

Resident Screening Fact Sheet

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The importance of resident screening cannot be emphasized enough, because when a good screening method is used, it can help apartment properties financially manage portfolios by increasing Net Operating Income (NOI). This fact sheet provides best practices and screening tools properties can use to leverage screening data to its fullest potential. These tools should help property owners and managers pick the best residents which may reduce bad debt, balance risk and occupancy and improve NOI.

Best Practices

Most applicant screening methods are similar in that they examine a few applicant attributes, such as rent-to-income ratio or debt levels, and make a judgment of an applicant's likelihood to meet their rental obligations. Such methods, however, do not consider the hundreds of variables that impact an applicant's ability and willingness to pay rent. Nor do they consider the interactions of such variables. The following best practices provide guidelines that can be used when choosing a resident screening method.

1. Statistical Resident Screening Model

Consider selecting a statistical resident screening model. Results-based, statistical modeling has been used for decades in the mortgage industry, credit card industry, and numerous other industries because it is the only technique that can objectively determine which variables are predictive of the performance being modeled and appropriately weigh these variables. This methodology is deemed to be more accurate and delivers better bottom line financial performance. Statistical scoring models built specifically for resident screening deliver a score that estimates the credit risk that an applicant may not satisfactorily fulfill his/her lease obligations.

2. Landlord-Tenant Data

It is important for a screening model to include landlord-tenant data in addition to credit payment history to get a complete picture of prospective resident lease performance. This data should include past court actions, prior landlord inquiries, and landlord-reported history information regarding lease performances. Please ensure that the screening model uses the largest landlord-tenant data set because doing so should provide the most comprehensive score and prediction.

3. Fair Housing Compliance

Use a resident screening method that improves Fair Housing compliant resident selection. A mathematically-derived score and standard acceptance levels ensure more consistent interpretation and execution of acceptance policies than other screening methods. Elimination of manual screening decision overrides should improve Fair Housing compliance even further.

4. Adjustable Acceptance Levels

Resident screening models with adjustable acceptance levels provide property managers with a powerful tool for fine-tuning and controlling the balance between loss rate and vacancy rate. It is best if the screening model gives each property within a portfolio the flexibility to adjust its own acceptance level based on the financial risk that is acceptable for that specific property. This allows a property to adjust levels as economic conditions, vacancy rates, and other market considerations change. This flexibility also accommodates portfolios that have a variety of property classifications because it allows acceptance levels to be adjusted to accommodate risks associated with specific property classifications. For example, a Class A property may require a higher acceptance score than a Class B property in the same portfolio.

5. Instant Score Results

To shorten the sales cycle, you may consider using a screening method that delivers decision scores instantly. Decision scores should be delivered seconds after applicant data is entered, allowing agents to process leases before applicants leave the leasing office. This may reduce the likelihood of prospective residents shopping somewhere else for an apartment.

6. Criminal Screening

Maintain a safer community for residents, guests and staff by incorporating criminal screening. Consider a criminal screening product that delivers results to the leasing staff based on criteria established by the property. Automation ensures that all decisions are made consistently, improves Fair Housing compliance and frees the staff from interpreting complicated criminal reports.

7. Terrorists Screening

Under Presidential Executive Order 13224, apartment owners are prohibited from entering into a lease or other real property transactions with Specially Designated Nationals (SDN) and Blocked Persons. The Treasury Department's Office of Foreign Assets Control (OFAC) maintains a list of known and suspected terrorists, international narcotics traffickers, and their representatives that are designated as SDNs and Blocked Persons. Violations of this regulation can result in criminal penalties ranging from \$50,000 to \$10,000,000 and/or up to 30 years imprisonment. OFAC also has authority to impose civil penalties of up to \$1,075,000 per violation. To avoid penalties, please ensure that your resident screening method checks applicants against the OFAC list.

8. Management Reporting Suite

Statistical resident screening models include a suite of management reports that help properties leverage the data collected in the screening process. Reports analyze the screening data to provide powerful business intelligence. This intelligence allows property managers to make better leasing decisions, discover growth opportunities and measure and adjust marketing strategies.

If the data analyzed by the management reports is not based on statistical scoring, than the business intelligence provided by the reports may not be accurate. Reliable data coupled with business intelligence has proven over time to reduce risk and increase NOI.

Choosing a Resident Screening Model

As you can see by the guidelines outlined above, a proper resident screening process incorporates more than just credit reports. There is an abundance of data that can help properties assess risk and manage apartment communities more profitably, in addition to maintaining security for residents and staff. Make sure your resident screening method harnesses all of the available data and analyzes it with a statistical scoring model. These guidelines provide managers and owners with the necessary knowledge to select an effective resident screening method that can positively impact the bottom line.