



Becoming a Landlord

Rewards, Risks, and Responsibilities

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Overview

You have applied for a mortgage loan to finance the purchase of a home that can house several families. When you buy that home and start renting units in it to others, you'll be taking on the role of "landlord." You will be a special type of real estate professional, entitled not only to collecting rent, but also to enjoying certain tax advantages and selecting some of the people who'll live side by side with you.

You have a lot to look forward to — many rewards, but also lots of responsibilities. You'll need to make sure your tenants' living quarters meet health and safety codes. You'll be responsible for abiding by federal, state, and local landlord/tenant laws. It will be your responsibility to find tenants, collect rent, and manage your property within a budget. You'll need to keep careful records documenting both the income you collect and the expenses you pay. And all the while, you'll be responsible for making timely mortgage payments — whether or not your rental units are occupied, and whether or not your tenants pay their rent on time.

At Fannie Mae, our job is to help those who house America. To help you succeed as a landlord, Fannie Mae has prepared this guide. The guide's purpose is to help you and other first-time landlords understand the risks and responsibilities involved in the business of being a landlord, and to share some proven ways of handling them successfully.

Note: The information in this guide is not intended to substitute for the professional advice of attorneys, tax preparers, public officials, or others. Federal, state, and local laws prevail over the information provided.

Chapter 1: Making the Decision

Do You Really Want to be a Landlord?

Owning a small rental property is one way of achieving the dream of homeownership. But, in buying a small rental property you not only become a new homeowner, you also take on the responsibilities of becoming a landlord. Your rental property is not only your home, but also your business. As a business owner, you must adhere to the laws, rules, and regulations that govern rental housing, and have a clear understanding of appropriate rental rules and practices.

Prior to making the decision to buy a small rental property, you should assess your willingness to:

- share your home with others,
- devote time and hard work to manage your business,
- make repairs and maintain your property,
- provide services to your tenants,
- deal with difficult tenants,
- become familiar with state, local, and federal laws and regulations regarding landlord and tenant relationships, and
- consult and hire professionals, such as attorneys or tax preparers.

You also should take a realistic look at what you can expect as a landlord — the rewards as well as the increased responsibilities of operating a business.

Advantages of Owning a Small Rental Property

There are many good reasons to own a small rental property. Some of the benefits that you may expect are:

A place of your own

Owning property gives people the feeling of permanence and involvement in the community.

Financial incentives

- Monthly mortgage payments may be more manageable due to rental income. A portion of the rental income also may be used to make repairs and maintain the property.
- Rental income may enable a household to become homeowners that otherwise could not afford to own a home.
- In addition to the deductions for mortgage interest and taxes, landlords are eligible for additional tax advantages.

Possible Drawbacks of Owning a Small Rental Property

Along with the benefits of owning a small rental property, there also are increased responsibilities and possible drawbacks.

Financial obligations

- You are responsible for the full mortgage payment even if your tenant does not make his/her rental payment or your rental unit(s) is vacant.

- You will need to budget for unexpected expenses. For example, you may experience problems with tenants and may have to incur legal expenses.

Repairs and maintenance

Maintenance and repair costs often can be substantial. However, you must keep rental unit(s) in good condition; you're responsible for providing safe and decent units for your tenants. Also be sure that your building meets all local codes before renting any units to tenants. For example, restrictions may apply that may make it ILLEGAL to convert the attic or basement of a single-family home into a 2-unit home or to rent out a converted attic or basement, even if the prior owner was renting it.

Legal obligations

You must have a clear understanding of laws, rules, and regulations that govern rental housing. You may be liable for any lawsuits and may end up before a state or federal housing agency for complaints filed as a result of your failure to adhere to these laws, rules, and regulations.

24-hour availability

You must make yourself, or someone you designate to act on your behalf, available to your tenants 24 hours a day in the event of an emergency.

Landlord Responsibilities and Obligations

Your responsibility goes beyond simply keeping a safe and decent place for yourself; the law requires that you provide safe units for your tenants. You could be liable for lawsuits that may arise because of injuries sustained as a result of unsafe conditions.

Maintaining "habitability"

At all times during a tenancy, owners must maintain the premises in a "habitable" condition. "Habitability"

may be defined differently from jurisdiction to jurisdiction, but at a minimum you usually must:

- maintain all common areas, such as hallways and stairways, in a safe and clean condition;
- ensure that the electrical, plumbing, sanitary, heating, ventilating, and air conditioning systems are running and properly maintained;
- ensure that the tenant has access to a supply of running water, hot water, and heat in reasonable amounts at reasonable times (in units where the tenant has control over heat or is responsible for the utilities, this will not be the landlord's obligation, except to ensure that the plumbing and HVAC systems are in good working order); and
- provide trash receptacles and arrange for the removal of trash.

In some jurisdictions, a landlord and tenant can agree that the tenant will take care of some or all of these responsibilities. Make sure to check your local laws.

State, Local, and Federal Statutes

You are legally responsible for compliance with state, local, and federal laws and regulations. Before you decide to rent one or more of your units, make sure that you know what these laws are. If you discover that you haven't met these requirements, you will need to take immediate action to do so. Failure to comply with these laws can result in legal actions such as fines, lawsuits, and complaints filed with the U.S. Department of Housing and Urban Development (HUD), or state or local housing agencies.

If you do not understand a particular state, local, or federal law or regulation, you should consult with an attorney. You are responsible for complying with the law, even if you do not understand it.

State statutes

You should obtain a copy of and carefully read your state housing laws. State laws typically regulate landlord-tenant issues such as security deposits, landlord's right of entry, housing standards, rental rules, repairs and maintenance, and evictions. You may be able to obtain pamphlets or brochures on state laws that affect landlords from your state Consumer Protection Agency or Attorney General's Office at little or no cost. Copies of the laws and statutes also may be available in your public library and in most law libraries. Remember to periodically request updated information on rental laws and statutes because certain aspects may change annually.

Many states have made their statutes available online. However, not every statute is available online and the statutes or ordinances may be difficult to find without code section numbers. Be aware that online statutes and ordinances may not be up-to-date. When searching the Internet you may find it helpful to use the Internet search engine known as Findlaw (www.findlaw.com) to find your state statutes online.

The Cornell University Web site (www.law.cornell.edu/states/index.html) also provides free access to state statutes and links to other Internet sites with state and federal housing laws.

Local laws and ordinances

You should obtain a copy of laws or ordinances that affect landlord-tenant relationships for your local area. Every landlord needs to know what the local housing code calls for in the way of structural requirements, facilities, and essential services, such as plumbing and heat, and health and safety standards. In some places, local laws also regulate many of the same things that are covered by state law, such as how often or how much you can raise the rent, when or how you can evict a tenant, and how security deposits must be handled. You usually can obtain this information from your local building or housing authority, health or fire department, public library, or your city manager or mayor's office.

Federal laws

In addition, you should become familiar with federal laws that affect landlord-tenant relationships. Federal laws cover discrimination and landlord responsibilities related to environmental health hazards, such as lead paint and asbestos. In some instances, the cost to bring the building in compliance with these federal laws may be substantial. Any federal funding program from HUD that you may plan to use will require compliance with federal lead paint regulations. If you rent to a tenant who receives a Housing Choice Voucher (Section 8 Voucher), there are special federal laws and regulations that apply to your relationship with that tenant. You can find these laws in the U.S. Code, which is available in some public libraries. Most federal regulations also are published in the Code of Federal regulations. You also may access the U.S. Code through the www.law.cornell.edu Web site.

Court decisions

In many states, cities, and counties, the courts have made decisions about what the law is when the published laws and regulations do not cover a certain subject. Courts also decide what local, state, and federal laws and regulations mean. These court decisions become part of the law. The law created by these cases is called "case law." Although these cases are published in books called "reporters," reporters are not organized by subject, and it can be difficult for a non-lawyer to find all of the case law that might make a difference in how you conduct your business. You may want to consult with a lawyer who is an expert in landlord/tenant law to find out if there is any case law that will affect how you run your business.

