

THE SCREENING SECRET WEAPON

by Guy Lyman

How including rental payment history in your screening process can help your bottom line.

What's the best way to gauge whether an applicant will pay their rent or not?

Their credit score, right?

Wrong. It's their *rental payment history*. And yet, many multifamily properties don't include rental payment history in their screening process – and aren't even aware that these records are available. Others think rental payment history is reported to credit bureaus – but it's typically not.

The savvy property managers who do know this secret are achieving significant NOI increases by rejecting applicants with a checkered history of paying their rent, and accepting applicants who might otherwise be turned away, but have a history as reliable rent-payers.

WestCorp Management Group, based in Las Vegas with offices in Dallas, is one of these clued-in companies. WestCorp manages 16,000 units in 36 cities across the U.S.

"Some people who have mediocre credit have a solid history of paying their rent," says Scott Seegmiller, WestCorp's CFO. "Maybe it's a matter of priority – they are willing to run up their credit cards, but paying their rent is very important to them. Then you have others who may have decent credit, but aren't reliable about paying their rent. So knowing this history adds a lot of value to the screening process."

"Or," he continues, "Let's say someone loses their job, moves out of an apartment early with an unpaid balance, and moves into your community right across the street. It might take six months for the information to hit their credit report and take their score down, by which time they've become *your* problem."

The bottom line is that adding rental payment history to the mix of credit, criminal, eviction, and other criteria is, well, good for your bottom line. How good? Read on.

MOVE-OUT COSTS PLUNGE

Fact: the average cost of a move-out of a resident with a good rental payment history is \$162. For someone with a bad rental payment history, it's \$705.

WestCorp has seen its average move-out costs go from \$714 to \$135 per resident since including rental payment history in its screening process beginning in late 2006. "Even we were surprised at how much accuracy rental payment history adds to the screening process," says Seegmiller. "We understood it would be more accurate than overall credit, but we weren't aware of just how much our move-out costs would drop by being better able to eliminate 'stealth' rent payment risks."

ACCIDENTAL RESEARCH

WestCorp carried out some eye-opening "accidental research" when property managers, for various reasons, overrode 22 "failed" applicants with poor rental payment histories, allowing them to move in anyway. A whopping 40% of them eventually either skipped or was evicted, and the average move-out costs for those residents was \$1,683!

IT ALL ADDS UP

Over 10% of applicants to WestCorp-managed properties are now rejected due to their rental history records, saving the company untold money and headaches (because its objective, the inclusion of rental payment history creates no increased exposure to fair housing liability). And many who would otherwise have been rejected based solely on credit have been accepted, sometimes with an extra deposit amount or slightly higher rent, improving occupancy.

WestCorp has also seen a two to three percent annual reduction in bad debt.

"Rental payment history is a great addition to the screening arsenal," concludes Seegmiller. "And as more records are added over time, it continues to get better. Our numbers speak for themselves."

Guy Lyman is a Dallas-based freelance writer who specializes in the multifamily industry.



Scott Seegmiller leads the financial management of all WestCorp managed properties across the country. An accounting professional with more than 27 years of experience in the multi-family management field, he offers a full range of property management expertise that is designed to increase real property investment returns for property owners.

WestCorp Management Group is a real estate asset management company that strives to maximize value of an asset by providing an honest, ethical, and professional atmosphere for employees, customers, and owners through advanced employee training, providing superior resident service, and increasing profitability to its owners.