NATIONAL TENANT NETWORK

FUNDAMENTAL PRINCIPLES and Twelve Billion Dollars

Maintaining critical cash flow.

Observing fundamental principles accounts for success in all investments. If you're involved in the stock market, perhaps you focus on the Price Earnings (PE) ratio of the stock you want to buy. In the mortgage industry certainly creditworthiness and a repayment ability standard play critical roles as fundamental principles. When analyzing a loan application for development or refinancing of commercial or residential rental real estate, you face a field of factors that must be brought into balance. What is the credit standing of the borrower? What are the investment objectives? How will the borrower achieve and maintain initial and continuous cash flow and thereby meet repayment ability standards? A successful analysis must not only identify the investor goals, but also whether or not investor policies and practices will assist in achieving them.

"It is all about the ability to repay the loan and cash flow from collection of rents that determines repayment capacity. The higher the quality of those cash flows (e.g. tenant creditworthiness) the more stable the cash flows should be. Stable and recurring cash flows underpin a good loan." Joe Connors, Commercial Banking, Pacific Continental Bank.

Rental income, without exception, is critical to repayment ability. After the analysis, these are the challenges. In the US today there are over 38,000,000 residential rental units. It is estimated that the residential rental population hovers around 88 million. Typical rental situations present just under 20 objective lease infraction possibilities. Violation of three, in particular, accounts for over 12 billion dollars that rental owners and managers lost in 2009. This loss is not static. It increases minute by minute. While only five percent of the residential rental population of 88,558,000 is responsible, the total loss is staggering and shared by all investors. Can 12 billion dollars in lost rental revenue, that's $32,876,712.32 dollars lost per day, have an effect on repayment ability? Could it destroy investment objectives? No matter how well thought out, average rental income losses of just under one million a day can turn a very good looking loan into a disaster.

Sustained cash flow and applicant screening should be considered synonymous.

RESIDENT SELECTION – MORE THAN MEETS THE EYE
INVESTOR POLICIES and maintaining GOOD LOANS

Applicant screening today is a labyrinth of requirements and potential liabilities. What reports will provide a clear and comprehensive picture of the applicant? How should the reports be interpreted? How should the conversation with the applicant be conducted? What can you do with the background reports? What is the proper procedure for accepting or rejecting the applicant? The wrong answer to any one of these questions can destroy investment objectives, the ability to repay on schedule and credit-worthiness.

Relevant laws require recognition of and proper dealing with protected classes of applicants. Equally as critical is the truly consistent application of rental policies and protection of sensitive applicant data. At any step along the way, improperly dealing with the issues raised will lead to liabilities under Fair Credit Reporting Acts, Fair Housing Laws and regulations implementing the US Patriot Act.

Penalties for violation of requirements or an unintended misstep are substantial. For instance, inadvertently dealing with any individual or entity or any person acting on their behalf who appears on the US Treasury's Specially Designated Nationals List can lead to having company assets frozen and up to $1,000,000 in fines. Individuals can be fined up to $500,000 and face up to twenty years' imprisonment for violations.

Basic Steps to Smart Screening of Applicants

Seek Assistance

Borrowers functioning as landlords and management companies should seek the assistance of an experienced applicant screening company. While the Internet offers access to background screening data from numerous sites, investors and management professionals cannot meet required standards by only ordering reports successfully. The screening company selected must have a reputation of providing rock-solid data – data that is comprehensive, detailed and timely and an industry expertise of long standing. Use of Internet startup companies or those that lack industry expertise can be costly.

When screening to fill a vacancy, or a prospective one, take the requisite time. The essential bits of information needed are the applicant's rental, employment and credit history, references, and, perhaps, a criminal background check. Landlords and management professionals should not hesitate to reject an applicant if he does not meet minimum standards. More is lost in the long run by taking a marginally qualified applicant who may turn into a problem. Losses will not stop with non-payment of rent. Damage to the investment's reputation, loss of current good tenants and physical destruction of the premises have a negative impact on sustained cash flow.

Set policies and acceptance criteria in advance.

When screening applicants, policies and standards must relate to tenant quality and stability and the type of rental arrangements to be made. These policies and standards should be a realistic minimum that you are willing to accept in a long-term tenant. They must be written and distributed to all applicants. Tenant selection policies should not be shortchanged by habit, conventional understanding or bravado. Seek capable assistance.

National Tenant Network, Inc.

Started in 1980, NTN is the nation's oldest, national resident screening company. Today NTN serves subscribers nation-wide from 30 regional offices. Every member of our team is focused on a single goal: to help property owners and managers make the best leasing decisions possible— time after time and without fail. We work in partnership with our subscribers to prevent risk and protect assets.

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