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**GET THE SCOOP ON...**

Qualifying your applicants ■ Showing your property ■ The application process made easy ■ Section 8 tenants ■ Turning down an applicant

## Finding the Best Tenants

**A**fter spending valuable time finding the right property in the right location and marketing your property to potential tenants, the hard work really begins. Now you have to show the property, screen the applicants, and find the best-qualified tenant to live in your rental property. This chapter shows you how to prepare yourself for the rigors of finding a tenant, establish criteria for selecting tenants, showing the property, qualifying (or disqualifying) applicants, and working with clients who use federal or local housing subsidies.

### Establish your tenant selection criteria in advance

Before meeting with any potential tenants, sit down and decide what criteria you're going to use to choose the best tenant. Without clear guidelines about your perfect tenant, you have only your instinct to rely on when you meet him or her. And although your gut feel about a potential tenant is not something to

ignore completely, if you rely only on your feelings about a potential tenant to make your decision about renting to him or her, you not only risk renting to someone who can't afford your rental unit, you also risk letting your own biases interfere with your decision, and that may be grounds for a discrimination lawsuit (see Chapter 7).

Instead, set up hard-and-fast criteria to help you select the perfect tenant. And be sure to let potential tenants know that you use a fair system to judge them, for example, by including the following on your application: "It is our policy to rent our units in compliance with the federal, state, and local fair-housing laws." If you are uncertain of fair housing laws, you can find the guidelines at [www.hud.gov/offices/fheo/FHLaws/index.cfm](http://www.hud.gov/offices/fheo/FHLaws/index.cfm). Your state and local fair-housing offices may also have Web sites available or are listed in the government section of your local telephone book.

Use concrete criteria, such as the following, for all potential applicants:

- **Verifiable identification:** Require a photo ID with each application and make a photocopy of the ID. Getting this information assists you in the future if you need a description of your adult occupants. Require identification for co-signers as well.
- **Sufficient income-to-rent ratio:** Try to find applicants for whom gross monthly income is three times the amount of the monthly rent. You can verify income from copies of the applicant's prior month's pay stubs, which you ask her to provide with the application. Ask self-employed



### **Watch Out!**

When collecting a photo ID, make sure it is a government-issue ID, such as a military ID, state driver's license, or government-issued passport. Also be sure the ID is current and has not expired.

applicants to provide their most-recent tax return and three months' worth of bank statements. Don't consider applicants with unverifiable income.

- **Excellent credit rating:** In order to show that an applicant demonstrates financial responsibility, obtain a credit report on all applicants and co-signers over the age of 18 and emancipated minors. Don't accept credit reports supplied by the applicant; obtain the report yourself (see the "Obtain a credit report" section later in this chapter). Discharged bankruptcies are usually also acceptable.
- **Sterling references:** Look for applicants who can provide you with names and telephone numbers in order to verify all income sources, as well as the applicant's current and previous residences.
- **Reliable rental history:** You want applicants who have successfully rented another property and have paid the rent on time. In lieu of this, consider requiring a co-signer.
- **Excellent employment history:** Unless your applicant is independently wealthy, you want a tenant who takes his or her job seriously.

## Prescreening begins with the first phone call

The screening process begins with the first telephone call. You want to obtain preliminary information about the applicant and also provide information about your rental. In order to successfully rent your properties, you need to find qualified



### Watch Out!

Keep a list of your prospects, their contact information, and the time and location of your showings. You may also want to record this information on a calendar or day planner. For your personal safety, share this information with another person so that he or she is aware of your location.

tenants through your selection process, and this means making a fair evaluation of applicants according to the law while trying to find a financially qualified tenant who is stable, quiet, and responsible.

Put your questions in writing and ask the same questions of all prospects each time you have a vacancy. Begin by asking some prequalifying questions on the telephone prior to showing the property. (See Appendix 4 for prescreening telephone questions.) As you speak to each prospect, remember to be friendly but professional.