Operating Your Business

As a landlord, you will need to know how to:

- advertise for and attract good tenants,
- keep good tenants,
- determine how much rent to charge,
- collect the rent on time,
- budget for expenses,
- maintain and make repairs,
- keep detailed and accurate records, and
- deal with people.

Just as in any other business, you also will need to

- keep good records of applications, rent payment dates, notices, agreements, etc.;
- maintain receipts for purchases, repairs, general maintenance, advertisements, professional services, etc.;
- file taxes and report income and expenses to the Internal Revenue Service;
- comply with local and state licensing and permitting laws; and
- maintain various types of insurance.

These topics are covered in detail in later chapters.

Accounting records

There are many tools available to maintain accounting records, including a wide variety of inexpensive journals and ledger sheets to keep records of your income and expenses that you can obtain from your local office supply store. If you own a computer, you may use it to establish an accounting system for your business. You can use programs such as Microsoft Excel® and Intuit Quicken®. You also can purchase a software package designed specifically for property management.

You may want to retain the services of a tax accountant to prepare your taxes. Tax laws are more complicated for rental property and include additional requirements for interest paid on the mortgage, rental income, and property depreciation. If you decide to hire a tax professional, you should employ a certified public accountant or some other accounting professional with the expertise and experience in tax preparation for rental properties.

Emergency funds

All business owners need to plan for the unexpected so that they do not lose their investments. For example, there may be times when you are unable to find suitable tenants or when your tenants stop paying the rent. For this reason, you may want to keep money in reserve to help you continue paying your mortgage and other expenses during this time. In some jurisdictions, the eviction process can take a few months and you may not be able to collect rent during the process. You may also incur legal fees while trying to evict a tenant. It is a good idea to have at least three months of expenses in reserve. In some jurisdictions, where the eviction process can take longer or if it is hard to find good tenants, you may want to keep more in savings.

It is also important to budget for major repairs to the property, such as replacing a furnace or roof. Because your tenants depend on you to keep the property habitable, you cannot put off repairs just because you don't have the money to make them. While you might be able to predict when some maintenance will be required, you should be prepared to deal with emergencies such as a furnace that stops working in the dead of winter, a sewage backup in the basement, or an appliance that stops working.

Legal services

There may be times when you will need to obtain legal advice. In such cases, you should select someone who specializes in landlord and tenant law. You may want to consult an attorney before you begin renting your property, to make sure that you are

complying with all local, state, and federal law. An attorney can also review your lease to make sure that it protects you and does not contain illegal terms. If you are sued by the tenant, it may be a good idea to consult an attorney so that you can protect yourself and your assets. If you are planning on evicting a tenant, you may want to consult an attorney, which may save you a significant amount of time and money by helping you avoid mistakes in the eviction process.

When selecting a lawyer, you may want to shop around and get information or referrals from other landlords, your local landlords' or community association, or your state's bar association. Before retaining a lawyer, you may want to meet with the lawyer face-to-face to determine whether you are comfortable with him or her. You also may want to consider talking with some of the lawyer's other landlord clients to discuss the type and quality of services provided. When you hire a lawyer, consider signing a written agreement that spells out exactly what the lawyer is going to do for you and how much the lawyer is going to charge for his or her services.

ARE YOU SURE YOU'RE READY TO BECOME A LANDLORD?

To help determine whether you're ready to take the next step toward becoming a landlord, complete the following checklist:

Landlord Readiness Checklist

1. Are you willing to share your home with others? **Y** **N**
2. Are you willing to learn the state, local, and federal statutes regarding landlord/tenant relationships and abide by them? **Y** **N**
3. Are you willing to spend money to bring the building into compliance with lead paint and asbestos regulations? **Y** **N**
4. Are you willing to take the risks associated with being a landlord? **Y** **N**
5. Will you be able to make mortgage payments during months when you have no rental income? **Y** **N**
6. Have you investigated the costs of keeping the units "habitable"? **Y** **N**
7. Are you willing to make yourself or your agent available to tenants 24 hours a day to handle emergencies? **Y** **N**
8. Have you considered the cost of hiring a tax accountant to prepare your tax returns and provide advice on accounting practices? **Y** **N**
9. Are you willing to maintain detailed records of your transactions or to hire an accountant or bookkeeper to maintain your records? **Y** **N**
10. Have you considered the cost of hiring a lawyer if legal problems occur? **Y** **N**

If you can answer "yes" to all of these questions, you are ready to take the next step toward becoming a landlord.

Chapter 2: Finding Reliable Tenants

When looking for tenants, you need to seek people who are willing and able to pay their full rent on time each month. They also should be people likely to keep their units in good condition – and likely to abide by any policies you may have regarding pets, acceptable noise levels, use of common areas, or other matters. This chapter suggests certain criteria you can use to help identify such tenants. It also discusses state and federal Fair Housing laws that you need to follow when you conduct your tenant search.

How to Look for Tenants

Sometimes a simple “For Rent” sign in your window will draw enough attention to bring in tenants. Posting notices on bulletin boards also may work. Placing ads in local publications or online sites can bring you renters, too. Or, a real estate sales or property management professional can help you. You might ask friends or acquaintances for recommendations. What works best for you may depend on a number of factors, including your budget, the property location, whether you’re in a hurry to rent, or the local rental market.

No matter how you go about your tenant search, it is important to know that there are federal, state, and sometimes local laws that explicitly prohibit landlords from discriminating against particular groups when choosing tenants. These laws apply both to wording and placing ads, and to interviewing and selecting applicants.

It is critically important to understand and comply with all fair lending laws, whether on the federal, state, or local level. You need to become familiar with your federal, state, and local laws.

What Fair Housing Laws Require of You

There are two federal laws that you must follow when selecting tenants: the Civil Rights Act, which specifically prohibits discrimination based on race; and the Fair Housing Act, which prohibits landlords from discriminating against prospective tenants because of race, color, sex, national origin, family status (including families with children), disabilities, or religion. The Fair Housing Act also prohibits landlords from setting different terms or conditions for tenants based on the tenants’ background.

No landlord is exempt from the Civil Rights Act. However, landlords who rent one, two, or three units in homes that double as their own residences may be exempt from many of the provisions in the Fair Housing Act. All landlords are required to follow those provisions of the Fair Housing Act that prohibit discrimination in advertising. You can obtain more information about the Fair Housing Act from HUD’s Web site, www.hud.gov. You also can access the Civil Rights Act from www.law.cornell.edu.

Many state and local governments have fair housing laws of their own. And sometimes these state and local laws also may include provisions that go beyond the requirements of the federal law. For example, in some cities, it is unlawful to discriminate against applicants for rental units because of their occupation, source of income, sexual orientation, or immigration status.

The Fair Housing Act, along with many state and local laws, addresses the issue of housing for tenants with disabilities. This legislation requires landlords to rent to applicants with disabilities even if it means

remodeling — or allowing the tenant to remodel — entrances or other aspects of their homes. Additionally, this legislation requires landlords to make reasonable exceptions to their lease terms, rules, and policies to allow tenants with disabilities to live in their units. For example, landlords who otherwise prohibit pets on their property must permit tenants with a severe vision or hearing impairment to keep guide dogs.

Follow the spirit of the law

The purpose of these laws is to give everyone equal access to available housing in your area. The laws are not intended to prevent you from turning down a prospective tenant for a legitimate reason. For example, you can turn down a rental applicant of any background if that person has a record of bad debt or too little income to pay the rent, as long as you treat all applicants the same, regardless of their background.

