

Stop Bad Tenants Cold **By Robert L. Cain**

"When I started out, I was hungry to get renters in. My hunger for tenants cost me over \$10,000 – that's how much it cost me to deal with one unit with a meth lab in it. Now I've just quit relying on character judgment. For managing rental property it doesn't work. I have a set application process written down. The applicant must meet all the criteria. If they do, I rent to them. If they don't, I don't. It is simple, legal and fair. I've been doing it for a year and a half now. At this point, out of 18 properties, every one has good people in it." This landlord learned by burnt fingers, what too many landlords never figure out. In fact, I hear all the time that people got out of the rental business because of bad tenants; they just kept getting them over and over.

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"I am trying to rent a house and I have an applicant that filled out an application and some of the information on it does not match. For example, he said that where he rents now, the owner has several properties and I went into the Tarrant District Appraiser for the name of the owner on the property and a completely different name comes up. The prior landlord has the same situation. I feel like the information provided is not correct. What should I do and how should I address the applicant?"

"Seven years ago, I bought two houses on a land contract and believe me, they were really fixer uppers! At any rate, I did the major stuff to make them habitable and each year I do a little more to bring them up. The problem is that I seem to have a revolving door on these two houses. I finally got smart and started doing my own credit checks in the public records. This has empowered me a lot. However, I always have a vacancy or a pending eviction for non-payment of rent. I think the credit check is going to help a lot, but I got in the hole every month on these two. Now, I also have a double and I make money on that one. These properties are in the inner city so if I sold them, no one wants to give me anything for them. I refinanced my home last year in order to pay my rentals off, but I just can't seem to turn the corner on these! Any suggestion?"

There is no excuse! No way should a bad applicant slip by you. You can find out about the people who are trying to rent from you literally in seconds, but, too often, landlords don't. Go figure. A bad tenant costs you thousands of dollars in lost rent and damage to the property. But, too often, landlords don't stop them at the curb.

Oh, I know why landlords don't check. Two reasons: 1) they are in a hurry or 2) they feel sorry for the applicant. It goes back to rule number seven that I talk about in my speech, "The Rules," – **"Never decide to rent to an applicant while you are listening to him."** Instead, decide to rent to an applicant after you have screened him or her. You can decide, with all the information about the applicant you need in minutes. So, the excuse of being in a hurry doesn't cut it.

And pity doesn't cut it either. There is a reason, or several reasons, that the tenant has had so much trouble. Trouble and problems don't just rear up and whack people in the head; the person with the problems has to have done something sometime to give the assorted disasters a clear shot at him or her. Likely that will show up in the credit report or public records search. Here's how to stop them cold.

It is highly recommended that you set up your rental standards first. I have insisted on this over and over in books, speeches and seminars. Here are a couple of reasons for that.

First, you need to know what is important to you when you screen applicants. What is important is a function of each property, not each applicant. Each property attracts a different applicant demographic and your standards as well as what you screen for need to reflect that if you are going to be successful in selecting the applicant who will be a good tenant. **BE CONSISTENT**, too.

Second, consistent standards take Fair Housing and Fair Credit Reporting Act violations out of the picture. You are screening without regard to the applicant's race, religion, creed, national

origin, familial status or handicap. In fact, you don't even care what any of those are. All you care about is that the applicant meets your objective rental standards.

And it's easy to be consistent if you receive the same screening package every time or to use an "ala carte" system where you choose the criteria each time you screen for a particular property. Or you can use a combination of the two.

Here's how it works. Suppose you own a property that attracts families with small children, rents for \$950 a month, usually has tenants with marginal credit, but they are employed, don't get evicted and never have criminal records. They also have income that is two and a half times rent. You can set up your package to screen for those characteristics. You pull credit, but are looking for a perfect FICO score. FICO scores, (Fair Isaac Corporation) are calculated from several credit data in a credit report. Fair Isaac Corporation is the company that created the credit scoring model and sold it to the world. This data can be grouped into five categories, payment history, amounts owed, length of credit history, new credit and types of credit used.

You want a minimum of eight months to a year on the job, maybe in the same occupation for at least two years, with no criminal records and no evictions.

You receive applications, making sure all the blanks are filled in before you accept them. Collect an application fee from each applicant that will cover the cost of screening. Then you put a date and time of receipt on each one and start screening.