Direct the prospect to drive by the property to get a feel for the neighborhood. Take the time necessary to provide clear and

““ The first impression is the most crucial. I try to be very friendly while answering a potential tenant’s questions, thus creating a good owner/landlord image. ””

—Natalie M., real estate investor

concise directions so that your property is easy to locate. After driving by, ask her to call you to make a personal appointment to view the interior of the property.

As you’re prequalifying, you’re also selling. While the prospect is on the phone, ask questions like,

“What are you looking for?” and “What is important to you?” and “How long have you been looking and in what area?” Discuss special features of the property while you are chatting.

## Show applicants the property

One of the most time-consuming components of owning and managing your property is the time you spend showing the rental. By making it an efficient process, though, you can minimize your time and maximize your profits.

Set up a date and time you and the prospective tenant are planning to meet at the property. You may want to call to confirm the appointment, depending on how far in advance the

appointment is. Even if the tenant has driven by, again provide clear and concise directions to the property. If you have several different prospects who want to view the property, schedule the appointments at least 20 to 30 minutes apart, allowing sufficient time with each individual applicant.

Another option is to hold an open house. For example, allow anyone to stop by the property on Sunday from noon to 3:00.

Many times, a person viewing a property will not decide to rent it at that moment. She may want to come back with a friend, a family member, or a potential roommate. Perhaps she wants to view other rentals before making a commitment. If this is the case, be sure she brings everything she needs to the second showing, so that she can make a decision.

## Showing a vacant property

If your property is vacant, arrive a few minutes early. Turn on the lights and open the blinds in order to make your prospect feel welcome. If you're showing your rental in the winter, arrive in time to make sure the rooms feel comfortably warm. And during hot summer months, try to cool rooms down. You don't want to show a rental property and have everyone feel uncomfortable and anxious to leave.

As you show the property, point out its positive features. Open up the closets and kitchen cupboards to show the available storage space. Also talk to the prospect and listen to what she is saying. If the prospective tenant is really interested, she will begin to talk through just how she may lay out some of her furniture. Listen and give feedback.



### **Bright Idea**

Try to obtain the prospect's cellphone number so that if you or the prospect are delayed, you can still make contact. Provide your cellphone number as well. Stress to the prospect that you would appreciate a call if he or she won't be able to view the property or will arrive later than planned.

**Watch Out!**

When showing your available rental, carry a cellphone and make sure it is turned on, so that you can call in an emergency. Always leave your purse and your personal belongings in the trunk of your car. Be cautious and trust your instincts.

If someone asks whether this is a “safe neighborhood,” direct them to police reports or neighbors, but don’t give a false impression. You don’t want to be held liable if you say it’s safe and something happens.

## Showing an occupied property

When your current tenants give notice, provide them with your rental-showing policy, which you provide in writing when the tenant first occupies the property (see Chapter 10). Let them know when they can expect the property to be shown and find out whether a babysitter, large dog, or other occupant will be on the premises when you plan to show it. Be sure to abide by your local, state, and federal laws when showing property; you may want to review those laws regularly to remain up to date.

Respect your current tenant’s time and space, because he or she is still a paying tenant prior to vacating the property. Always call at least 24 hours in advance (at home or at work, depending on the tenant’s wishes) and inform him or her about a showing. If you don’t speak to your tenant live, leave messages both at home and at work. Provide the date and time of the showing, and assure your tenant that you will be there personally.

**Moneysaver**

By marketing and showing your property during the last 30 days of your current tenant’s occupancy, you minimize the length of time your property is vacant, with no income coming in. If you wait until the property is empty, you’re already losing money.



### Watch Out!

Before putting in your passkey and opening the door to enter, ring the door bell and knock loudly prior to entering the rental. Call out, “Property manager” or “Hello, is anyone here?” before entering.

## The rental application

Continue to show the property until you have a complete and signed application, a signed rental agreement, and part of a holding deposit. Only then can you guarantee that your prospective tenant is renting the property. Your application, as well as what you expect from the applicant, should always be in writing.

Offer your application to anyone who views your available rental. Require one completed application for each adult (18 years or older) who plans to live in the property. This applies to any applicant, whether married, related in some other way, or unrelated.

