

## Is Credit Really Important To A Rental Transaction?

As a landlord, I often get calls from applicants asking me how I look at credit. Many of them discuss their bankruptcies, divorces, or foreclosures; everyone seems to have a legitimate and heartbreaking story. This begs the question "Are there any great renters out there with low credit scores?" The answer is absolutely yes! Some of my longest-term tenants have come out of foreclosures when the housing market dropped. On the flip side, there are plenty of renters that bring along a healthy dose of heartache and evictions. As a private investigator that looks at rental files and people every day, I see the entire spectrum of credit, criminal, and eviction records. I have found the easy files are the approved and declined, but what about those gray areas in the middle? For example, your applicant has 700 credit score, no criminal, good job, and great rental history, that's a no brainer. On the flip side, they are a 480, never paid a soul, have several evictions and an open warrants...once again, a no brainer.

Now, what about an applicant who has a 550 Fico, no criminal history or evictions, great rental history and a steady job? If you were to look, the credit score reflects a bankruptcy due to a divorce 4 years ago. See where it becomes a little gray?

To help me make the right decision, I review their application and complete the process in the following order:

First, I run the credit score through my set credit criteria. Every property I have has its own unique criteria due to the part of town, quality of unit, rent, etc. For this example I will use a middle of the road criteria of 650 Approved, 550-649 Conditional, and Below 549 Declined. After this filter, I now move forward with an applicant that is Approved or Conditional; anyone under the 550 is declined. Since our applicant has a 550 Fico, they are conditional and I move to step two.

Second, and extremely important, is the criminal background check. The reality is, I am looking for responsible behavior. Responsible behavior communicates to me that I'll get my rent and they will take care of my asset. If I see a recent drug conviction, I could probably assume there would be drugs in my unit. My tenants' visitors and friends would most likely have drugs on them also, so do I want this type of individual around my asset? If I find shoplifting, what might I expect? Assault? You get the picture. In my units, a conditional applicant cannot have a blemish of criminal history or they are declined.

Third, an eviction record disqualifies all my applicants if it was within the last 2 years. Also, any open judgements to landlords allow me to know they have not paid their rent in the past. Why would I expect them to suddenly change and be able pay me in the future?

For the applicants that are considered "conditional" or "approved," I need to see evidence of a stable job or proof they can pay the rent. Verifying income is difficult nowadays, so a simple paycheck stub is the best way to confirm income. Make sure you check the "Year to Date" totals to ensure they match the answers provided by the applicant in relation to your application questions of how long have they been employed there and how much they are compensated.

Finally, I send out an adverse action letter to those who have not qualified which gives them a chance to explain or clarify anything. What if something was reported incorrectly or some simple paperwork could clear up confusion? An adverse action letter is a simple way to protect the interests of all of the involved parties.

So how important is credit in my evaluation? As you can see, credit does play a role in my evaluation as one step in the process, but it really only weeds out the worst of the worst at the beginning. When it comes to identifying a great renter, no criminal history, no evictions and a good job is really where I place the most importance.

I understand every landlord, state, property, and laws have an effect on our process of onboarding a tenant. There are a million ways to run a property and qualify applicants; the process I shared with you is a good framework to start. No one knows your property or situation better than you.

Being a landlord or property investor can be the best job in the world if done correctly. Credit, Criminal, and Eviction searches are vital to your success. With more and more people deciding to rent instead of buy, being a well-trained landlord is a great opportunity to find success.

#### **About the Author**

*David Pickron has been a licensed private investigator for over 20 years, specializing in tenant screening for real estate investment owners and property management companies. His company, Rent Perfect, an Investigative Screening Company, helps clients onboard tenants from the initial background check to leasing and payment collection. You can learn more by visiting [www.rentperfect.com](http://www.rentperfect.com) or calling 1-877-922-2547.*