Be sure your ads do not discriminate

As previously mentioned, the federal Fair Housing Act prohibits advertisements that discriminate against particular groups or that express a preference for a particular group. Essentially, it sets forth two requirements: 1) You may not make any statement in an ad or notice — through oral or written wording or possibly even through pictures — that indicates “a preference, limitations, or discrimination” based on race, color, sex, national origin, family status (e.g., number of children), disabilities, or religion; and 2) You may not post ads or notices only in publications or on bulletin boards accessible only to limited groups.

Keeping this law in mind, you need to avoid statements like “suitable for adult couple” or “desirable for Spanish-speaking individual.” Ads should focus on the rental property and be clear, concise, and describe the property’s features, required rent, and availability. And, if you advertise in the newsletter of an organization that serves only one particular ethnic

group, you also should put additional ads in other publications that have a more diverse circulation.

A sampling of acceptable ads follows:

SAMPLE ADS

Cleveland Park – 3-bedroom unit on second floor. \$700 per month, utilities included. Newly renovated and near transportation. Available 6/1.

Quiet neighborhood close to downtown area. 2-bedroom unit. \$550 per month, utilities included. Available immediately.

Large 3-bedroom unit in Dupont Circle area. \$725 per month, utilities included. \$500 deposit required, will check references. Available 8/1.

Treat all applicants the same

One way to demonstrate fairness when screening applicants is to follow the same procedures for everyone who expresses interest in your vacant units. For example, if you ask one person to fill out a written application, ask all applicants to do so. If you ask one applicant to leave a returnable deposit with the rental application, ask all applicants to leave one. You may want to put your application policies in writing and hand every applicant a copy to show that you are conducting an even-handed search.

Consider requiring written applications

Another way to show that you are treating all applicants the same is to use a standard application form. The application can be very simple. You can even create your own and make photocopies. You may even want to have application forms in more than one language.

Basic information to include on the application would be:

- the prospective tenant's address, phone number, and Social Security number;
- the length of time the applicant has lived at his or her current address;
- the names and telephone numbers of current and past landlords;
- the address and phone number of the applicant's employer;
- whether the prospective tenant is a member of the armed or uniformed services, either active or reserve;
- the applicant's current income and, if necessary, other sources of funds; and
- the names of personal and credit references.

Make sure that applicants complete the entire application. You may want to require an application from each prospective tenant, roommate, or co-tenant over the age of 18. To verify identity, you may want to ask each applicant to provide photo identification, such as a driver's license, green card, or government/military identification card.

You also may ask questions regarding other tenant issues of importance to you — for example, whether the applicant plans to bring in pets or appliances, or what parking needs the applicant may have.

At the bottom of the application, you may want to have each applicant fill out a statement authorizing you to contact his or her references and check the information he or she has provided. Some employers will not verify information if you do not have written authorization.

Establish uniform standards for accepting tenants

To be sure you don't discriminate against any group, you can develop uniform minimum standards on which to base your choice. For example, you can require that applicants have a certain reasonable income level to be sure that they can pay the rent. You also may choose to establish policies that prohibit tenants from moving in with certain possessions — perhaps pets, motorcycles, waterbeds, or large appliances.

If you put such standards in writing, you will have a uniform checklist you can use for every applicant. If you distribute photocopies of the list to applicants, you will be demonstrating that you are considering everyone according to the same criteria.

Also, be conscious of the risks and rewards of renting to family members and friends. Although it may be comforting to have these individuals living nearby, it may be difficult to deal with problems such as late rental payments.

Consider a “first-come, first-served” policy

One way some landlords establish fairness in selecting tenants is by accepting applicants on a first-come, first-served basis — subject, of course, to the outcome of credit and reference checks. Remember to date and time-stamp each application that is submitted. Under such a system, you would accept the first applicant whose references and credit history proved satisfactory.

Establishing Selection Criteria

You may want to develop basic criteria for selecting tenants, not only to be fair to others, but also to satisfy your own needs. Generally, the three most

important things most landlords look for when you choose a tenant are:

1. The tenant's willingness and ability to make timely rental payments every month;
2. The tenant's willingness and ability to abide by the provisions in any lease or other rental agreement you have him or her sign; and
3. The landlord's reasonable expectation that the tenant is not planning to engage in illegal activities on your property.

Determine the tenant's ability and willingness to pay rent

When you are a landlord, you are running a business. To be successful, no matter how much you may like a prospective tenant, you must make sure that he or she will pay the rent. Most landlords will not accept a new tenant without first taking certain basic steps to make sure he or she can and will pay.

Verify the applicant's sources of income

You need to verify income information provided by your applicants. Because a person's salary is generally the major source of his or her income, you need to verify the applicant's place of employment or salary source, as well as the information he or she gives you regarding salary and other income sources, such as Social Security, disability, and child support.

Consider income ratios

Once you've verified an applicant's salary and other sources of income, you would be wise to take a look at this financial information in terms of certain standard ratios between income and expenses. When lenders evaluate whether borrowers will be able to make their mortgage payments, they use a benchmark, or standard, to measure borrowers' housing expenses, which should be no more than 33 percent of the borrower's gross monthly income (income before taxes

or other items are deducted). And they often prefer that a borrower's overall debts — including housing expenses and other debt — not exceed 38 percent of that income. You might want to use similar ratios as guidelines when trying to establish whether a rental applicant will be able to pay the rent each month.

To measure the ratio between an applicant's housing expenses and income against the 33 percent benchmark, multiply the applicant's gross monthly income by .33; then compare the result with the rent you are charging. For example, if John Black's gross monthly income is \$3,000, and you are charging \$1,000 for rent, the rent would slightly exceed the benchmark test.

HOUSING EXPENSE RATIO	
Total Gross Monthly Income	\$3,000
Multiply by 33%	x 0.33
Benchmark	\$990

To measure the ratio between an applicant's gross monthly income and his or her "total housing expense/outstanding monthly debt" against the 38 percent benchmark, first multiply the applicant's gross monthly income by .38; then compare the result with the sum of the amount of monthly rent you are charging and the applicant's monthly debt. For example, suppose that John's monthly payments on outstanding debts are \$140. His total housing expenses and outstanding monthly debt would equal \$1,140 or 38 percent of his gross monthly income.

TOTAL DEBT RATIO	
Total Gross Monthly Income	\$3,000
Multiply by 38%	x 0.38
38% Benchmark	\$1,140

When looking at statistics such as ratios, it is important to view them in the light of your own judgment.

Keep in mind that some applicants may be living on fixed incomes or low salaries, but have excellent credit histories and a proven ability to manage money well.

Also consider the rental amount an applicant is currently paying. He or she may already be handling rental payments as high as — or higher than — what you are asking.

If you consider low-income applicants who receive subsidies from rental assistance programs, you should be aware that some state and local fair housing laws prohibit discrimination against applicants based solely on the fact that they receive such subsidies. If an applicant who is receiving a subsidy is capable of paying the rent each month on time, has satisfactory references, and meets your other acceptance criteria, he or she may be a reliable tenant.

You should try to find out how an applicant's subsidy works. In some cases, people receive a fixed subsidy and are responsible for meeting any remaining portion of the rent themselves. In other cases, they are responsible for paying a certain percentage of their income as rent, while the subsidy makes up the difference. Sometimes the agency providing the subsidy pays the tenant, who, in turn, must pay the landlord. In other cases, the subsidizing agency pays the landlord directly.

Check the applicant's credit

Just as the lender you applied to for your mortgage researched your credit history, you should research the credit history of your potential tenants. When possible, try to get credit information in writing, and try to get more than one creditor's opinion. A single negative report could be the result of a dispute unrelated to your applicant's actual ability to pay debts; a single positive report could represent an isolated incident in which a generally uncreditworthy applicant happened to pay a debt on time.