Your application should be clean and legible, with written instructions and expectations. (See Appendix 4 for a sample application.) Be sure your application complies with local, state, and federal laws.

Keep your application simple as well. Include as much information as you need, but don't make it so long that it takes hours to complete. Shoot for an application that takes 20 minutes to complete, but be sure the application has all the details you need to make your decision. Don't ask any questions that might be used in a discriminatory manner, such as, “What nationality are you?” as opposed to, “Are you a U.S. citizen?”

As a rental-property owner, the period of your greatest exposure to discrimination claims occurs when you are showing prospects the property and processing the application. For this reason, offer each and every person who views your available property an application.





### Bright Idea

Have copies of your applications at each showing, along with your procedures for renting. Make sure each document has your name and telephone number on it so that prospects know how to reach you and where to return the completed application.

When collecting the application and necessary paperwork, always collect an application processing fee and a hold deposit, if allowed in your locality. The processing fee covers your cost for running a credit report and going through your processing procedures. The processing fee is not returned if the applicant backs out or you find that she doesn't qualify. The holding deposit, a portion of the regular deposit fee and a guarantee that the property will be held for the potential tenant until she is qualified, tells you that the applicant is serious about renting the property.

## Items you want on your application form

Complete a prospective tenant verification/screening form for each applicant (see Appendix 4). Using this form keeps you out of trouble with the federal government's fair housing laws, because it forces you to ask the same questions of all applicants.

Be sure to include the following items on your tenant application:

- The address of the rental property
- Requested move-in date
- How the potential tenant heard about your property
- Full legal name
- Current address
- Landlord's or agent's name and phone number
- Current rent/house payment
- Date of occupancy
- Reason for leaving

- Previous address
- Social Security number
- Driver's license number
- Phone numbers: home and cell
- General information
- Other occupants and their relationship to the applicant
- Animals, how many and the type
- Make, year, model, and color of the applicant's car, along with the license plate number
- Present occupation, position held, and phone number
- Address of the business
- Supervisor
- Hire date and length of employment
- If self-employed, the name of the company and detailed information about the work done
- Monthly gross income
- Previous employer, if employed less than two years
- Bank name address and telephone
- Account numbers for checking and/or savings
- Credit reference, including account information and address of the company
- Amount owed on credit cards
- Names of personal references, including the relationship and how long the two have known each other
- Emergency contact information for future reference



### **Watch Out!**

You must complete the same screening process on each applicant across the board. Consistency is the key to your screening activity. If you're consistent, you cannot be accused of discriminating against certain applicants.

Additional questions may include the following:

- Do you plan to run a business in the residence? If yes, what type: \_\_\_\_\_
- Do you own any liquid-filled furniture, such as a waterbed? If yes, describe: \_\_\_\_\_
- Do you have a housing voucher? If yes, name of issuing agency and amount: \_\_\_\_\_
- Have you ever filed a petition of bankruptcy?
- Have you ever been evicted from any tenancy or had an eviction notice served to you?
- Have you ever been convicted of a misdemeanor or felony other than traffic or parking violation?
- Are you a current illegal abuser or addict of a controlled substance?
- Have you ever been convicted of the illegal manufacture or distribution of a controlled substance?

If the answer to any of these questions is yes, ask for a detailed explanation.

Because you need to know which marketing source is working best for you, ask the question, “How did you hear about this property?” on your written rental application. Provide a checklist of choices for the applicant to inform you as to how she heard about your available rental.

## **The fine print on your application**

End your application with the following type of statement: “Applicant represents that all the statements are true and correct and hereby authorizes verification of the following items including, but not limited to, the obtaining of a credit report and agrees to furnish additional credit references upon request.”

You need to include a few important statements within your application, such as the following:

- “This application is for qualification purposes only and doesn’t in any way guarantee the applicant that he/she will be offered this property.”
- “Processing costs are non-refundable.”
- “Applicant understands that the owner can and will accept more than one application on this rental property and that the owner has the sole discretion to select the best-qualified tenant.”
- “Any application with missing information, including signature, will be returned.”

