

7 SAVVY PRACTICES

For More Efficient and Effective Resident Screening



TRENDS AND INSIGHTS

from the Experts at RENTGROW

RENTGROW[®]

Why this report? Because you're renting in a rapidly changing world.

Resident screening has long been a critical part of the multifamily property operations. Evolving technologies and newly available data sets, however, represent new opportunities that many property managers can use to their advantage.

Think of how much has changed in just the last five years. Processes that were once fulfilled with phone calls and onsite visits can now be accomplished online. Data that was once locked in individual property sites – or maintained in separate offices by town, county or state – is becoming increasingly centralized. Slow communications have given way to accelerated data transmission speeds, expanded bandwidth, and efficient web-based applications.

And the world, too, has changed. The events of 9/11 have alerted us to the grave importance of security. Even as greater access to information has made life more convenient, it has opened up unwanted exposure to identity theft and increased our concerns for privacy.

► Responding to new opportunities

The industry is already responding by taking responsible action. For example, the National Multi Housing Council (NMHC) has sponsored the Multifamily Information Transaction Standards (MITS) initiative to facilitate faster, more efficient communication of critical data throughout our industry.

At the property level, managers are finding ways to access the available information flow – from the Internet, public records and private databases – to screen residents, identify potential losses and manage risk. This report represents some of the most effective ways property managers apply new technologies and data standards to their advantage.

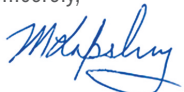
► Build on success

In the following pages, you'll find many suggestions that can immediately improve your screening procedures and the overall bottom-line performance of your properties. But as you read, we suggest that you keep the following ideas in mind:

- **Keep your handbook:** Your current “best practices” are still valid. But you'll want to update them to reflect changes in technology, data collection, data compilation and resident behavior.
- **Test and learn:** Through years of experience, RentGrow has found that there is no such thing as a “one-size-fits-all” approach to resident screening. What's appropriate for one property, in one region, with one kind of resident base may not be best for a different property in a different place. Test first, then deploy those procedures that demonstrate meaningful returns.
- **Talk to RentGrow:** If this report raises comments and concerns, feel free to tell us about it. We're always eager to discuss practices and compare notes with you.

Thank you! I hope the recommendations in our 7 Savvy Practices report prove as valuable to you as they have been to our clients.

Sincerely,



Michael Lapsley
President, RentGrow

This report represents some of the most effective ways property managers apply new technologies and data standards to their advantage.

Take advantage of systems integration.

In the years before networked computing became a standard practice, leasing agents would hand-record applicant information on an index card. That information would then be keyed and re-keyed into separate systems and even separate PCs.

The property management system, the screening system and additional support systems – these were all distinct units that did not communicate with each other and could not share information. Worse, each required different data elements and/or formats. And every manual entry represented a new opportunity for human error. Multiply data entry errors at each property by the number of properties you have and suddenly, your data quality and integrity is severely diluted, negatively affecting the value of the information and your business.

▶ Today, the industry is moving toward integration – centralized databases with one underlying architecture that may be accessed for multiple purposes, from initial screening to property management and performance assessment. This integration, usually accomplished through a secure Web-based platform, gives property managers considerable advantages:

- Reduced workload for on-site staff, whose energies can be directed to more productive tasks.
- Fewer errors. The greater the reduction of manual data entry, the fewer opportunities for mistakes.
- Improved quality and greater consistency of data across multiple properties, offices and systems.

THEN: Manually entered data on separate systems, PCs and locations.

NOW: Integrated, centralized databases supported on one underlying Web-based architecture.

REDUCE WORKLOAD AND IMPROVE DATA QUALITY

Currently, there are several system integrations that are actively being adopted and will eventually become standard operating procedure. Property managers can now move data seamlessly and with the push of a button from the property management system to the resident screening system. They can also complete a lease form or other document by pushing information from the resident screening system to a forms manager. Lastly, a resident can pre-approve themselves on-line for an apartment, without visiting a property, at an internet listing service or property marketing site. These integrations reduce the on-site staff administrative workload while increasing the quality of data in all systems and providing a more professional and positive experience for the customer.

Put complete data sets to work.

Of all the advantages of centralized data, perhaps the greatest is the opportunity to run more sophisticated analytics that can support better business decisions. We see three major areas with immediate impact:

▶ **Model confirmation: Are you screening for the right things, at the right levels?**

At your properties, you've probably set acceptable thresholds for credit risk, income, renting history and other factors. But how does your current screening model actually compare with performance?

