

ASK DR. CA\$H FLOW
by Nick Sidoti, R.A.M.

Q: DEAR NICK: Am I becoming soft? I used to demand that rent be paid between the first and fourth of the month. I have become lax on this policy because of the tremendous amount of vacancies in my area. I'm afraid of losing tenants. I have also been trying to be more understanding, because many people are having a hard time making ends meet. You can't get blood out of a stone. I am finding that my couple of days of grace, is turning into a week, and I am being pushed to the point where I'm becoming late on my bills. What do you suggest?

You may want to invoice the tenant for the old late charges. Then waive them as a good will gesture if they make the next three payments on time.

A: I can understand your position. I've been there and there is a consequence of being understanding (soft). The one mistake you made is becoming lax on insisting that the rent is paid on the first of the month, without some communication to the tenant. If you are concerned about vacancies, a tight rental market, or have some compassion for a long term tenant with temporary problems, there are other ways to handle it. You would have been better off communicating in writing that they are late, there are late fees that would be due, but you have waived them this time as a good will gesture; rather than ignoring the fact that they were late, or just verbally discussing it.

Here are a few simple ways to reestablish your rent payment policies with your current tenants.

1. Read them the riot act and tell them that they will pay their rent on time, or else. (This is not the method of choice if you are concerned about vacancies and good landlord/tenant relations.)

2. Get a third party involved. This could be your spouse who doesn't usually deal with the tenants, a so-called partner, or the so-called owner (if your tenants think you are the manager), or even your bank or mortgage holder. If you choose the spouse, partner, or owner this can be accomplished by having hem write a letter to the tenants informing the tenants that it "has come to my attention that your rent has been being paid late, and that this is causing me problems as the (owner, spouse, partner) in maintaining prompt payments of the bills on the property."

If you choose to use the bank or the mortgage holder, you could state in a letter to the tenant that you have been contacted by your mortgage holder regarding your late payments. These payments have been being made late due to the late receipt of rents.

Whichever of these methods you choose, attach your "Notice of Late Charges" and the rent collection policies that you will now be enforcing. You may want to invoice the tenant for the old late charges. Then waive them as a good will gesture if they make the next three payments on time.

In both instances you are trying to 1) Get the tenants to pay their rent on time, 2) Make the tenant realize that you as a property owner have consequences when you receive the rent late, 3) Get them to realize the consequences to them in late fees when they pay late, and 4) Be the good guy by letting them know that you understood, but that the situation has gone beyond your control and they must get back on track.

Note: You will see in the "Notice of Late Charges" that I choose not to use the discounted rent method, and just charge a late fee. I have found in my area that this works best, as most tenants ignore the fact that the higher amount is the rent, whether they are entitled to it or not. Yet, I have heard from other landlords across the country that the discount rents work very well for them.

Whether you are using late fees, discount rents, or a combination of both, what I strongly recommend is that your fees build up as each day passes after the rent is due. A flat fee gives the tenant no incentive to get the rent paid quickly once they are late. What I like about my system is that I can instantly figure out what the late fees are with very little calculation. They are \$10 plus the number of days so far in the month (the date), after the fifth. So, \$0 until the fifth. Then &15 on the fifth, \$16 on the sixth, \$17 on the seventh, and so on.

Remember, the late fees need to be stated in your contract with the tenant. They vary depending on geographical area and rent level. The idea is to charge only as much as you think you will be able to collect, but enough to provide an incentive, and only as much a local laws allow.

Nick Sidoti, R.A.M. is a registered apartment manager, licensed real estate agent, investor, lecturer, author of several real estate courses, an award winning columnist, and President of the Western New York Real Estate Investors. If you would like more information about Nick's courses, or you have property management questions you would like Nick to address in his column, please send them to Nick Sidoti, c/o Creative Investment Advisor, P.O. Box 495 Glen Ellyn, IL 60138.