## Screen applications to find the best tenant

The following sections give you some tips on how to find great tenants — the ones you wish could stay forever.

### Obtain a credit report

The first thing to do after reviewing the application is obtain a credit report. If the applicant doesn’t pay her bills on time, you know they she not pay the rent on time.

You can obtain credit reports online or by telephoning the companies directly and paying a fee. The following three major credit bureaus provide credit reports:

- **Experian:** [www.experian.com](http://www.experian.com)
- **Equifax:** [www.equifax.com](http://www.equifax.com)
- **Trans Union:** [www.tuc.com](http://www.tuc.com)



#### Watch Out!

Be sure the application has a signature, thus allowing you to run a credit report. Ask for signatures on all applications for anyone 18 years or older. Take a moment to be certain the application is complete and that you have everything you need prior to the applicant’s leaving the property or your office.

Most credit reports are simple to read and easy to interpret, especially if you opt to obtain a FICO score. A FICO score is the dominant method a lender uses to assess how deserving you are of their credit, such as a mortgage, car loan, or home-equity loan. Named after Fair Isaac Corporation, the firm that developed the scoring model used by the three major credit bureaus, the FICO score is calculated using a computer model that compares the information in your credit report to what is on the credit report of thousands of customers.

Take the time to understand the credit report you're using. If you are unsure about the information or don't understand what is presented, phone a customer service representative at the credit bureau(s). Never assume anything

“ Screen well. Don't deviate from your screening process, or you will pay for it in the long run. ”

—Mike G., real estate investor

FICO scores range from 300 to 900. Generally, the higher the score, the lower the credit risk, although there is no “good” or “bad” score range. If you decide

to use the FICO score method, you need to decide what score is acceptable for your property, and then be consistent with each application. Keep in mind that scores fluctuate depending on credit activity, and using FICO scores is only one way to look at the applicant's credit.

Keep in mind that a credit report alone doesn't reflect the qualities necessary to be a good tenant or a good neighbor. Don't rely strictly on the credit report and forget the rest of the screening process. Undesirable tenants can have great credit, and vice versa. You need to do your homework to find the perfect, qualified applicant.

You may also want to consider using a professional screening company. Do an Internet search for tenant screening service, and several companies will appear for you to research and choose from.



### Bright Idea

Continue to show the available rental while processing the application and awaiting the additional information you need. Also continue to market your property until a lease is signed and a deposit is holding the property. Don't assume a person's application will result in a rented property until you have that information in hand.

Contact the applicant's current and previous landlords and ask the questions you have on your verification/screening form (see Appendix 4). When you first contact the landlord, explain why you are calling, and be sure to listen carefully to his or her reaction. Ask the question, pause, and listen to the answer, recording the landlord's response.

Ask whether the landlord would consider renting to the applicant again and inquire about the amount of rent the tenant is (or was) paying. Also find out whether the tenant has pets, has ever been served a notice, and gave 30-days notice of intent to move. You may also ask whether the landlord is any relation to the applicant.

## Verify current employment

Although you want to ask for copies of the two latest paycheck stubs for a potential tenant, it is still a good idea to contact the current employer directly. Ask with whom you are speaking, his or her title, and whether he or she is any relation to the applicant. Inquire as to how long the potential tenant has been with the employer and what her current position is. You also want to obtain verification of monthly income.

Also check to see whether the credit report reflects the applicant's current occupation, but keep in mind that this information can sometimes be inaccurate.

## Verify personal references

Some people don't believe personal references are important, but I believe they are critical. When asking for the personal



### **Watch Out!**

When it comes time to sign the lease, have the co-signer read the lease, but not sign it. Instead the co-signer signs a separate co-signer agreement. See Appendix 4 for an example. Always give a copy of the lease and the co-signer agreement to the co-signer.

reference, find out how long the reference has known the person and what the relationship is. And make the calls. Don't assume that, just because you have the names, your work is done. Call the references and chat for a while about the applicant.