Today, the availability of aggregate data makes it possible for you to compare your model to real data on favorable and problematic renter performance regarding debt, skips and other issues. By analyzing resulting performance, you may find that certain properties, with higher loss levels, would benefit with adjustments such as stricter decision criteria or higher security deposit levels.

Conversely, your analysis might suggest that the bar has been set too high, and that your screening levels are rejecting too many candidates who represent an acceptable risk, thereby costing you valuable rental revenue and increasing your marketing and leasing costs.

THEN: Screening criteria set and maintained based on anecdotal evidence or subjective experience.

NOW: Better data sets allow you to run analytics providing concrete evidence that can take the guess-work out of screening.

▶ **Identify trouble spots: Are your properties performing to expectations?**

Property managers can pull a segment of the portfolio data and run it against the screening data to find areas that require immediate attention or require further investigation. Potential data overlays include locations, property type, staff and resident demographics. The resulting analysis may provide important clues on how to adjust advertising, marketing and/or staff procedures to attract the appropriate resident.

▶ **Fixing the “holes”: Are you missing significant criteria?**

When resident behavior seems inconsistent with the expectations that you based your screening procedures on, look for gaps in the screening itself. Credit reports may be appropriate, but perhaps you need to replace or enhance your residency verification with an eviction-history search. Or use a national or multi-state criminal database search instead of just a single state criminal database search.

Consider data analysis a chance to identify missing pieces that could help you identify better residents. As always, keep in mind that data worth pursuing in one property/location may not be worth the cost in others; testing and analysis will give you the answers.

REVIEW YOUR RENTING HISTORY AND ESTABLISH APPROPRIATE POLICIES

Effective decision making requires rapid access to information. In one recent project, a large regional property manager needed to assess the root causes of a spike in bad debt. Centralized data made it easy: via a secure website, RentGrow assembled collections records, resident move-out records, and our screening records within hours of determining which data sets were required. This accelerated our analyses and enabled us to rapidly target and correct the trouble spots that required more diligent screening.

Once we had the data, we were able to empirically prove the cost of non-compliance. A significant source of collections was the unauthorized acceptance of rejected applicants. Working closely with our client, we were able to put an effective plan in place to remedy the situation.

Look beyond credit reports.

Because credit information has long been consolidated into major databases, it has been the easiest to access via computer. But in many circumstances, credit history only provides a small part of the picture. Many applicants with marginal or no credit history prove to be excellent residents. Still others have additional factors, such as a criminal record, that should be immediately flagged.

► In the last ten years, the industry has witnessed important gains in the following areas of information:

- **Criminal records:** Until very recently, tracking criminal records (if done at all) was a time and labor intensive process that meant collecting information courthouse by courthouse; a typical search may take two or three days and cost \$12–\$15 per request. In the last two to three years, however, private companies have compiled criminal data into multi-state records that produce results in just seconds. While the current state of criminal data is similar to what credit data was twenty years ago, contemporary advances, such as the Internet and high-volume databases, should rapidly close the gap in data quality.
- **Eviction data:** Residency verification has always been slow and prone to error. There's no easy way to confirm that the contact information given by an applicant represents a genuine landlord. When an authentic landlord is reached, the desire to have a difficult resident move on or concern about repercussions for communicating negative information may be a powerful incentive for providing a less than complete picture of the resident's quality. Fortunately, sources of eviction data are emerging that offer more objective assessment of behavior, quickly and inexpensively.
- **Employment verification:** The most recent entrant in available data, employment databases now capture as many as 33% of the nation's employees. These records provide a good way to cost-effectively verify income, length of employment and current employment status.

THEN: Credit information and manual verification of applicant data represented the key, and perhaps the only, screening criteria for residents.

NOW: Growing inter- and intra-state databases allow you to supplement your screening with eviction, criminal and even employment history data.

► Test first, then build incrementally

While the broad availability of background information represents a great leap forward, it shouldn't impose an obligation to search through all of it. RentGrow recommends a test and learn approach: apply new data elements to the screening process for just a few properties first, then examine subsequent resident performance. That way, you can measure the impact of each element to determine whether it's a cost-effective addition to your standard procedures, and if so, which locations it's appropriate for.

DIFFERENT PROPERTIES, DIFFERENT PROCESSES

A client asked RentGrow to compare and measure the value of adding eviction data services to their screening processes in two properties in two different states. In the first state, the eviction search found just one eviction record in the sample set. But in the second state the same search found multiple hits among 41% of the samples. While the data in the first state was too immature to make eviction searches worthwhile, the second state searches proved fruitful; there, the property would have saved approximately \$21,000 in losses, almost ten times the cost of running the evictions searches.