If you can obtain a credit report, you can get a more detailed picture of an applicant's credit history. Landlords can obtain credit reports from tenant screening

agencies, which get the reports directly through credit reporting agencies. There are also local and regional companies of this kind. One way to locate such companies is by looking on the BRB Publications Web site of "Free Public Record Sites" at www.publicrecordsources.com in the "Tenant Screeners" section.

You also may order credit reports from the credit bureaus listed below for a small fee. If you own several rental units you may want to consider joining one of these credit reporting agencies, which charge about \$20–30 in annual fees plus \$10–15 per report.

CREDIT REPORTING AGENCIES

Equifax:	www.equifax.com
Trans Union:	www.tuc.com
Experian:	www.experian.com

An official credit report generally lets you know of any debts the applicant has outstanding, how much the applicant owes, and how timely the applicant's payments have been on credit card bills, car payments, or other debts. The reports typically provide general directions and guidance on how to read them. To obtain such a report, you will need to provide the agency with a copy of the deed to your property and with your applicant's Social Security number. To comply with the Fair Credit Reporting Act, screening agencies also may require you to provide them with an applicant's written permission to obtain a report on his or her credit. Although you will have to pay the agency for any reports you order, the cost may be tax deductible.

Because not everyone has had an opportunity to develop a credit record, you may need to check some applicants' credit histories in less traditional ways. It is worthwhile to do this, as you may find applicants who have not had dealings with banks or institutions that usually report on credit, but who have always paid their bills on time, and often in cash.

One way to check credit histories for such people is to contact previous landlords or electric, gas, or phone companies the applicant has used. When talking with utility company representatives, ask whether the applicant paid monthly bills when due and whether he or she typically paid in full. If you are unable to obtain this information directly, you can ask the applicant to provide you with cancelled checks or paid receipts to document that bills were paid on time.

You also may encounter applicants who have been evicted from their previous rental homes. In such cases, it is especially important to obtain and review a full, up-to-date credit report. Your state or local apartment association may be able to provide you with such a report or refer you to a company that specializes in providing landlords with information about tenants who have been evicted.

Contact previous landlords and references

No matter how much time you spend checking on an applicant's income and credit, it's worth putting in a little extra effort to make sure you can reasonably expect the tenant to show consideration for you and other neighbors and follow any rental policies that you establish.

One way to discover an applicant's payment record is to talk to his or her previous landlords. While talking about the applicant's credit, you also can find out other information. Did the applicant give proper notice when planning to move? Did he or she observe the landlord's rental policies? Was the tenant considerate of neighbors? Would you rent to this person again?

Ask for an application fee

Where local law permits, try asking for a returnable application fee. Check with your local housing authority to find out if application fees are allowed in your area. Generally, serious rental applicants will be willing to put down the money. In addition, you may

be able to require the applicant to cover the cost of credit checks.

Conduct a short interview with the applicant

Instead of asking applicants to complete rental applications and return them to you, you may want to sit with them and fill in the application yourself. Be sure to have the applicants review the information and sign the application.

Using credit reporting agencies, tenant screening services, and reference checking services in the right way

If you use a commercial service, like a credit reporting agency or agency that screens tenants or checks references for you, you have certain obligations to applicants if you turn the applicant down or decide to treat an applicant differently (for example, charging a higher security deposit or requiring a co-signer) based on information in the reports you receive. This is true even if the report only played a small part in your decision. For more information about your obligations under the Fair Credit Reporting Act, the Federal Trade Commission provides information at www.ftc.gov/bcp/conline/pubs/buspubs/landlord.shtm.

Making the Final Choice

When you finally choose a tenant, it will be your own judgment that counts the most. Eliminating applicants who obviously can't pay the rent, who gave false information on their applications, or who have poor credit histories will be easy. The hard part will be sorting out the applicants who seem acceptable.

As previously mentioned, some landlords simply accept tenants in the order in which they applied for the vacancies. Once you have chosen a tenant in this way, you might want to offer other applicants with equally good credit histories, references, and income

the opportunity to be kept on a waiting list for future vacancies.

Make sure you turn down an applicant the “right way”

You are not required to rent units in your home to applicants who have unsatisfactory credit histories or who do not have enough resources to make timely rental payments. When you reject an applicant for one of these reasons, it is often wise to let him or her know. An applicant rejected because of information in a credit report, a report from a tenant-screening service, or a report from a reference checking service is entitled by the Fair Credit Reporting Act to find out the name of the credit bureau, screening company, or other organization that provided the report. This is required even if the credit, screening, or reference report was only part of the reason you rejected the applicant. The applicant also can request that the company correct mistakes and submit a new application to you for future vacancies.

You may use the following sample language when notifying the applicant:

“Based on information in your credit report, you do not meet our rental criteria. If their information is in error, you may work with the credit reporting agency to correct the problem and resubmit an application for future vacancies.”

You must also provide a rejected applicant with the following information:

- the name, address, and telephone number of the agency that provided the information, including a toll-free number if the agency maintains nationwide files;
- an explanation that the agency providing you the information did not make the decision to reject the applicant and that the agency cannot give the applicant the specific reasons the applicant was rejected; and

- information that the applicant has the right to dispute the accuracy or completeness of any information furnished by the agency and that the applicant has the right to request a free report from the agency within 60 days.

Although you are not required to provide this information in writing, if you give a rejected applicant a written notice and keep a copy for yourself, you will have proof that you followed the law. In the event that you reject someone based on information other than data from a credit report, you are not required to volunteer the basis for rejection.

Also, you could one day be called on to show that your decision did not reflect illegal discrimination against any group protected by Fair Housing laws. If you document all conversations and maintain applications and other documentation in your files for at least three years, you will have proof that you did not discriminate against any protected group.

Return application fees

In some jurisdictions, you must return application fees or deposits to applicants you reject. Some states have laws with regard to the promptness with which you must do this, which would be included in your state statutes or local ordinances. In other jurisdictions, you are allowed to keep application fees that you have spent to evaluate the applicant, such as the cost of obtaining a credit report. Check with your local landlord association to determine if state or local laws govern if and when you must return these fees.

Immediately inform applicants you plan to accept

When you decide that you want an applicant to become your tenant, notify the person immediately. Otherwise he or she may find another place to live, leaving you to resume your tenant search. But before asking prospective tenants to sign leases or rental agreements, you should discuss your rental policies with them once again to be sure there are no misunderstandings. It is a good idea to make sure that

a prospective tenant has viewed and inspected the exact unit they are going to rent before signing the lease. You may also want to give a prospective tenant a chance to read the lease or rental agreement before it's time to sign it. You will find information about establishing and enforcing rental policies in Chapter 3.

AFTER READING THIS CHAPTER DO YOU UNDERSTAND:

- How the Fair Housing laws may apply to you?
- What your three important criteria for tenant selection are?
- How to find employment and credit information about applicants?
- How to notify an applicant you've accepted or rejected?

Chapter 3: Taking Care of Business

The moment your tenants move in, they'll be expecting certain services from you — and you'll be in the business of accommodating them. At the same time, you'll be responsible for enforcing any rental policies you've established, and collecting rent. To handle these responsibilities comfortably, you'll need to know what you have a right to ask of your tenants — and what they are entitled to expect from you. This chapter identifies both. It also explains how to set rental amounts, create leases, and follow health and safety codes.

Knowing What a Landlord Needs To Do

The success of your business will rest in maintaining a good landlord-tenant relationship. Once you've found good tenants, you will want to keep them. Your chances of doing so will be greatest if you provide them with a clean, safe, comfortable home at a price they can afford.

Generally, satisfied tenants will follow any reasonable rental policies you establish — especially if you ask them to sign leases or rental agreements that clearly spell out those policies. You need to make sure that what you ask of tenants is within your rights, according to local housing laws. As you will see throughout this chapter, such laws have many provisions that protect tenants. Landlords who are ignorant of these laws are held just as responsible when they disobey them as those who know the laws and refuse to follow them.