## **Call co-signers**

You may have a great applicant who has no credit or bad credit. In this case, you may elect to have a co-signer; for example, if you rent to a student, the parents may co-sign. Offer a separate application to the co-signer and follow the same screening procedures. It is advised that the co-signer live locally or at least in the same state.

## **Recognize the danger signs in tenant applications**

Qualifying a tenant can sometimes seem effortless, but other times, it's extremely difficult. Some applications seem like pure gold, while others may frustrate you. So, when processing an application, remain cognizant of certain danger signs. Here are some signs to watch for.

- The applicant must be in the property today. He or she just found out they have to move. Huh?
- The applicant refuses to fill out part of the application, saying you don't need financial information because she has always owned her home and had her own rentals.
- The applicant's father or mother is separating from a spouse and will be living in the property with the

applicant; only the mother or father has adequate income or good credit.

- When cross-referencing the application, you see that the employer or landlord is also a personal reference and/or has the same family name and phone number.
- The application can't remember where she lived or her landlord's name or telephone number, although she lived there within the last year.
- She is 40 or more years old and has lived at home all her life with her parents.
- Her bad credit is someone else's fault (of course!).
- She has three family pets but is going to get rid of them. (Isn't it strange how those animals seem to find their way home?)
- Her employer answers the phone, "Hello." The company listed is a multi-million dollar company, and the last two paycheck stubs are handwritten.
- The address on the credit report doesn't match any of the addresses provided on the application or her driver's license.
- The application says she has no pets, but when you call the previous landlord, he or she says the dog has never been a problem.
- When you call her landlord and ask your reference questions, you hear long pauses or a hesitation before answering.

“When I review an application, I stick to the facts on paper. If there's a problem, I make exceptions to my procedures one at a time as long as I still feel secure within my own guidelines.”

—Christine G., property manager



**Watch Out!**

Inquire about any discrepancies in the applicants' applications. Be sure to ask for an explanation if you find conflicting information on the application. Just remember: If something looks too good to be true, it probably is.

Of course, some of the preceding warning signs could be manageable, but you can't afford to ignore the signs. Check them out and cross-reference everything on that application. A suspicious nature now can save you valuable time and money in the future.

## Section 8 — murky waters

The Section 8 program was established in 1974 by the U.S. Department of Housing and Urban Development (HUD) to assist very low income families, the elderly, and the disabled in renting decent, safe, and sanitary housing. This program allows low-income residents to receive monthly vouchers for rent payments from HUD and are most often administered through a local housing authority.

In most cases, when processing the applications of those who qualify for Section 8 assistance, you are allowed to use your own application and addenda. It is not against the federal law to turn a Section 8 applicant away simply because she wishes to pay rent using this assistance. This is because if you accept a Section 8 participant, you must agree to follow certain rules and procedures and execute an agreement stipulating that with HUD. The rules

**Watch Out!**

Screening Section 8 applicants can be difficult, because they may not be working (or at least not full time), may have little or no credit, and may not have a verifiable rental history. In any event, be sure to check your local, city, and county laws before refusing to accept Section 8 vouchers.

of the contract often limit the security deposit amount an owner or manager can require and sometimes also restricts an owner/manager's ability to evict.

### **Non-Section 8 Programs**

Section 8 housing is a program overseen by HUD, but because of the many needs of local communities, other programs have started being run by states, counties, and cities. Some cities make funds available to owners who want to fix up their rental properties. These funds are available at a reduced interest rate, but usually are accompanied by a requirement that the owner provide one or more of the units at below market value (sometimes called BMR). A few communities also make funds available through redevelopment grants, although these are sometimes reserved for owners who actually live in the residences and make below a certain wage. In addition, some areas have been designated as high-risk and need rehabilitation or clean-up from drugs and crime.

In addition, state funds have been made available for rehabilitating or building units for disabled or people at risk of becoming homeless. Again, the funds are made available in return for providing housing at a reduced rate.