Apply centralized control.

Traditionally, resident screening has been a site-by-site affair that prohibited effective corporate oversight. Today, however, the centralization of data enables greater corporate control. Now, the property managers enjoy numerous advantages:

- **Monitor offices in real time:** Through an integrated Web-based architecture, headquarters can actually “see” which sites are fulfilling processing and screening requirements for each prospective resident.
- **Review compliance at every office:** Even the best screening criteria can be severely undermined by non-compliance – by employees who either fail to perform the necessary screening or who allow overrides contrary to corporate policy.

Centralized datasets allow headquarters to monitor leasing office behavior across all its properties, instantly, regardless of location. In fact, the very knowledge that leasing office practices are actively monitored often serves as a powerful incentive to compliance.

- **Examine cancellation rates:** The same data overlays can reveal important insights from the other side of the coin: Why did qualified applicants walk away? Comparing screening profiles with cancellations may provide clues regarding property expectations and leasing terms that are important to highly desirable residents.

THEN: Each site performed its screening procedures independently.

NOW: The central office can monitor leasing office procedures in real time, and use screening data as an important tool for adjusting screening procedures, training, advertising and more.

CORPORATE OVERVIEW CORRECTS SITE PRACTICES

Most sites follow the rules. But even a few non-conformers can dramatically weaken the bottom line. In the case of one regional company with more than 70 conventional and affordable communities, a handful of sites were either failing to screen applicants or were overriding the screening’s “reject” recommendations. RentGrow’s analysis identified the five sites with the greatest difficulties and management took corrective action.

Streamline training, education and support.

Training a small group of people in one office is a task; training many groups, in properties scattered across a region or even the nation, is a daunting challenge. In the past, training has usually meant a significant investment in time and travel costs. As a result, it's often sporadically organized and inconsistently implemented.

- ▶ Web-based learning has changed everything, allowing participating leasing officers with a phone and a Web browser to participate in training from almost any place at any time. With Web-based platforms, you can:
 - Eliminate travel expenses for education.
 - Ensure absolute consistency of presentation, regardless of location.
 - Save time by organizing brief sessions that fit within each office's schedule.
 - Record and archive “canned” sessions on important subtopics, such as managing re-evaluations or processing applications from international prospects.

In addition, Web-based learning is especially appropriate in an industry that experiences high employee turn-over. As on-site staff members are hired, they can be scheduled to participate in new or pre-recorded sessions immediately.

THEN: Training was sporadic, expensive and time-consuming.

NOW: Web-based learning offers group and individual education in inexpensive, convenient 30–45 minute increments.

FLEXIBLE TRAINING MODULES CAN RESPOND TO EMERGING NEEDS

Effective training isn't a “one-shot” deal. Even after staff have learned to apply resident screening basics, unanticipated problems may emerge that require new procedures and new training to implement them. Credit reports, for example, are vulnerable to errors, timing differences and inconsistencies. As a result, properties can have higher rejection rates. To help address credit information issues, RentGrow offers a free credit reevaluation service. If a data analysis reveals the need for these reevaluations, we can quickly retrain the office staff through rapid Web-based programs that offer comprehensive instruction on the reevaluation service's features, benefits and functions.

Recognize different risk levels.

To date, most resident screening procedures are “yes” or “no” operations that simply accept or deny resident applicants.

But we believe available data allows for a more sophisticated appreciation of applicant quality. You may consider initiating multiple renter programs that allow for shades of gray with contract features such as deposit requirements and fees that vary by renter risk level. Properly constructed, these programs would attract and reward renters who have choices, while mitigating exposure to starter renters or renters who are re-starting. In fact, the entire process should be automatic; using predetermined parameters, the screening program can instantly make recommendations based on the resulting data.

THEN: Simple “yes” or “no” response to applicants.

NOW: More sophisticated renting options tailored to risk levels and resident performance.

Keep in mind market conditions and the Fair Housing Act when planning these programs. Market conditions will dictate the level of incentives required and, compliance with Fair Housing standards should be automated. Below is a simple illustration of what a tailored program might look like:

► Encourage better performance with a starter rental program

First-time renters may not have adequate rental or credit history to qualify under standard rental criteria. Other individuals may have had difficulties (medical issues, unexpected job loss, divorce) in the past, but are working to re-build credit strength and financial stability with recent positive history. These applicants tend to be higher-risk renters who are more expensive to manage, more likely to be late with rent, and three times more likely to default – at two to three times the cost – of low-risk renters.

