

RISKY BUSINESS

IROs struggling to properly screen prospective residents are leaning on online services and their local apartment associations to find solutions.

BY LAUREN BOSTON

When independent rental owner (IRO) Lisa Pelloni needed a background check and credit report for a prospective renter a few years ago, she was left to her own devices. The South Carolina-based IRO operated less than 100 units, and she says it was challenging to find a resident-screening provider with an affordable, comprehensive service that was willing to work with her small-sized portfolio.

Instead, Pelloni spent a half-day searching local sex offender websites, crossing her fingers that her efforts were good enough. She ran a credit check from a local provider for \$35 and performed basic criminal checks on her own through local registries. If she found something suspicious about a prospective resident, such as more than one name associated with a given Social Security number, Pelloni requested a South Carolina Law Enforcement Division (SLED) Check for an additional \$20.

Because her application fee was set at only \$30, she often lost money in order to stay competitive in a down economy and a tough market, she says. “You try your best to lease to a good resident, but it’s a difficult, time-consuming process.” Sometimes, she says, this amount of effort meant losing those good residents because “in the time it took me to run my own background checks, those prospective residents found another place to live. It was very frustrating.”

Many IROs have faced similar obstacles and say that new credit report restrictions make resident screening even more of a struggle. With fraud and identity theft reportedly on the rise in recent years, the nation’s three major retail credit bureaus—Equifax, TransUnion and Experian—have tightened public access to credit information.

Under new credit bureau regulations, resident-screening vendors can only provide full credit reports to qualified rental

owners—those who pass an onsite inspection. Owners must pay \$75 to \$150 for this inspection, known as the End User Commercial Physical Inspection. It verifies that their businesses have distinct business addresses, are operated in a secure office separate from their homes, and include secure file-storing devices, among other requirements (See sidebar “Passing Inspection” on p. 96).

Owners who have not undergone the inspection or who did and failed must decide if and how they will obtain appropriate screening reports or risk renting based solely on perception and “gut” feelings about the applicant. The majority of experienced IROs say that screening is critical to ensure they are renting to qualified residents. But they also admit that some IROs, particularly those naïve owners or those who rely on instinct more than data when selecting among prospects, are not aware that many resident screening services now cater to IROs’ needs.

In recent years, apartment associations and industry service partners have begun to offer solutions for smaller owners. Many of the larger national screening companies, working with NAA’s IRO committee, have developed resident-screening programs that aim to meet IROs’ needs. Visit www.naahq.org/membersonly/resources/iro for information on these programs as well as other programs designed to assist IROs with debt collection, maintenance supplies and property management software.

Some local apartment associations also work with service providers to offer screening programs for their members (See sidebar “Turn to Your Local Apartment Association” on p. 95).

Don’t Ask, Don’t Tell

What owners should definitely avoid, one attorney stated, is the temptation of running screening reports through fellow owners’ larger resident screening company plans. Asking others for a screening “favor” is risky because of potential federal law violations.



Companies running reports as “favors” do not have permissible purpose to do so because they are not the ones extending credit. This violates the Fair Credit Reporting Act (FCRA), with liability implications for the IRO and the larger owner company.

“Right off the bat I would believe this to be a violation of the user agreement each of us has with our providers,” says Victoria Cowart, Vice President of Property Management, Darby Development, Charleston, S.C. “It also runs the risk of creating an error on the applicants’ credit history because you’ve introduced an inquiry to their records that does not match the true inquirer’s. And there’s a risk of fair housing violations with the inconsistencies this practice will result in.”

With 1,100 units, Atlanta-based IRO Brent Sobol conducts his screening through major company service providers. Sobol strongly suggests that IROs with less than 100 units join their local apartment association and discuss these and other challenges with other owners. “Local apartment meetings are a great place to learn from others, many of whom have faced the same situations as you in your own market,” Sobol says.

Sobol says ignoring background checks altogether should not be an option. “I’m amazed at the number of small owners who don’t screen their residents and then are stuck with a deadbeat three months down the road,” Sobol says. “With this [tough] economy, landlords are now competing for residents and some have the mentality of ‘don’t ask, don’t tell’ when it comes to screening. That can be very dangerous.”

