R.E.I.A.

Real Estate Investors Association

Wayne County

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FACEBOOK: Wayne County REIA

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Monthly Meeting: First Tuesday of the Month

At: Leon's Family Dining 23830 Michigan Ave., Dearborn 313 563-3713

(East of Telegraph on Michigan Ave) Dinner and Networking 5:30 PM

Next Meeting: August 6, 2024

(food and beverages available for purchase)

Meeting starts at 5:30pm

Meeting ends at 8:00pm

Event is free for members or $20 at the door for non-members

(now accepting debit/credit cards)

Screening Tenants:

The best way to minimize your Unit turn-over and to ensure your tenants have the capability to pay rent on time and take reasonable care of your property. Jeremy Paul will provide strategies that he uses to screen potential tenants from posting the opening to signing the lease
And Follow-up.

Jeremy Paul has been a real estate investor for 13 years, starting in 2009. He self-manages 14 properties, comprising both single-family and multifamily units. In addition to holding a real estate license, his W2 job of 18 years is an Account Manager for industrial sales. Jeremy has been a member of Wayne REIA for 5 years and has served as its Treasurer for the past 2 years.

Next Meetings

Directors Board:

Tuesday *August 13, 2024 6:000pm*
at Leons Family Diningt

Next Monthly Meeting
Tuesday September 3, 2024
5:30pm, Leons Family Dining

How to screen tenants: 6 essential steps

by Jeff Rohde, posted in INVESTMENT STRATEGY

Screening tenants is a key part of owning and operating a rental property. Selecting a good tenant can help you keep cash flow strong and potential returns robust, while making the wrong decision could result in an eviction or a landlord being accused of discrimination. In this article, we'll look at how to screen tenants, online screening services to use, and important questions to ask a tenant. Let's begin by reviewing fair housing laws.

Key takeaways

- A landlord must treat prospective tenants equally and fairly and follow local, state, and federal fair housing laws.
- There are several protected classes that landlords may not use as a basis for denying a tenant, including race, religion, national origin, familial status, and gender.
- Some cities and states also add additional protected classes, such as sexual orientation or political ideology.
- Steps to follow to screen tenants include requesting a written rental application, running a credit report, conducting a background check, and personally interviewing a prospective tenant.

Know how fair housing laws work

Landlords are free to pick and choose among prospective tenants, provided that all local, state, and federal fair housing laws are followed. As the legal resource website Nolo.com notes, tenants must be treated equally and fairly, and the same selection standards must be applied to all applicants in the same way. Examples of selection standards a landlord might choose to use include minimum income and credit score, rent-to-income ratio, eviction history, and type of pet if a rental is pet-friendly.

Fair Housing Act

The Fair Housing Act is a federal law that applies to residential landlords. There are 7 protected classes that landlords are prohibited from discriminating against :

- Race
- Color
- National origin
- Religion
- Disability
- Sex
- Familial status

State and local fair housing laws

States, counties, and local municipalities also may have additional prohibitions to prevent discrimination based upon:

- Person's birthplace
- Ancestry
- Culture
- Language
- Age
- Marital status
- Gender identity
- Sexual orientation
- Veteran status
- Political ideology
- Prior criminal record

Section 8 or other housing subsidy program participation
In most states, property managers must hold a real estate license and are required to take continuing education classes on topics that include fair housing laws in order to keep their licenses current. Because they're required to stay on top of federal and local fair housing laws, property managers can make real estate investing easier by helping landlords avoid discrimination.

How to screen tenants

Having a tenant screening system in place helps investors ensure that every applicant is treated equally and fairly and reduces the risk of violating fair housing laws or inadvertently skipping an important screening step.
Here are the general steps to follow when screening applicants for a rental property:

1. Set minimum applicant requirements

Create reasonable expectations and minimum criteria for prospective tenants. Benchmarks may include median household income level, credit score, and employment history.
Setting criteria that are too high may result in a home sitting vacant for much longer than necessary. For example, if the median household income in a neighborhood is $45,000, looking for applicants with an income of $60,000 per year may be unrealistic. On the other hand, setting criteria that are too low relative to the neighborhood norm may result in signing a lease with a problem tenant. One good resource for learning specific information about a neighborhood is the Roof stock Neighborhood Rating index. The system uses a proprietary algorithm to assess neighborhood-specific risk and benefits based on key attributes. Understanding the profile of the neighborhood a rental property is located in can be a good way of setting minimum requirements for prospective tenants.