You start with the very first one you received from Tim Tenant and verify everything he has put down on the application from previous addresses and landlords to employers. He didn't lie. Now you run the applicant's credit and find out it is okay. In fact, it is slightly higher than your normal applicant; there just isn't much of it. He has just eight months on the job. That's marginal. Then you find out why he doesn't have much credit history; he spent two years in jail for drug dealing three years ago. You fill out the rejection form and mail it off.

Your next one, Roxanne Renter, has marginal credit, one and a half years on the job, has never been evicted and has no criminal record. Her landlord references all say she was a good tenant. Plus, she has enough income. You rent to her.

Other properties may attract different tenants demographically. Your 1800 square foot townhouse with pool and health club privileges sits on a golf course and rents for \$2,250 per month. It attracts people who are "renters by choice." With the tenants who will rent this unit, you will want excellent credit scores. Every credit report has a score ranging from 400 to 850. Someone with an 800 FICO score is most likely a slam dunk to pay the rent on time. Likewise, someone with a 460 score doesn't understand the importance of paying anyone, or can't get it together to get bills paid on time or at all. Almost all scores fall somewhere in between, though.

These are tenants who could buy a house if they wanted to. Instead, they choose to live in rental housing and expect excellent service from their landlords. By the same token, you expect only excellent tenants in this property. As a result, your rental criteria would reflect that. FICO scores over 720, at least two years on the job and perfect landlord references. Obviously, no criminal record or evictions would be allowed.

Remember, you are in charge here, not the applicant. You set the standards of whom you will allow to live in your properties and stick to them – CONSISTENTLY.

I said there was more to say about criminal records earlier. Criminal records searches can be conducted two different ways. One is a statewide instant search and the other is the county criminal actual court search. Many screening companies offer really fast criminal record searches. Those are almost always the statewide search. They are fast and if you are lucky, will find a criminal record for someone who has one. The downside is that these databases are not updated as often as the county reports and are often for a limited number of counties in the state.

The county search is very accurate. It is done one county at a time but requires two to three days to get back to you. Usually, you will request a search of the last one or two counties the applicant has lived in. Yes, it is slow, but here's a two-step process to make it work better. Make your first screening the one that verifies everything and makes sure that your applicant meets your basic requirements. In the first example above, Tim Tenant met the criteria of having worked for eight months and had no collections. He would have initial approval pending the criminal drug record research. That search, however, showed the drug dealing conviction.

On the other hand, suppose your initial search showed that Tim had a collection for \$750 that could soon end up as a judgment and thus a garnishment of his wages. You could reject him at

that point, sparing yourself the criminal records search. In other words, you could approve him conditionally, pending the outcome of the criminal records search.

Eviction records are another issue. As pointed out earlier, evictions are really tricky. A lot of companies only have records going back a year or two or only cover a few counties. And there is another issue – most eviction filings are just name and address. Names can be different, misspelled, maiden names and married names. A good screening company will scan a report for aberrations and will run several different spellings to be sure that every possibility is covered.

Bad tenants think they are really clever. You already know some of the tricks they try. They will forget they lived some place, usually when they were evicted or left in the middle of the night one step ahead of the eviction. They will use their friends as “references” claiming they are previous landlords or employers.

With all of this information at your tenant screening company’s fingertips, there is no reason that you should ever be fooled by a bad tenant. All you have to do is check. Your rental policies and standards, the ones you hand to your applicants with their application, should tell your applicants exactly what you are going to check and how long it takes. Many times when they see how thoroughly you check their rental applications, bad tenants say, “I’m going to take this home to fill out.” You say “thank you very much” because you know you will never see them again.

What’s the scariest potential tenant? The one who comes with cash. These are the tenants who want to make you be in a hurry. There you are working on your property with no tenant in sight, wondering how you’re going to make the mortgage payment this month when your savior walks in. “Is this place for rent?” Great. I need to find a place to live today because I just blew into town.” (Yeah, I’ll bet.) “I have three month’s rent here in cash and don’t worry about finishing all of those repairs, I’m real handy fixing stuff.”

You feel a huge sigh of relief blow over you, probably the same breeze that just blew this piece of dirt “into town.” Mortgage paid for three months, you can stop working on the place, problem solved. In actuality, the problems are just beginning if you rent to this piece of work.

[Editor’s Note: For fast, easy, low-cost credit and eviction checks, call the AOA office nearest you!]