Safe and Secure

Completing such screening can be difficult, however, for IROs running small businesses. Don Lewis, for instance, provides rental housing to approximately 50 families in College Station, Texas, and has been in business for 12 years. He says that in the past, many vendors were not eager to do business with him. “You’re not taken seriously if you have less than 100 units,” says Lewis, owner of Picket Fence Properties.

Lewis used to pull detailed credit reports for prospective residents, but says the recent credit bureau restrictions limit the information he is now able to obtain. Lewis is in the process of arranging to have an inspection, which usually takes 7 to 14 business days to schedule through an independent party and approximately one hour to complete once the inspector arrives onsite. Depending on how owners perform during their inspections and how quickly they respond to any specific inspection failures, it could take as little as a few days or as long as weeks or months to gain approval.

These mandatory onsite inspections are a point of contention for some, such as owner Claire Kantar, who manages 10 units from her home-based company CBK Enterprises in Wilmington, Del.

“The credit bureaus are concerned about identity theft,” Kantar says. “But they think that only big businesses are able to safely and securely store their credit reports. I think it can be more difficult to secure files at larger communities because they experience high staff turnover. In that case, there are too many eyes looking at files, and too many people are coming in and out of the office all day. In my house, I’m the only one who’s going to see those reports and I know that they’re secure.”

Go Online or Go With Your Gut

Recently developed resident screening programs designed specifically for owners with less than 100 units mostly are Internet-based and do not require prospective residents to share their Social Security and credit account numbers with owners. These services also eliminate the need

Turn to Your Local Apartment Association

Some IROs turn to their local apartment associations for resident-screening solutions.

• **Nori Goodhue, Membership Director of the Property Management Association of West Michigan (PMAWM)**, says her association partnered with a third-party vendor to create a resident screening portal for her association’s members. Goodhue says the screening database was developed in response to a needs assessment survey of her members, who expressed concern about credit fraud among resident applicants.

The portal is available on PMAWM’s website and the screening database is updated daily with information, including a prospective resident’s unpaid rent and eviction history. PMAWM members receive discounted rates, which vary based on which reports they request.

• **The Utah Apartment Association (UAA)** offers its members a resident screening service that provides a nationwide criminal check and credit report for approximately \$20. UAA Executive Director Paul Smith says the service is provided by a third-party vendor, and is especially beneficial for IROs with fewer than 100 units who had difficulty finding a service on their own.

“The resident screening service creates a significant amount of revenue for UAA and is a great benefit for members, who can request and receive their reports by fax or online,” Smith says. It takes only five minutes to fill out the initial paperwork. Smith says the service makes it easy for IROs to protect themselves from risky applicants “just like the big guys.”

• **Members of the Apartment Association of Greater Los Angeles (AAGLA)** can obtain a full credit report from their association after passing an onsite inspection. Lorraine Williams, Customer Service Representative for Tenant Screening, says AAGLA also provides a verbal report that gives an approval, conditional approval or denial recommendation for IROs who want to avoid an annual inspection.

“We can give owners the credit scores without handing over an actual report,” Williams says. “We have a lot of IROs who didn’t want to go through the inspection process and are comfortable with our verbal reports because they’re based on these members’ pre-defined set of leasing criteria.” —L.B.

If your association offers such programs, units would like to know. Please e-mail lauren@naabq.org with details.

for an onsite inspection because consumers ultimately are screening themselves through a process that keeps their profile information private and secure.

Christopher Rodie, owner of Texas-based Elektra Investments, explored several resident-screening solutions before turning to an online service. “I went through an inspection and I had a shredder and the password-protected computer needed to obtain full credit reports, but the resident-screening service I then chose I felt was expensive and difficult to navigate,” says Rodie, who owns four rental properties. “The online product is so much simpler.”

