Credit Evaluation

A credit evaluation is essential to prudent screening of rental prospects. It's possible for all landlords to obtain this report, whether they own one property or many.

Obtaining an applicant's credit report has always involved some qualification of the landlord. Usually conducted by the credit reporting agancy (CRA) providing the report, today the nation's 3 retail bureaus, TransUnion, Equifax and Experian, have increased requirements for those requesting an applicant's credit report. Your screening agency can provide you with information on these new, stricter requirements. You may also find information about them on the home page at www.ntnonline.com.

These new qualifications have been implemented to help combat credit fraud and identity theft. Identity theft is now the fastest-growing crime in the United States. Last year alone, more than 9.9 million Americans were victims of identity theft - a crime that cost them approximately $5 billion.

Once you meet all qualifications, a report from one of the three recognized national credit databases can be obtained quickly. The data from the selected bureau must be combined with other screening reports, typically tenant performance and criminal background report and all evaluated to use screening tools effectively.

Reports include:

- Identification. Name, address, social security number, date of birth, and previous addresses.
- Public records. Outstanding taxes and tax liens, other liens, money judgments, and bankruptcies. This section does not contain criminal convictions unless the criminal conviction resulted in a civil restitution judgment or unlawful detainee judgments unless a money judgment was obtained.
- Collection accounts. There may be a separate section for accounts which were assigned to collection agencies.
- Credit accounts. All reported credit accounts in the applicants name or for which he is liable, including the creditor name and account number, the highest balance or credit limit, when the account was opened, when it was closed, the type of account, the terms, the balance as of the last report, if any amount is past due, and the date of the last report from the creditor.
- Inquiries. Inquiries by potential extenders of credit.
- Miscellaneous. Information which may not fit previous categories, such as foreclosures.

Landlords may choose to evaluate their own reports or accept an evaluation from the credit bureau. Companies such as Beacon or Fair, Isaac offer this service. Using sophisticated evaluation techniques, they screen applicants, and in some cases, make a decision for the client as to whether the prospect is qualified or not, based on prearranged criteria. In other cases they present a rating or evaluation, perhaps based on a point system.

The primary benefit of such systems is that they allow clients with a large number of applicants each day to delegate all or part of the evaluation process to a reliable subcontractor. If a company has many locations, each with personnel charged with approving or disapproving applicants, setting up standards based on point scores can promote uniform results and prevent inconsistencies. One need not receive a thousand applications a month to benefit from this approach. A landlord with three apartment buildings he manages himself can use this system to delegate the credit decision to the respective resident managers with confidence that his credit standards will be preserved.

Recently, such scoring systems have emphasized their utility in avoiding accusations of illegal discrimination. By reducing the various elements of the report to numerical scores, the decision-making process is made objective and is not subject criticism under the fair housing laws. The applicant either scores 620 or he does not, it is said, regardless of race, color or creed. This argument should be viewed with caution. While it is true that such numerical scoring systems give a superficial appearance of mathematical objectivity, setting the level of the bar that the applicant must clear to qualify may be attacked as discriminatory if it has the effect of disqualifying a disproportionate number of applicants in a protected class.

The landlord may prefer to review the credit reports and make his own decision as to the acceptability of the applicant. He should remember he is not looking for any single thing upon which to base his decision and should consider:

- Is the information in the report consistent with the information on the application?
- Does the information in the report reflect a responsible approach to the applicant's financial obligations?
- How does the information in the report compare with the information from other sources, such as the references, eviction reports, etc?

If the landlord takes this approach, it is necessary to document in the applicant's file the thought process by which the information was evaluated. This documentation will be invaluable if the motivation for a rejection for the applicant is questioned.

Identification information should be inspected first and compared to the application, looking for aliases or undisclosed addresses. If significant, these can form the basis for denying the applicant.

Public records information will show outstanding money judgments, restitution orders issued in connection with criminal convictions and civil judgments and provides further information about the applicant's background which may not show up on a criminal records check if the offense was committed outside the general area in which the applicant lived.

The sections showing accounts assigned for collection and the credit account information allows the landlord to evaluate the applicant's attitude to debt payment generally.

Where the credit report discloses information which is neither obviously sufficient to qualify or disqualify the applicant, many apparent discrepancies can be resolved by talking to the applicant. Where the landlord has made the decision to disqualify the applicant due to discrepancies in the report, it is permissible under the FCRA for him to disclose the nature of that information to the applicant, regardless of his contract with the reporting agency. The landlord may not, however, give a copy of the report to the applicant unless the law of the state in which the landlord is doing business so provides.

Professional credit scorers give the following data the greatest weight:

- Is there a history of accounts going over 90 days late, rather than one or two instances concentrated in the same time frame?
- What does the public record show in the last five years? (The latest information is the best in all categories.)
- Are there current delinquencies?
- Are there a large number of inquiries which might show the applicant is loading up?
- Are the credit balances at or near their maximums?

The existence of several of these factors is reason to question the applicant's credit worthiness.

Whether the landlord decides to evaluate the credit report himself or rely on screening agencies for evaluations or even final credit decisions, the standard of care now requires such reports in the screening process. They can be a valuable predictor of the applicant's likelihood to make timely rental payments and to live up to the other obligations of tenancy.

National Tenant Network, Inc. National Headquarters
P: 800-228-0989 F: 800-340-1116 ntn@ntnonline.com