Qualifying Guidelines

(for training purposes only)

Before you get started

1. Regarding this document

You might want to make a copy with the content (less the instructor's notes) leaving you with the body of the guidelines for your staff to use on a day to day basis. Ultimately you'll get it down to two or three pages. We recommend saving this document as it is for future reference and training.

2. Your property management model will be different than ours.

We managed single-family homes in North Atlanta with an average rent of $1300 a month so our qualifying guidelines will fit that customer. If your model is rent under $800 a month (or over $3,000 a month), subsidized housing, military housing, student housing, mobile homes, boarding houses, mountain-top mansions or one bedroom condos you'll tweak these standards and **make this document fit your model.**

3. You may have several models operating simultaneously applied to different segments of your business.

You could develop guidelines for your single-family properties over $1,000 a month in rent and a different set for single-family homes under $1,000 a month. You can have guidelines for your government-subsidized renters and another for your stand-alone applicants. Those who rent mobile homes shouldn't have the same standards as those renting $2,000 a month houses. You may have one owner with 50 houses that feels strongly about having a criminal report on every applicant or never taking a credit score under 600. **You can have different categories of applicants** as long as you use the same criteria on all applications that fall into this category. The key is to consistently apply your qualifying guidelines to all applicants in that category. The qualifying principles we discuss in this document will provide you with the framework for your different models and will give you a great leg up for developing your own model but it won't likely work for you just as it's written.

4. You'll also adjust these standards over time.

This is NOT a static document. As you figure out what's standard for your market, you'll reshape this over and over as time goes on. Don't getting it perfect because it changes as you attend workshops, have bad experiences, as the laws change and as market conditions cycle. There are times we didn't consider a credit score under 600 because there were plenty of applicants to fill all our houses. Other times tenants were hard to find and we responded by lowering our standards (or better ... adjusted our standards) to meet the market.

5. You may want to develop a conforming applicant set of standards and a nonconforming set of standards.

This models the mortgage industry application process where the bulk of the applicants fit into one model (conforming) and the rest has a different set of standards (nonconforming). For example: in one case a bankruptcy in the past year might generate an automatic denial but this tenant still has a 700 score (even after the bankruptcy backwash hits their credit score) so they may still be a great candidate. In this case the rule to deny ALL applicants with a bankruptcy (or foreclosure) in the past year can be set aside in the nonconforming category. In another instance a single mom might have less income than your income-to-rent ratio requires but she has an 800 credit score. You can have a system that weeds out nonconforming applicants and have higher level staff dealing with them as a separate qualifying category of applicants.

6. Remember the mandates are …

1. Put your standards in writing for each category.
2. Push for objectivity across the board.
3. Apply the criteria consistently to all applicants in that category.

No one system is perfect as there are too many moving parts but you manage the criteria, write them down as best you can, tweak it over time as you go through your learning curves, manage applications consistently and cross your fingers that your staff follows your instructions.

7. Using tenant screening services (TSS)

Since most of the critical information you need has been posted on national databases there are many companies (third-party credit reporting services) offering tenant screening services. Visit NARPM.org for a list of vendors for a start. You have two options with them.

1. You can do a Set-Up screen to tell their system what to approve and deny and they do the qualifying. You simply get a report of approval or denial.
2. Have them send YOU the information and YOU make the decision. Many would argue if THEY make the decision it's harder for someone to accuse YOU of discriminating. This is a really strong argument. If you're going to get the information sent to you, you'll have to have an onsite inspection and prove to the credit bureaus that you've followed the storage rules and have the proper lock up system in place to guard the information.

Our strong recommendation is to let a TSS do the qualifying for a while until you learn more about the process and have developed some judgement (experience) regarding who should be approved and denied. Until you've had 100 tenants go through your system, you'll have a hard time figuring out who to approve and deny. For a while (maybe forever) outsource it to a tenant screening service in the business whose job is to keep it objective.

8. Before you go too far, view two videos on our site TrainingPropertyManagers.com. Watch Big A vs. Little a Agency for a great discussion about how property managers do agency differently and **Property Managers Style,** a discussion of the two different styles of the management business. It's a valuable preliminary to the application approval and denial process and will introduce critical guidelines regarding getting the owner involved in the qualifying process.

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Instructor's Notes

Anyone who makes credit decisions regarding any product or service is required (by several bodies of law) to **be objective** in their decision-making practices (ie, treat everybody the same and use standards that are applied across the board to everyone and not interject personal opinion and bias). It's a challenge to be **totally objective** but you must set up a system and apply **objective rules** so you're prepared to defend your decisions when (not if) you're challenged. To do that properly, and **escape the claims of discrimination**, you need a **strict set of guidelines** to follow for that decision to approve or deny the applicant. Ignore objectivity and you will, sooner or later, answer to someone (like the FTC) as to why you denied one (or approved another) with approximately the same credit results.

The driving principle behind qualifying applicants is OBJECTIVITY. The minute you begin using **subjective criteria** (feelings, experience, instincts, hairs on the back of your neck, or any other subjective criteria), you're opening yourself up to a discrimination lawsuit. EVERYONE must be treated the same and when qualifying applicants for a rental it is particularly wormy because of the many factors that affect our judgements on who to approve and who to deny. This is not a perfect process and no matter how long you're in the business you'll struggle with it.

Real estate sales people, getting into the leasing and management game, are particularly at risk because they have little or no training on the issues of looking at (or having access to) applicant's private information. Historically, sales agents are trained to refer their prospective buyer to a loan officer to pull credit, deal with very personal information, protect and store that information. The customer's records are kept confidential between the customer and the loan officer. Sales agents never see that information and shouldn't. When they cross over into the world of leasing, having access to that information is hazardous to their health/wealth and license unless they get training regarding the requirements of the Fair Credit Reporting Act. One way or the other you must start with a well-established set of **Qualifying Guidelines** and **stick to them** no matter who the applicant is, ie, your brother, a staff member, the local mayor, the real estate commissioner, an old friend, the owner's boss, or John Q (and we've experienced all of them). Public. Applying your guidelines across the spectrum of applicants the same way, every time, will keep you out of trouble.

You'll see the name Crown throughout this document. Just do a search and replace Crown with and your company's name (or a shorter name like "Taylor" if your company has a longer name like Taylor Management LLC or RPM for Residential Property Management LLC).