With these online products, once the prospective resident enters their profile information, a credit score is generated. Owners who choose to register with those online screening sites are then notified by e-mail whether the score meets the owners’ pre-set qualifying criteria.

These screening reports range from a basic report that can be ready in less than two hours to a more comprehensive screening that includes reference checks. Prospects can choose to share their reports with an unlimited number of owners for 30 days, waving the multiple screening fees they otherwise would pay if they were to apply to several communities.

These online sites, however, do not disclose specific profile-based reasons as to why applicants were denied. Lewis, like many owners, says he is sometimes more interested in discovering the reasons that led to a prospective resident’s borderline credit score than the actual score. “Numerous circumstances can cause marginal credit scores, including limited application for credit,” Lewis says. “If we are only provided a score and limited details, we lack information that could allow us to decide to ultimately accept a resident.”

One large screening company representative said that IROs can become too emotionally involved in the decision-making process. This representative said that some owners feel that “they know best” and make subjective decisions as to whether a prospective resident qualifies. When these candidates are rejected, they are not always willing to accept the answer blindly.

Cowart cautions that if owners choose to accept an applicant based on adjusting their screening criteria, they must consider applying the new criteria to future applicants or run the risk of diluting any defense to fair housing accusations in the future. She shared her concern over receiving results-only reports.

“There have been several occasions, because of the way a collection agency reported a debt, that a housing debt was not flagged as such,” Cowart says. “A results-only report to my communities, without the background details, would have caused us to miss that critical detail. Additionally, the address portion of the credit reports is a standard double-checking spot for our communities, as there are often apartment addresses contained in those records that the applicants chose not to divulge to us on their applications.”

Consumer-initiated screening alternatives may appeal to IROs who are new to the resident-screening process, suggests Terri Mayer, Housing Coordinator for the Spokane Low Income Housing Consortium.

“A lot of IROs, especially those with only two or three units, don’t want to be bothered with storing records, paying inspection fees or being subjected to auditing, so they’ve never screened

residents before,” she says. “And some older independent owners I’ve seen are afraid of the computer. Their decision about who to accept is based on their gut feelings. This attitude isn’t wise, so we’re educating them about these new consumer-initiated services.”

Lewis says that finding a resident screening service that meets an owner’s needs can be overwhelming, but doing so pays off in the long run. “The trick is making sure you properly [screen] people on the front end,” he says. “It’s so important to take the time and effort to prevent future problems on the back end.” **NAA**

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Passing Inspection

While site inspection forms for the End User Commercial Physical Inspection vary slightly, the major credit bureaus ask similar questions, such as:

- A.** Is the company located at the exact address provided by the client? If not, please explain the discrepancy.
- B.** Is the applicant working out of his/her home?
If Yes, is there a separate entrance for the business?
If Yes, is the company listed in the Yellow Pages? (If Yes, obtain copy of listing)
- C.** How many full time employees were on the premises?
- D.** Is there a permanent sign identifying the business?
If Yes, does it reflect the same name as provided on their application?
If No, what is the exact name appearing on the sign?
- E.** Does this company share space with another firm?
If Yes, is there any affiliation between the companies?
Will both companies use the credit reports?
- F.** Does the space appear to be a temporary/executive facility? (shared receptionist, within a commercial setting)
If Yes, provide comments below and list the leasing agent’s name and phone number.
- G.** Do the space, furnishings, office equipment and inventory match the size and type of business noted?
- H.** Are the company’s marketing materials displayed?
Do they match the type of business noted above? If available, collect samples of brochures, business cards, etc.
 - I.** Is there any evidence indicating that the company or any adjacent business is involved in or associated with credit repair?
 - J.** Is there any evidence indicating that the company or any adjacent business is involved or associated with brokering, reselling, or releasing credit reports?
 - K.** Is there any evidence indicating that the company or any adjacent business is involved in or associated with investigative, detective or private investigation services, legal services, law enforcement, or similar activity?
 - L.** If Yes to any of part H, state what evidence (i.e. advertising, signs, licenses, certificates, business cards, etc.) and attach samples, if available.

Source: National Tenant Network