Most of the programs run at the state or local levels have specific guidelines for you to follow. Should you take advantage of one of these programs or look into purchasing an investment property that is under one of these programs, be sure to understand all the limitations. Normally, there are income and/or other requirements for potential tenants to meet before they are approved to apply. Sometimes, additional lease clauses are required. Most of these programs follow the HUD Section 8 guidelines for the number of occupants and the amount of rent that can be charged.

So, in most cases, you have a choice about whether to accept or decline a Section 8 applicant. At this time, however, a few states ban discrimination based on the source of rent payments received. If you live in one of those states, you are required to accept a Section 8 application for review.

Section 8 guidelines usually stipulate the maximum amount that an applicant can spend on rent, as determined by the local housing authority. If you review the application and find it acceptable after going through your screening process, you then meet with an agent from the housing authority for a move-in inspection prior to the tenant's moving in. After you go through the process and your property is approved, the first rent payment takes a few weeks. After the initial payment, however, the rent arrive in the first few days of each month like clockwork. Once a year, an inspector from the local housing authority conducts a walk-through prior to the end of the one-year lease term.

## Turning down a potential tenant

Sometimes, you will find it necessary to turn down an applicant. Some of the reasons may include the following:

- **Incomplete application:** If you find that the rental application is missing some information, call the applicant and give details as to what is missing. If, after calling, you still don't receive the missing information, use a form letter checklist on which you mark the required information (see Appendix 4). If after several attempts, you still don't receive the information you need, you may want to turn down the applicant.
- **Lack of references:** If the application fails to list references and the tenant cannot provide you with names and phone numbers to call for verification, you have a good reason to turn down the application.
- **Conflicting information:** The information on the application should match up with what you are finding as you go through the screening process.

- **Insufficient income:** Generally, you want applicants to be paid three times the amount of the monthly rent by an employer. If this isn't the case, you may want to deny the application. If the applicant is self-employed, ask to see proof of income (such as a tax return) for the last two years.
- **Negative feedback:** Getting negative feedback from her current or previous landlord is a clear warning signal to you.
- **Poor credit and other negatives:** Poor credit combined with other negatives received while processing the application can be enough to deep-six the application.
- **Deposit troubles:** A tenant should be able to pay the move-in money with a cashier's check or money order, shortly before move in. He or she should also be willing to pay a slightly higher deposit if he or she has a pet or poor credit.
- **Undisclosed pet:** You find this out during your call to the current landlord. If you don't allow pets, deny the application of anyone with pets.
- **Not ready to move:** If the applicant cannot move in for 30 days or more and is not willing to pay rent any sooner, rent to someone who is ready to move in immediately.
- **Tax troubles:** If the applicant is self-employed and doesn't report annual income entirely on his or her tax return (and the stated income is not enough to qualify), you're dealing with a dishonest person.

If you decline the applicant, you are required to inform her in writing with a reason why she has not been accepted. This is a federal requirement — you must decline the applicant in writing. Refer to the Federal Fair Credit Reporting Act at [www.ftc.gov/os/statutes/fcra.htm](http://www.ftc.gov/os/statutes/fcra.htm). You can also do an Internet search on “federal fair housing credit reporting”; you'll be directed to several public sites that explain the application of the law. In addition, if you decline the application, return the holding deposit to the applicant in a timely manner.

Keep all applications on file for three years. Keep one file with paperwork on the applicants who become your tenants. For those you reject, attach detailed notes to the applications, explaining why you did not rent to them or that they had decided not to rent your property. Always put the full date (including the year) on your notes. Keep all your paperwork organized and make good notes on your processing forms, paying close attention to details. (See Chapter 11 for more on managing paperwork.)

## Just the facts

- Make sure your property will attract a quality tenant by providing a clean and quality property.
- Be friendly and professional when you answer the rental calls.
- Make sure you have everything in writing.
- Be sure to offer each person who views your property an application.
- Always collect an application and run a credit report for any occupant 18 years or older.
- Be sure to complete your screening process all the way through, sticking to your policy.
- Don't take the property off the market until you have qualified the applicant and they have signed the rental agreement.



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