2. Request a completed rental application

A written rental application should provide a landlord or property manager with key information about a prospective tenant, including:

- Current and previous employers
- Length of time at their current job
- How frequently an applicant changes jobs
- Gross income and amount of income left over for living expenses after paying the rent
- Monthly debt payments, such as credit card and student loans
- Previous addresses and contact information for former landlords
- Personal references
- Information about pets or roommates.

3. Run credit, rental history, and background check

Credit scores range from 300 to 850 and are an indicator of how financially responsible an applicant is. For example, if a prospective tenant has a low credit score and a history of paying bills late, a landlord may reasonably expect that the rent also will be paid late.
Rental history reports information such as an applicant's previous addresses, how long the applicant resided at each address, and contact information for each landlord or property manager.

A background check reveals any criminal records an applicant might have, along with public records indicating if an applicant is being sued for things that could affect the ability to pay the rent on time, such as a large medical bill or unpaid child support. Online tenant screening services like RentPrep provide tenant credit reports, background checks, and more.

4. Speak with current employer and landlord

After reviewing tenant screening reports, it's a good idea to make a phone call to verify that the information on each report is correct. Speaking with an employer and current landlord also may be a good way to gather information that isn't on a report. For example, a landlord may learn that a tenant has been given a 2-week notice and may soon be out of work. Speaking directly with current and previous landlords may be a good way to learn about how well an applicant takes care of a home and whether or not a previous landlord would rent to the applicant again.

5. Interview the applicant

After an applicant has met the initial requirements, the next step is to meet the applicant in person. While it's possible to speak over the phone, there are several advantages to conducting a face-to-face interview:

- Verify information on the rental application, such as the number of people who will be occupying the home.
- Discuss any discrepancies between data on the information provided by employers and other landlords.
- Provide an applicant with the opportunity to ask questions about the home, options for paying rent online, utilities, and more.
- Conduct an in-person pet interview if a rental property is pet-friendly.

6. Review all applicants

There's strong demand for rental property in many cities across the country, and it's possible a landlord may have more than one qualified applicant to choose from. When reviewing applications from a number of qualified prospects:

- Stick to the original tenant requirements, such as credit score and median household income, to make the selection as objective as possible.
- Avoid going with a "gut feeling" by factoring in subjective criteria, such as making a decision based on an applicant's looks or lifestyle.
- Consider using a "first come, first leased" approach when all applicants are equally qualified.

10 important questions to ask a prospective tenant

Here are 20 key questions that should be on every rental application, according to this article from RentPrep:

1. Do you currently rent, and if so, where?
2. How long have you lived in your current home?

3. Why are you looking for a new place to live?
4. What date would you want to move in?
5. What kind of work do you do?
6. What is a rough estimate of your income?
7. How many people would be living with you?
8. How many people living with you smoke?
9. How many parking spaces would you require if you rent here?
10. How many pets do you have?
11. Do you think your current landlord will give you a favorable reference?
12. Does your current landlord know you are thinking of moving?
13. Have you ever had an eviction?
14. Are you familiar with our rental application process?
15. Are there any issues I should know about before I run a background screening for all the adults in the household?
16. Have you filed for bankruptcy recently?
17. Will you be fine to pay our lease application fee of ($ amount) if you fill out the application?
18. Would you be able to pay the security deposit of ($ amount) at the lease signing?
19. Are you willing to sign a 1-year lease agreement?

It's important to check with local legal counsel to ensure the questions are in compliance with local applicable laws.

How to turn down an applicant

There are situations in which prospective tenants don't meet a landlord's minimum screening requirements and will need to be turned down for the rental property. Here are some valid reasons for declining to rent to an applicant, according to guidelines published by the Federal Trade Commission (FTC):

- The applicant's employment can't be verified or work history is minimal.
- The applicant's income does not support the monthly rent amount.
- The applicant has a low credit score or poor payment history in multiple accounts.
- A rental history report reveals evictions, property damage, or judgments for unpaid rent.
- The applicant's criminal history indicates potential risk.