Collecting Rent — and Other Money

Collecting rent is an important business skill. It involves deciding how much rent to charge, ensuring that tenants pay their rent on time, and knowing when and how you are allowed to raise the rent to cover cost increases and make more money.

Where local law permits, you may be able to collect money other than rent for various reasons — usually advance rent to protect you if a tenant vacates your unit without notice or a security deposit to cover any damage a tenant might do to your unit. The laws that allow you to do this often require you to follow strict procedures. Laws in some areas require you to provide the tenant with dated receipts for each payment.

Set competitive rents

Your lender made some assumptions about rental income in approving the mortgage for your property; but there are no legal or other obligations to charge that amount. On the other hand, it may provide guidance on what is common and customary in your rental area. When determining how much to charge for rent, you should focus on covering your operating expenses, earning a reasonable return on your investment, and being competitive. Ideally, you could just set your rent at whatever amount would earn you a profit and cover major costs like mortgage payments, property taxes, utility charges, maintenance expenses, insurance premiums, or rent loss due to vacant units. (See Monthly Rental Rate Calculator worksheet for a formula on how to calculate monthly rental rates.) Laws in some areas may regulate what you can charge for rent in your building. And there's another factor to consider — competition.

If the rent you want is higher than that charged by other landlords for similar units in your neighborhood, you may find it difficult to attract desirable tenants. Because you need to have tenants to get rental income, you want to be sure that your rental rates are competitive enough to attract tenants and keep your units occupied.

When considering competition, do not base your rent-setting decision on assumptions or hearsay. Try to find out — perhaps by reading ads in local newspapers or talking with neighbors — how much neighborhood tenants are actually paying to live in rental units similar to yours. Then, based on what you believe to be the value of your units in comparison with others, decide what you will charge. You also should be careful to find out about any rent control laws that may affect you and take them into consideration.

Increase rents when appropriate

If your tenants have signed leases, you generally cannot raise their rents until their leases expire unless the lease allows you to raise it sooner. The lease usually will specify the amount of prior notice that must be provided before you can increase rent. State or local laws might also require certain notice before you can increase the rent. Even if laws in your area and the lease doesn't require it, you may want to give tenants written notice a month or two in advance of any rent increases. For tenants renting on a month-to-month basis, you can usually raise the rent as often as you want to — so long as you give the amount of notice required by law. In jurisdictions with rent control, there may be limits on how often you can raise the rent.

In some areas, a landlord can include a clause in a lease that permits him or her to raise the rent — or collect a surcharge in addition to the rent — before a lease expires. Such clauses, which are sometimes called “escalator clauses,” usually apply only in the event that property taxes or utility bills increase by more than a specified amount. Landlords who use these clauses are usually required to give tenants a certain minimum amount of notice before any increases go into effect.

Consider collecting a security deposit

States and sometimes local ordinances strictly regulate security deposits. If laws permit, you may want to collect a security deposit for each unit. This deposit can be used to cover any damage beyond normal wear and tear that you might discover after a tenant leaves. In some locations, state or local law limits the amount of the security deposit.

Generally, “damage” refers to things like burns in plastic countertops; missing items such as faucet handles, refrigerator shelves, light fixtures, keys, or doorknobs; chipped enamel or ceramic tile; carpet burns; tears in linoleum; large holes in ceilings, floors, or walls; major stains; do-it-yourself wallpaper jobs that need replacing; damaged blinds or screens; or destruction caused by movers. It usually does not include normal rust, discoloration, loose grouting, worn carpet, lime stains from hard water in bathroom and shower facilities, chipped or cracked paint, or the effects of the natural settling of the building.

Usually, laws that allow you to collect security deposits specifically identify the types of damage the deposit can cover, and state how and when you are required to return any part of the deposit you don't use. These terms and conditions should be clearly stated in the lease or rental agreement, if applicable. In many areas, you are required to put security deposits you collect in escrow and give the tenant any interest the deposit has accrued. In some places, local law specifies the amount of interest you must pay on the security deposit.

When you collect a security deposit, you may want to have the new tenant complete a checklist describing the condition of the unit when he or she moves in (see Chapter 4). Later, when the tenant moves out, you can use this checklist to determine any damage done to the unit and how much money you should deduct from the security deposit for repairs (see Chapter 7). You may also want to take pictures of the unit before the tenant moves in.

Consider collecting advance rent

In some locations you can collect rent in advance for the last month of a lease. That rent would offset any rental income you might lose if your tenant were to leave your unit without notice. Most states allow you to treat “last month’s rent” as part of the security deposit and will allow you to use part of or all of it for cleaning or repair, provided that the security deposit is insufficient to cover these costs. A few states restrict the use of “last month’s rent” to its stated purpose. If you use any of these funds for repairs or cleaning, you will be violating the law. In some locations you can use the security deposit to cover these expenses as well.

Collecting monthly payments

Most leases or rental agreements clearly state when rent is due each month and where payments should be made. You will need to decide which form of payment you will accept — check, money order, or cash. If you are going to require a certain form of payment, you can state this in the lease. When collecting cash payments, most landlords issue a written, dated receipt, stating the name of the tenant and the amount paid. Local law may require you to issue a written receipt, even if payments are made by money order or personal check, and you may be required to state on the receipt the amount of any unpaid balance on the rental account.

Establish late fees and penalties for “bounced” checks

If laws in your area permit, you may be able to protect yourself from late rent payments or checks returned for insufficient funds. To protect yourself from late payments, you may be able to charge a late fee for payments made after a certain cutoff date each month. In most states, there is no maximum amount of late fee you may charge; however it should be “reasonable” and stated in the terms of the lease or rental agreement. Check your local laws because some states have strict limits on late fees. To protect yourself from checks that “bounce,” you may be able to require tenants to pay a specific

flat amount in addition to their rent each time their checks are returned. If a tenant habitually gives you bad checks, you may be able to restrict the form of payment to either money orders or cash.

Providing a Safe, Clean Home

The things you do to keep up the condition of your house for your own benefit also will benefit your tenants. Even if you are able to tolerate postponing certain types of maintenance for yourself, do not assume that you also can put off these repairs once they affect your tenants’ units. State laws frequently take the view that any landlord renting a unit automatically gives his or her tenant an “implied warranty of habitability” ensuring certain minimum standards. Failure to maintain those standards could result in fines and/or other penalties. In some jurisdictions, tenants may be legally entitled to stop paying the rent or can open court-monitored escrow accounts if a landlord does not make necessary repairs in a timely fashion. In many locations, tenants can sue their landlords and ask for damages and/or a court order requiring the landlord to make repairs.

Know what makes a rental unit safe and sanitary

Generally, you will not need to worry about defining what makes a rental unit safe and sanitary, because state and local laws will define it for you. Standard maintenance required by law generally includes:

- adhering to local health and safety codes;
- keeping all common areas safe and clean;
- making sure that plumbing, heating, cooling, and ventilation systems are in good repair;
- ensuring that gas or electrical appliances in tenants’ units are in good working order;
- supplying hot and cold running water connected to an adequate sewage system;

- providing receptacles for garbage and arranging for garbage removal;
- keeping floors, walls, ceilings, stairways, railings, and common areas in good condition; and
- keeping doors and windows in tenants' units weather-tight.

In some locations, laws may go beyond these general maintenance requirements. For example, some places have laws requiring landlords to provide window guards; install peepscopes in doors; recycle newspapers and/or glass, plastic, and aluminum containers; or remove lead paint. Some areas also require landlords to supply tenants with screens, storm windows, or blinds.

Strictly follow laws and codes

Generally, if you do not maintain your property according to the law, you can be held liable for damages resulting from your negligence. There are some circumstances under which landlords are not usually held accountable for interruptions in service or postponement of repairs. Consult an attorney if you have any questions about the standard maintenance required for your property.