In these cases, property managers need a program that mitigates risk and offers incentives for good performance (such as timely rent payments). Consider adding these features to high-risk rental contracts:

- Higher security deposit levels.
- Surety bond in addition to cash security deposit.
- “Probationary” shorter-term leases that are closely monitored.
- Deferred incentives that are awarded as performance is proven.

RENTER STATISTICS SUPPORT THE NEED TO TAILOR RISK LEVELS

In a six-month study of applicant traffic across a broad sample of customers, RentGrow found that only 37% of applicants met all requirements of the screening criteria. It also revealed that 21% of the applicants had minor credit problems, 12% had limited or no credit experience, and 17% had limited residency or employment history. The applicants who do not meet all requirements may be viable renters, but they carry a higher risk. It is important to tailor your screening program so that you can reasonably accept these applicants while still mitigating the risk associated with them.

Apply superior screening practices to your own properties.

With new data sets, automation tools and Web-based platforms, residency screening is evolving into an ever more reliable decision-making process that improves property performance. Take a minute to complete the following checklist and identify your potential areas of opportunity. ▼

YES	NO	SOMETIMES	
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Do you have one centralized point of access for all of your important property data?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Have you eliminated redundant manual data entries from your system?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you run sophisticated analytics on your data?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you validate your resident screening model?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Do you have a system in place for tracking leasing office compliance?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you immediately identify gaps in applicant records or information?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Do you have electronic access to eviction records, criminal histories and employment histories?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you test the value of applying eviction/criminal/employment searches by property or region?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Do you have centralized control of screening activity?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you test your portfolio data against screening criteria?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you analyze your cancellation rates?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Do you use, or take full advantage of, Web-based training to immediately and automatically train new hires?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Can you tailor your leasing programs based on resident risk levels?

Every “no” or “sometimes” answer represents a positive opportunity for productive change. RentGrow can help. For a free consultation, fax this page, with your contact information, to our offices at **781-290-0687**.

Name: _____ Title: _____

Organization: _____

Phone Number: () _____ E-mail: _____

If you have questions about any of the issues raised in this report, or would like to see how an effective resident screening program would contribute to your bottom line, contact us today:

Tel: 1-800-736-8476 • e-mail: sales@rentgrow.com • www.rentgrow.com

Pull it all together for superior screening.

Remember, the whole is greater than the sum of the parts. The opportunities represented by advanced screening practices can dramatically improve property performance. Today, the greater availability of data, and new tools that allow for more sophisticated data analysis, help property managers and leasing officers make important business decisions with much greater confidence.

▶ Advantages to renters

Renters, too, are winners in this new environment. Even as data becomes more accessible, access itself is becoming more secure to protect applicant confidentiality. Current regulations, for example, require resident screeners (like RentGrow) to hire third-party investigators to confirm the identity of property owners – by literally inspecting the properties and their offices – before releasing sensitive applicant data.

THEN: Hit-or-miss data collection and interpretation.

NOW: Secure reliable access to data and effective decision-support tools.

▶ Advantages to leasing offices

Rapid access to data eliminates much of the time previously spent making phone calls tracking applicant landlords, employers and/or potential court records. Integrated databases and Web-based automation technology dramatically cuts the volume of manual interactions, reducing errors, saving time and freeing employees for more productive work.

▶ Advantages to property owners and managers

Perhaps most importantly, the nature of residency screening has changed. It's no longer just another time and resource consuming process; it's a powerful tool that can be actively measured for performance. By comparing screening data with resident performance records, property managers gain important insights into their daily operations, business procedures and marketing programs.

Michael J. Lapsley

Michael J. Lapsley is the President and CEO of RentGrow, Inc., a national provider of Resident Screening services to the Multifamily Industry. Under Mike's leadership, RentGrow has become an industry leader recognized for its excellent technology and outstanding service. He has published several articles and has served on industry panels addressing resident screening issues including technology, marketing and security.

Through RentGrow, Mike is an active member in the National Apartment Association (NAA), National Multihousing Council (NMHC), National Affordable Housing Management Association (NAHMA), and numerous regional and local apartment associations. Mike serves on the Board of Governors of MITS – the Multifamily Information Transaction Standard – a non-profit initiative dedicated to creating an open data standard for the Multifamily Industry.

About RentGrow

Founded in 1989, RentGrow is singularly focused on developing strategic resident screening solutions for the conventional and affordable multihousing industries. Our 100% commitment to providing personalized service and advanced technologies to the multifamily industry has made RentGrow the resident screening provider of choice for property management companies across the United States.

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