An "adverse action" occurs when an applicant is turned down for a rental property. The Fair Credit Reporting Act (FCRA) and FTC require a landlord or property manager to send an applicant an adverse action letter when being turned down.

An adverse action letter should include:

- Name and contact information of the credit reporting agency
- Statement that the credit reporting agency did not determine the applicant should be denied, and can't give reasons for why the decision to decline was made
- Notice to the applicant that they may dispute the accuracy or completeness of any reports
- Disclosure to the applicant that they may obtain a free copy of their report from the reporting agency

It’s important to keep records of all documentation that provide backup to support the decision to turn a tenant down. Items such as tenant screening reports, interview notes, and discussions with employers or previous landlords can be organized and stored online after signing up for a free account with Stessa, a Roofstock company, or paper records can be stored in a file folder.

Closing thoughts

When screening prospective tenants, it’s important to follow fair housing laws and credit reporting rules. To avoid being accused of discrimination or unfair behavior, a landlord should be aware of protected classes and never ask questions about things such as race, national origin, or family status. Having a tenant screening process in place helps landlords ensure that all applicants are treated equally and fairly, especially when there are multiple qualified tenants to choose from.

This Mortgage Workaround Opens Door to Homeownership for Some Buyers Priced Out of Market

Assumable Mortgage Use Increases Along with Rates

Moria Ritter, Costar News, July 8, 2024

As soon as they started house hunting, pastor Stephen Shumate and his wife realized that affording a single-family house was far beyond their budget. But instead of having to stay put, they found a workaround: They bought a house - and the seller's mortgage. The couple is now closing on their three-bedroom, two-bathroom house outside Phoenix, along with its previous owner's 2.75% annual mortgage rate. "It really did open up some opportunities in this house that we couldn't have afforded," Shumate said. "Ifwe had the same down payment and the same purchase price, but at the new mortgage, it would be significantly more a month."

More homebuyers like the Shumates are opting to assume the seller's mortgage rather than taking out their own loan to buy a house. These loan deals result from persistently elevated interest costs that shot up in recent years. As of Monday, the average 30-year, fixed-rate mortgage stood at 6.95%, up from 5.3% two years earlier. Rather than make a down payment and borrow at the higher current rate, an assumable mortgage lets buyers pay the previous owner's rate and remaining mortgage balance. The demand for assumable mortgages comes as prospective homebuyers face mounting affordability challenges - sometimes big enough to push them from the house-buying market altogether. The median monthly mortgage principal and interest payment on home purchase insurance has increased $852 in the past three years, a study from researchers at the Harvard Joint Center for Housing Studies found. In turn, the income necessary to afford those payments has also increased. In the first quarter of 2024, households needed to earn at least $120,000 annually to afford a median-priced house in the United States, up from an inflation-adjusted $82,000 three years earlier. At the same time, apartment rents are 26% higher than they were in early 2020, further limiting options.

Those market changes have forced prospective homebuyers to either stay where they are or find an alternative way to purchase a house. Work-arounds for high borrowing rates, including assumable mortgages, aren't a perfect fit for every homebuyer, though. They require that fixed mortgage rates change sharply over a short time so a buyer's monthly savings isn't offset by a hefty cash down payment. This financing also often results in a longer wait for a deal to close. For those buyers who have the means to make an assumable mortgage work, however, it can mean the difference between buying a house or not.

Right Conditions

One such condition limiting buyers from assumable mortgages are restrictions surrounding the types of mortgages that can be assumed. Only Federal Housing Administration loans for first-time homebuyers, known as FHA loans, and mortgages backed by the Department of Veteran Affairs, known as VA loans, can be assumed.

