



Should You Consider Accepting Foreclosed Applicants?

The foreclosure crisis continues to dominate headlines, and the outlook remains grim. Earlier this year, CNNMoney.com cited a survey by the Mortgage Bankers Association (MBA) and reported “over 900,000 households are in the foreclosure process, up 71 percent from a year ago.”

So when it comes to applicant screening, how should you handle applicants who are coming to you from a foreclosure? Should this raise a red flag? Should you consider accepting applicants with a foreclosure? Are these applicants “risky” or merely victims of a mortgage industry run amok? The best answer seems to be “it depends,” and it pays to take other factors into consideration.

With the growing number of foreclosures that we hear about every day, many rental properties are seeing an increased volume of foreclosures in their applicant pools. Still, the actual volume remains quite small—just around two percent, based on our most current data. Compare that number to the percentage of applicants who have medical collections—consistently over 30 percent—and you begin to realize how small it really is in the grand scheme of things.

You may be experiencing a higher rate in your market and we understand the concerns surrounding those foreclosed applicants who do cross your desks. The decision about whether to accept these applicants will depend on your company’s philosophy, geography and market concerns. As you make this decision, here are some issues to consider, as well as some strategies for minimizing risk if you do decide to accept foreclosure applicants.

THE APPLICANT MAY BE A GOOD RENTER

During the last several years, many people made poor home-buying decisions by getting into unrealistic mortgage programs. Some individuals in these situations may still be worth considering. In other words, there are times when a foreclosure is not necessarily indicative as to whether someone is a responsible resident who can make rental payments on time.

ADOPT CHANGES TO YOUR SCREENING CRITERIA


If you do decide to consider foreclosure applicants, you can change the criteria in your screening process to help you make a more informed decision about those applicants. Some resident screening systems even give you the option to remove foreclosures from scoring. In these cases, we recommend that you consider the following:

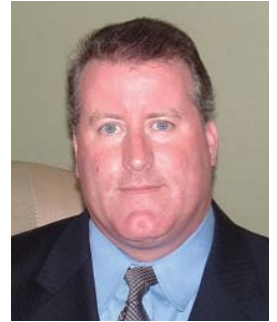
- Is the rental payment going to be lower than the mortgage payment?
- Does the applicant’s credit score improve—or does he or she “pass”—when you take the foreclosure out of the equation during the credit check?

If the answer to these questions is yes, it is possible that you could have an acceptable applicant despite the foreclosure. But before you can make that decision, it’s important to get a more complete overview of their credit history.

DON’T OVERLOOK COLLATERAL DAMAGE

Whether it’s by necessity or by choice, individuals who have gone through a foreclosure often allow other financial commitments, like auto loan payments, to slip—this is what we refer to as “collateral damage.” Trying to separate out collateral damage that is related to the foreclosure as opposed to just plain bad credit can be risky. That is why we recommend that if an applicant doesn’t meet your resident screening criteria after you have removed a foreclosure, it is best not to overlook any additional problems. The fact is, you will never know for sure whether those problems are related to the foreclosure or cause for ongoing concern.

In our experience, most companies today are, in fact, considering applicants with foreclosures, and while this seems to be the current trend, we also realize the importance of identifying ways to mitigate the risk. With the strategies we have outlined above, we believe you can make informed decisions about foreclosure applicants. 



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