Sometimes, for example, landlords are not held responsible if tenants refuse to allow the repair worker to enter their units or if they neglect to notify their landlords of the need for repairs or are themselves the cause of the problem. And in many places, a landlord is not held accountable for any repairs that a lease clearly states are the tenant's responsibility. In some jurisdictions, however, a landlord is not allowed to shift the responsibility for repairs to a tenant. In these locations, lease terms that require tenants to make repairs are not enforceable even if the tenant originally agreed to the terms.

There also are areas that exempt those landlords who rent only one, two, or three units in their own homes from certain housing laws. These laws vary from location to location. You need to check with your local housing agency to find out which laws apply to you.

Enforcing Rental Policies

It is up to each landlord to create a list of rental policies and to communicate those policies to all tenants. The more clearly you explain your rules, procedures, and expectations at the start, the less chance that you'll experience misunderstandings later.

State and local laws may prohibit you from enforcing your rules if your rules conflict with state and local laws. In most locations, you cannot ask tenants to give up their rights — to repairs, to due process, or to the return of any part of their security deposits you don't use, for example. You also cannot usually demand the right to enter a tenant's unit — even to show the apartment to prospective tenants or buyers, to inspect the premises, to supply necessary services, or to make repairs — without giving proper notice.

Explain your policies personally

Keep in mind that while you are communicating your needs to a tenant, you are also starting a relationship. So although you are not required to give reasons for your rules, you may be able to build better relationships with tenants if you give them the opportunity to comment or ask questions when you explain the rules.

During this conversation with your new tenant, you should clarify whether you, the tenant, or both of you are responsible for certain tasks like snow removal or the maintenance of common areas. In addition, you may want to include this information in the lease or rental agreement. This meeting would be a good time to offer any special instructions for using appliances such as microwave ovens or washing machines, and to explain what to do in case of fire or other emergencies. You may want to provide your new tenant with written instructions to refer to in the future.

Don't be afraid to be flexible if a tenant makes a reasonable request. Be sure to let tenants know how and where to reach you when it's necessary.

Know what you have the right to require

You can require tenants to behave according to your needs — so long as your demands fall within the law. You can usually ask tenants to:

- dispose of garbage in a sanitary manner;
- maintain their units safely and responsibly;
- use the unit only for legal, residential purposes;
- park only in designated parking areas and keep boats, additional cars, or other vehicles off your property;
- use only those parts of common areas — like porches, yards, or basements — that you explicitly make available to tenants; and/or
- make sure overnight visitors do not turn into co-tenants without your permission.

At your discretion, you also can usually ask tenants to refrain from

- altering or adding to the unit without your consent;
- using parking areas for storage space;
- destroying or removing any part of the unit or the facilities in it without your permission;
- bringing in items that harbor insects, rodents, or other pests;
- making noise that disturbs you, other tenants, or neighbors;
- smoking in places you designate as non-smoking areas;
- keeping pets (or particular kinds of pets);
- bringing in water beds, certain types of appliances, or heavy furniture; or
- using outdoor cooking equipment on porches, balconies, or other areas.

Asking Tenants to Sign Written Agreements

Although some landlords and tenants have oral agreements, you may want to enter into a written lease or rental agreement with your tenants. Using a written agreement can be a good idea because these agreements specify the terms of the landlord and tenant relationship that bind both parties and protect both landlords and tenants by establishing their rights and obligations. For landlords, they provide a legal basis for enforcing rental policies, including rent collection procedures.

You will need to decide whether it's better for you to use a lease or rental agreement. Each type of tenancy offers advantages and disadvantages. You will need to determine what works best for you. Keep in mind that in some jurisdictions, there is no legal difference between a lease and a rental agreement.

Written rental agreements spell out the obligations of both the tenant and the landlord, and the terms and conditions of tenancy. In jurisdictions where rental agreements are recognized as a different type of contract than a lease, such an agreement does not establish a period of time for tenancy. Written agreements generally provide tenancy for a short period of time — usually under a year, often month-to-month. In the majority of jurisdictions, they may be automatically renewed each month unless you or the tenant provides the other with proper written notice of intent to end the agreement. Month-to-month agreements usually allow you the greatest amount of flexibility. Under a month-to-month agreement, you usually may increase the rent or change other terms of the agreement at any point provided you give proper notification. Because tenants also have the right to terminate the agreement with relatively short notice, you may be exposed to higher tenant turnover. You may prefer to use month-to-month rental agreements in rental markets where there is large demand but a low supply of rental units.

You should be aware that in some jurisdictions, a landlord cannot end a month-to-month tenancy without a legal reason, even though the tenant can. In locations that have rent control, there may be limits on how often and how much you can raise the rent, even with a month-to-month tenant. You should check your local laws to see what is allowed in your area.

Written leases also spell out the obligations of the tenant and landlord, but set a stated period of time for tenancy, usually a year. Rental increases or other changes in tenancy cannot be made until the lease expires, unless there is a specific clause allowing increases or changes at an earlier time. Written agreements may increase your chances of having longer-term tenants but may limit your flexibility. You may prefer to use written leases in markets with low or seasonal demands for renting and high vacancies.

Know what should be included in a lease

What goes into a lease is generally up to you. If your community has any laws regarding what leases can or cannot require, you need to follow them. For example, in some places the law limits the amount of late fees that can be charged or forbids a landlord from including a requirement that a tenant pay the landlord's attorneys' fees.

To inform yourself of laws regarding leases in your area, contact the official local government office that handles landlord/tenant relations. Sometimes this is handled by local offices of rental accommodations, zoning, housing, or consumer affairs.

You will find that nearly all leases contain the following basic information:

- the names and signatures of both the landlord and the tenant;
- the date on which the lease was signed;
- the address of the unit the tenant is renting;

- the beginning and ending dates for the period during which the tenant has the right to rent the unit;
- the amount of rent the tenant must pay;
- the time when rent is due, procedures for collecting rent, and any policies regarding late fees or penalties for returned checks;
- the amount of any security deposit or advance rent the tenant must pay, and the circumstances under which the landlord will collect or return such payments;
- the policy concerning whether a security deposit can be used as the last month's rent;
- the amount of notice required to terminate the lease;
- where and how such notices should be sent; and
- required disclosures, such as lead-based paint or other hazardous conditions.

Many leases also contain provisions covering the following:

- whether the cost of providing heat, hot water, electricity, or other utilities is the responsibility of the landlord or the tenant;
- whether the tenant may sublet the unit;
- how many people may reside in the unit at one time;
- whether the landlord or the tenant must take responsibility for making various types of repairs;
- whether the property can be used for business, car repairs, or other purposes;
- any policies regarding pets, overnight guests, parking, extended absences, or other issues;
- any types of alterations the tenant may be allowed to make and any restrictions against making alterations;
- tenant responsibilities for maintenance and damages caused by tenant;

- policies regarding illegal activities, disturbances, violations of laws, and ordinances;
- when the landlord may enter the premises (in compliance with local law);
- any circumstances under which the tenant may be asked to grant access to exterminators, painters, or maintenance workers;
- any storage space(s) a tenant may use and any restrictions on items that can be stored; and
- late payment fees and attorneys' fees for evictions.

Determine clauses that allow you to raise rent

As mentioned earlier, in some locations, laws allow you to include an "escalator" clause in a lease. Such a clause allows you to raise the rent — by either a specified amount or by a stated percentage — if your real estate taxes or utility costs were to increase.

Consider making mutually agreeable changes to an unexpired lease in writing

There may be occasions when you and/or your tenant want to change provisions in a lease. For example, a single person may eventually want to share the unit with a roommate. Or a tenant who originally planned to live in his or her unit for the duration of the lease may later want to sublet it to accept a work assignment abroad. Generally, you may make a change in a lease if both you and your tenant agree to it in writing. There are some cases when an unwritten agreement might be enforced by the courts, so do not assume that a tenant cannot hold you to a promise just because it is not in writing.