Any FHA or VA mortgage can be assumable, even if the seller and listing agent are unaware of the option, creating an inventory of houses with assumable mortgages both on and off the market. While some industry professionals estimate the total number of houses across the United States with assumable mortgages could easily be in the millions, the amount of those homes now listed for sale could range from 950 to well over 30,000, depending on the search criteria used by various online listing platforms. But even if a house has an assumable mortgage, there are still other conditions that need to be just right to make an assumption worth it for a buyer. The COVID-19 pandemic-induced boomerang of mortgage rates created such a situation. When the Federal Reserve cut interest rates in 2020 in response to the pandemic, mortgage rates tumbled. The 30-year, fixed-rate average started its decline in April 2020 and bottomed out at 2.65% in January 2021. It hovered around 3% until the spring of 2022, when the Fed began raising interest rates, and it's been climbing since.

Last fall, the 30-year, fixed-rate average began rapidly climbing and reached a post-2020 peak of 7.79% in October. That spike in rates sidelined buyers, creating a "major problem and a major market halt," according to Kristy DeWitz, a real estate agent in Arizona who specializes in assumable mortgages.
"When the rates went up really high, it was a very quick change," she told Costar News in an interview. "We suddenly had a big problem where most first-time homebuyers were completely priced out, like there's no way they could afford mortgages." Since then, mortgage rates have fluctuated. In recent weeks, they have settled just below the 7% threshold. That's down from last year's highs, but still significantly higher than the pandemic's ultra-low average rates and above 2019's 3.5% to 4.5% range.

Assumable mortgages are an alternative that offers a solution for buyers, sellers and brokers trying to operate in a tight market, according to DeWitz. "The buyer can pay more for it because they're getting a better interest rate...The seller actually gets more cash in their pocket because they don't need to take a lowball offer," she said. "The buyer wins and the seller wins." The recent uptick in rates, and resulting slowdown in the market, has caused other mortgage alternatives to have a resurgence, too. For example, zero-down mortgage loans, an offering that was popular during the subprime mortgage crisis that led to the Great Recession beginning in 2007, are making a comeback.

United Wholesale Mortgage, one of the nation's largest lenders, introduced its 0% down purchase program in May. The program allows buyers to pay for 97% of their house with a mortgage and pay the remaining 3%, up to $15,000, with a second, interest-free "down payment assistance loan." Though that loan will not accrue interest, the borrower will be responsible for paying the full amount when if they sell the house, pay off their first mortgage or refinance.

Not for Everyone

Another caveat making assumable mortgages difficult for some buyers is that they require a down payment not everyone can afford. Unlike a conventional residential mortgage that gives borrowers the opportunity to decide their down payment, assumable mortgages come with a set down payment calculated as the difference between the current loan balance and the price of the house. That means buyers might need to prepare for a trade-off: a higher one-time down payment in exchange for lower monthly payments. For a family such as the Shumates, that trade-off can be worth it. The family has lived in a mobile home outside of Phoenix for three years, but they were interested in owning a single- family house instead. "It's pretty small," said Shumate, speaking of the family's mobile home. Shumate said he and his wife had saved enough to make a down payment on a single-family house, but because they are a single-income family, the monthly mortgage payments they'd be responsible for would push them out of their budget.

"We kind of just assumed we wouldn't be able to buy a house anytime soon," he said. "It didn't seem possible." humate learned about assumable mortgages in a news article and started doing research, finding a house with an assumable mortgage that fit their budget, both in terms of a down payment and their monthly mortgage payments. They're in the process of closing on that transaction. Another reason assumable mortgages aren't for everyone: They often take longer to close on than a normal transaction. Brokers estimate a typical transaction can take about 21 to 30 days to close, while assumable mortgages can take up to 60 days.

Ryan Leff, another homebuyer who used an assumable mortgage to purchase his home, said he and his wife waited an extra month to close on their house in Waddell, Arizona. Initially, the couple had a close date of April 10. That got delayed until May 14, Leff said in an interview. "The situation my wife and I were in was a bit unique because we were living with my mother-in-law, and so we had a place to stay, pretty much rent-free, during the delay," he said. "The only thing that I was kind of imagining is, gosh, what would have happened if we were in an apartment or something, and our lease was ending, and then all these different things were going on, we were getting delayed. I couldn't imagine the headache that would have happened had we had a little bit different of a scenario." But the drawbacks don't mean that assumable mortgages aren't of benefit to some buyers. For those who can use the workaround, "it's a way for them to attain homeownership in a world right now where it's very difficult," DeWitz said.

