

Dealing With Late Fees

By Jeff Young

Editor's note: *The suggestions contained herein are meant as guidelines only and are based on the experience of independent owners.*

Late fees. The resident doesn't like them and quite frankly neither do most independent owners. But, they are a necessary evil in the landlord business.

We will take the assumption that late fees are probably a good idea to have, if for nothing else than to help motivate the renter to pay the rent on time. Let's take a look at some ideas to consider in applying the fees and, if possible, avoiding late payments in the first place.

Put it in the lease. When we accept a prospective resident's application, we should, as a matter of course, go over the lease point-by-point. We need to pay special attention to the subject of paying the rent on time. Remind the applicant that your mortgage is due on the property whether rent is received. Consequently, we do all we can to encourage renters to pay on time, and if necessary provide for appropriate penalties when it is not. For my rentals, all payments are due on the first of each month --- no exceptions, ever.

Help your renter pay. I prefer to go the extra mile. I will provide my residents with 12 self-addressed stamped envelopes for each month of the year. Four dollars in postage is a small price to pay to help ensure you will get your rent on time. Also, I tell them (and write it in the lease) that if the envelope is postmarked by the first of the month, it is acceptable. I realize that many management companies would never provide those "extras," but I find it pays for itself in the form of good landlord-tenant relationships.

Establish a late fee amount. Many of us have found that a flat late fee, say \$25, is ineffective. It does not provide incentives for getting rent to the owner once it is late. A better way is to charge a per day penalty that encourages the renter to pay, even if it is a day or so late. For my purposes, I use a figure of \$10 to \$15. That is high enough to encourage compliance with the lease contract, but low enough to be fair and manageable.

Be consistent. If you send a [three-day] notice on the [third] day of the month when rent was due on the first, you will probably establish a precedent with your residents that you mean business when you face a late payment. Of course, landlords vary from one to another on how strict they are. I personally will wait until the fifth day of the month before I take any action. The important issue to remember is to be consistent. It is not fair to the renter (not to mention putting you on shaky legal ground) if you allow the rent to arrive by the third or fourth of the month for several months and then suddenly levy late fees.

Keep good records. We mention this on almost every subject we discuss concerning landlord-tenant relations. However, it bears repeating, especially in the area of late-arriving payments. Photocopy the check and keep the envelope. Document when your payment arrives and serve [three-day] notices.

We mentioned many times in this column that most landlord problems would never see the light of day if the landlord had been diligent and professional in the initial screening of prospective residents. Effective checks on credit and previous rental experience are extremely important if you want to minimize the chances of having to deal with late payments.

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