Seek help when creating a lease or rental agreement

If you prefer to write your own lease or rental agreement, you can find sample leases online or in stores, real estate offices, public landlord/tenant offices, and apartment owners' associations. You may want

to consider having an attorney familiar with landlord laws review the lease or rental agreement to make sure that the lease protects your interests and to make sure that it does not include illegal terms. Some lending institutions that make mortgage loans for homes like yours also may have materials that contain sample leases or information on how to create a lease or a rental agreement. You also can hire a real estate attorney to prepare a lease or rental agreement for you.

If you are modifying the format of an existing lease, make sure that all blanks are completed or deleted. If you write in changes, be sure that both you and the tenant initial the changes.

Evicting Problem Tenants

If you have tenants who do not pay the rent, flagrantly ignore the terms of their lease, or conduct illegal activities on your property, you may have the right to have them — and their belongings — forcibly removed from your property. The legal procedure for doing this is called eviction.

Because eviction can be a lengthy, expensive, and often unpleasant process, you may want to find an alternative method of removing a problem tenant if you can. If you must evict a tenant, you need to follow every step of the eviction process to the letter of the law. Chapter 7 explains the basic steps involved in a typical eviction and describes some alternatives to eviction that could enable you to avoid the process.

**AFTER READING THIS CHAPTER
DO YOU UNDERSTAND:**

- What to consider when setting your rental rates?
- Why you need to follow health and safety codes?
- What the differences are between a lease and a rental agreement?
- What you're not allowed to include in a lease?
- What you should include in a lease?
- When you can raise your rental rates?

Chapter 4: Getting the Tenant Moved In

Establishing Landlord and Tenant Relationships

Developing and maintaining a professional relationship with your tenant is very important. Some basic steps include:

- establishing, communicating, and enforcing rules and regulations;
- knowing and fulfilling your responsibilities;
- conducting periodic inspections to ensure the tenant is living comfortably and your property is being well maintained;
- monitoring and recording all activity, including any problems you may be having with the tenant or the rental unit; and
- communicating often so your tenant knows that you're approachable and interested in what's occurring on the property.

Of course, the first step in establishing a productive relationship begins with both parties understanding clearly the rental or lease agreement. When the tenant moves into the rental unit, review key terms and consider providing a welcome package that highlights those terms, as well as a list of the house rules and regulations. You also may include a move-in letter with information related to emergency contacts, procedures related to repair and maintenance problems, and other important information. Have the tenant sign and date the move-in letter and keep a copy of the letter for your records.

Holding a tenant orientation

To help your tenant get settled, you may want to hold an orientation at the beginning of the tenancy to:

- provide a tour of the premises and identify common areas;
- demonstrate the use of appliances, security systems, heating and air conditioning systems, etc.;
- review the area's services, such as garbage collection, recycling requirements, newspaper delivery, etc.; and
- provide information on local cable services and neighborhood conveniences.

Inspecting the Property

You and the tenant should perform a joint inspection of the rental unit to identify and document the condition of the unit and its appliances prior to the tenant moving in. Once you and the tenant have completed the inspection, you both should review the checklist for accuracy, being sure to sign and date each page. Keep the original and provide the tenant with a copy. Be sure to update the checklist as repairs are made to the unit — indicating what was done and the date that the repair was made. Both you and the tenant should initial any changes to the original checklist. When the tenant moves out, this checklist may serve as documentation or evidence as to why you withheld all or part of a security deposit.

Establishing a Tenant File

Documenting all activities and transactions may be important in the event that a tenant takes legal action against you, or you need to take legal action against a tenant.

Therefore, you should maintain a file for each of your tenants to include:

- the rental application, credit and employment information, and references;
- the signed lease or rental agreement and a copy of the house rules and regulations;
- the signed inspection checklist and move-in letter;
- the date and amount of all transactions, including the security deposit and rent;
- repair requests and repairs made;
- complaints by and about the tenant; and
- all correspondence between you and the tenant.

AFTER READING THIS CHAPTER DO YOU UNDERSTAND:

- What information to provide the tenant when moving in?
- How to conduct a move-in inspection?
- How to set up a tenant file?

Chapter 5: Maintaining Your Property

When you buy your home with a rental property or properties, the lender who provides your mortgage will take an objective approach to determining your property's value and will obtain information on its appraised value (which will likely include a report from a professional appraiser). When you sell the property, the buyer's lender will require a new appraisal to determine its updated market value. This chapter tells you how appraisers estimate the market value of properties so that you'll know what you need to do to maintain your property's value.

How to Keep Your Property's "Market Value" Up

The "market value" of your property is essentially the price an independent buyer will pay for it. This sounds simple on the surface. But there are many factors that can influence what a buyer believes a property is worth — the architectural style, the landscaping, the school district, the convenience to shopping and transportation, and the prices that comparable properties sell for in the neighborhood.

For a property like yours that includes rental units, additional factors also can affect market value. Among these are the number of rental units, the amount of rent your tenants do and are willing to pay, the occupancy rate, and maintenance expenses.

In the best of circumstances, the market value of your property will increase by the time you are ready to sell it. While you never can be sure that this will happen, you can increase the likelihood by maintaining your property properly while you and your tenants live in it.

Although careful maintenance will generally contribute to the value of your property, there sometimes may be factors outside your control that also influence its market value.

Sometimes you also can add value to your property by improving it. For example, you can make your property more attractive to both buyers and tenants by building an addition, replacing an old roof, putting up a fence, or repaving the driveway.

Improvements are not guaranteed to bring you a higher price for your property. Many different factors come into play and professional appraisers make their living by observing and evaluating these factors to determine what a property is worth.

Understand what appraisers are looking for

When you sell your property, the buyer's lender will ask for a new appraisal because many factors that affect market value can change since your property was last appraised. The outcome of the new appraisal is likely to be favorable if the economy in your area has remained stable and you have taken care of your property. The more you know about the factors that appraisers consider, the more control you'll have over the market value of your property.

Essentially, an appraiser's job is to determine whether there is an active market in your neighborhood for properties like yours and to estimate what your property is worth in that market. To accomplish this, the appraiser assigned to your property will compare the sale prices of properties in your neighborhood of comparable age, type, and design. The appraiser will examine the outside of your property and possibly the inside, including such features as windows, screens, insulation, heating and cooling systems, kitchen appli-

ances, attic space, and car storage facilities. Also, the appraiser may check the materials used to construct floors, walls, bathrooms, fireplaces, and doors to see if they are safe, durable, and common within the neighborhood. For a home with rental property like yours, the appraiser also will assess how your rental units compare with others in your neighborhood.

Think of your property as part of the neighborhood

In many instances, properties maintain their value best when they are similar to other properties in the neighborhood. For example, if you build a swimming pool or install designer skylights and similar properties in the neighborhood do not have these features, buyers looking for properties in your neighborhood may not necessarily be willing to pay extra for them.

Making Repairs and Improvements

As a landlord you are responsible for ensuring that your property is maintained in accordance with safety and health standards. To ensure that your property continuously meets standards, you should perform periodic and seasonal inspections of the property. Mark the calendar at the beginning of each year to schedule maintenance and improvements.

“Do-it-yourself” repairs

Expensive tools or lots of experience aren’t always required to make many basic home repairs. Taking care of small repairs before they become big projects can save you both time and aggravation. Preventive maintenance can actually extend the life of appliances and systems and avoid expensive repairs. Some hardware or home improvement stores also offer basic repair courses.