REIA OF WAYNE BOARD MEMBERS INFORMATION

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Please Become a Member Today

100% of your membership fee goes to operating the organization. Our board is all voluntary and there is no payment of any kind going to leadership. All fees are used to offset costs of speakers, cost of hosting and maintaining website, insurance, newsletter, picnic and holiday events and along with other REIA's in the state we help support a Lobbyist in Lansing that advocates for landlords and property investor interests. (These are just some examples of how your membership fee helps maintain this association.)

R.E.I.A. Membership Benefits

- Socializing, Networking, Networking & Networking
- Strong focus on Landlord needs including specific rehab and rental presentations
- Monthly Newsletter and Guest Speakers
- Opportunities to personally meet and talk with local business owners/ contractors
- Free 3 month subscription to Mr. Landlord newsletter.

Investors can build a rehab and investment team through referrals from other investors

Contractors get a great source on which to build long term repeat customer business

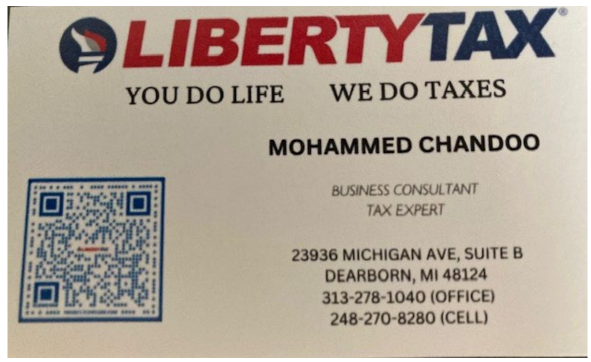
- Access to Court-Approved forms
- Liaisons with Local and State Government through RPOA
- Discounts with Sherwin Williams Paint,& Office Max and strategies to maximize saving at several big box chains

Annual Membership

$135.00

Individual with spouse

(your membership is tax deductable!)



Why did the nail go to the bar? To get hammered of course!

Around Town With Real Estate Investor Groups

(Call group to confirm meeting dates before attending as they are subject to change.)

- **REIA of Wayne County**
  Meets 1st Tuesday of the month at
  Leons Family Dining 23830 Michigan Ave., Dearborn
  Meeting starts with networking at 5:30pm
  Meeting starts at 6:00 pm and ends at 8:00pm
  Call Wayde Koehler at 313 819-0919 for details
- Oakland REIA
  Meets 2nd Thursday of the month at
  Troy Community Center in meeting room.
  Networking at 6:00pm Meeting 7-9pm
  Call Brian Sullivan at 248 327-0588 for details
- Metro Detroit Investors Meet-Up
  Meets 4th Thursday of the month at
  McVee's Pub & Grub 1129 Long Lake Rd., Troy
  6:30-9:00pm
- Pontiac Landlord Group
  Meets 1st Thursday of the month at
  Fino's 450 Perry St., Pontiac
  Starts at 6:00 for dinner and meeting follows
  Call Ken Moses248 672-9699 for details
- Monroe County Landlord Association
  Meets 4th Thursday at
  Quatro's on Telegraph Rd. Meeting starts at 6:00pm.
  Call Debbie Peters at 734 457-5086 for details
- Jackson Area Landlord Association
  Meets 4th Monday of the month at
  The Napoleon Café, 6816 W. Brooklyn Rd.
  Jackson Dinner @ 5:30 and speaker at 6:30pm

New Group: The Exchange Group
This is a creative financing networking group
Meets every Thursday 10am-12:30pm
IHOP 3132 Rochester Rd., Troy
Contact: Cara Kennedy 734 358-8193

Do you have items you would like to sell, vehicles, left over construction materials, cabinets, flooring, tools, items that other landlords might be able to use? Members can post their items and contact info in the newsletter for free. Contact Maria King @ 248259-3268
(Must be able to post item description, price and contact name & number.)