreement!
www.ezlandlordforms.com



Trend Watch

...continued from page 3

companies overlook medical debts in their screening criteria, this trend tends to have a lesser impact on a property's applicant quality and acceptance rate. Ensure that your management company doesn't miss out on this enormous group of, in many cases, otherwise qualified applicants by taking advantage of medical debt filters in your screening process. Consult your screening company to determine if you currently score medical debts and whether it's advantageous to make this adjustment.

Conclusion

By understanding these credit trends, you can better evaluate the renter applicant pool and adjust screening criteria to increase occupancy. Although the trends outlined above may not be visibly impacting your business at the moment, they may in the near future. As always, RentGrow will continue to monitor these and other trends to educate ourselves, our clients and the industry.

Mike Lapsley is president and CEO of RentGrow, Inc., the resident screening experts (www.rentgrow.com). He can be reached at lapsley@rentgrow.com.