You may be able to obtain information and tips on how to make some of the basic repairs from various resources in your area. Before getting started you may want to determine if:

- the local community college or Cooperative Extension Service office offers home repair courses;
- your local utility company offers courses in basic plumbing or other repairs;
- any local nonprofit groups offer training in making basic repairs; or
- your public library or local bookstore stock home maintenance books.

There are many Web sites devoted to home maintenance and repair topics. Here are several to try:

HOME REPAIRS
Home Depot www.homedepot.com
Lowe’s www.lowes.com
SPECIFIC REPAIR AND MAINTENANCE PROJECTS
U.S. Government sites www.access.gpo.gov www.pueblo.gsa.gov
American Society of Home Inspectors www.ashi.org

Major repairs/home improvements

Sooner or later, you’ll need an expert to address one or more major repairs. Perhaps the washing machine is broken or the hot water heater stops working. Or maybe you want to make some major home improvements to one or more of your units prior to renting them.

Hire a contractor

You can use the following guidelines to help get such a project done right for a fair price.

Interview several contractors. Begin by asking other landlords, friends, neighbors, or a local landlord association to recommend companies or individuals that have provided them with good service. You should get an idea of which contractors are doing work in a particular area, the quality of their work, and the amount charged.

Ask for references and check them. If your county or city has a licensing process for home improvement contractors, are the contractors licensed? Also ask for a copy of their insurance and license. Contact the Better Business Bureau to find out about possible outstanding complaints.

Get cost estimates and find out whether these are estimates or a firm bid. Often, especially on older houses, contractors will not give a firm bid because it's impossible for them to know until they start the work what they'll find and how difficult the work will be to complete. You should ask at least three contractors to provide bids for a home improvement project and give all of them the same information about the job. The more definite the specifications, the more realistic the bid will be — and the less likely that you or the contractor will run into unexpected problems.

Be sure that each bid includes a work write-up and specifications that describe all of the work that will be done and how much it will cost. Make sure that the contractors specify which type, brand, and/or grade of material they plan to use so that you'll know if you're receiving the quality you requested.

As a protection, especially for a larger job, be sure the contract specifies exactly what work is to be performed and when payments are due. Your contract also may include a dollar limitation that caps the amount you will pay the contractor. Your contract also should include start and completion dates, and possibly some remedy in the event the contractor

fails to perform on time. If the job is extensive, the contract should also include a schedule for payments to the contractor. You should always hold back part of the payment, usually 30 percent, until after the job is finished.

Obtain answers to the following critical questions:

- Does the job require building permits?
- If so, who is responsible for obtaining them?
- Will the work need to be inspected and by whom?
- Is the contractor insured and bonded?

Also, request copies of the contractor's liability insurance coverage, worker's compensation, and if required in the area, licenses or certifications.

Need help finding the names of contractors?

The National Association of Home Builders (NAHB) and the National Association of the Remodeling Industry (NARI) offer brochures that provide advice for consumers on selecting a reputable and qualified professional remodeler, writing a contract, and resolving disputes. Both groups have affiliated local associations nationwide that can be contacted for the names of their members who offer remodeling services and provide information and assistance.

RESOURCES

National Association of Home Builders

www.nahb.com

National Association of Remodeling Industry

www.nari.org

Establish a repair and maintenance system

You should establish firm policies and procedures related to repair and maintenance. In addition to providing a process for tenants to report repair

and maintenance problems to you, the procedures should include steps for you to perform frequent maintenance inspections and track requests made by tenants. A good repair and maintenance system allows you to prevent potential problems by identifying and fixing them before they become major, maintaining effective communication with tenants, and reducing potential legal liability.

The following steps should be part of your repair and maintenance process:

- Clearly set out the responsibilities for both you and your tenant for repair and maintenance in your lease or rental agreement. Remind tenants of your policies and procedures to keep your building in good repair in every written communication by printing it at the bottom of all routine notices, rent increases, and other communications.
- Use a written Landlord-Tenant Checklist, inspect rental units, and fix problems before new tenants move in. Once a year, inspect all rental units and keep copies of the completed checklist in your file.
- Don't assume your tenants know how to handle routine maintenance problems, such as changing light bulbs or blown-out fuses, or unclogging a sink drain.
- Make it a point to explain the basics when the tenant moves into the unit. Include a brief list of maintenance "dos and don'ts" as part of your move-in materials.
- Encourage tenants to immediately report plumbing, heating, weatherproofing, or other defects, or safety or security problems. Handle repairs as soon as possible but definitely within the time required by state law. Keep the tenant informed.
- Keep a written log of all complaints. This should include a space to indicate your follow-up. Keep a file for each rental unit with copies of all complaints and repair requests from your tenants, and your response.

- Twice a year, give your tenants a checklist on which to report any potential safety hazards or maintenance problems that might have been overlooked. Respond promptly and in writing to all requests, keeping copies in your file.
- Especially for multi-unit buildings, place notices in several places around your property about your determination to operate a safe, well-maintained building and list phone numbers for tenants to call with maintenance requests.

Handling requests for repairs

When you're not available by phone, make sure that you have some type of answering or paging service available at all times. You also should provide all tenants with a Maintenance/Repair Request form. Include several copies in the materials provided when tenants move in and make additional forms readily available to your tenants. You should complete the form for all telephone requests. Make sure that the disposition of the problem is indicated on the form, which you should file in the tenant's records.

Respond promptly to all complaints. You may want to verbally follow up and then provide a written response. For personal security and safety problems, you will want to get the repairs completed immediately — it may even require that you use a 24-hour repair service. As a rule of thumb, you should generally attempt to get the work done on problems that are major inconveniences to the tenant within 24 hours, and less serious requests within 48 hours. Because state and local laws may vary from place to place, be sure that you are familiar and comply with the laws and ordinances for your local area.

It is important that you take action promptly to address the tenant's requests. In some cases the tenant may be entitled to withhold rent and you could be held accountable for personal injuries as well.

How to Protect Your Home Against Emergencies

No matter how limited your financial resources are, it's essential to have a realistic strategy for dealing with emergencies. In some areas, government and nonprofit agencies offer grants or low-interest loans to landlords who are faced with large repair bills as the result of natural disasters or emergencies. But don't wait until you're faced with an emergency to find out what resources might be available.

Keep phone numbers for local emergency services, such as the fire department, police precinct, and hospital emergency room, where you can find them easily. If possible, get the names of electricians, plumbers, roofers, and others that have worked on the house for previous owners. Keep all warranties, owner's manuals, or other documents relating to appliances or utilities in a safe place you can get to easily. Take preventive measures, too. Anything you can do now to prevent an emergency later will ultimately save you money.

Know your home

Be familiar with safety features such as smoke alarms and circuit breakers in your home. Install smoke detectors outside every bedroom door and in or near the living room and inspect them on a regular basis to make sure that they are in proper working condition. As soon as you move in — if not earlier — take some time to familiarize yourself with your home's and the rental units' safety features and danger areas. For example, you should know the location of the main cut-off valves for the water and gas supply, and label them. Find and study the fuse or circuit breaker box and make labels or charts to identify particular power sources. And learn where the main electrical switch and the thermostat for the hot water heater are located.

Take necessary safety measures

The old saying, "an ounce of prevention is worth a pound of cure" is particularly true for landlords. You

could lose not only your property, but also months of rental income in the event of a fire or other avoidable catastrophe.

Purchase fire extinguishers and keep them where they are easily accessible. Identify potential hazards — like frayed electrical cords, loose wires, or ill-placed flammable materials — and take care of them immediately. Make sure nothing is blocking the exits to your house. And let your tenants know what you would expect them to do in the event of a fire.

You also should take precautions against theft. Be sure all windows and doors have secure locks. Replace the cylinders in door locks when tenants leave. Keep the area around your property well lit at night. If you keep important papers or cash at home, store them in a safe place. If you need to rent a safe deposit box for that purpose, the cost may be tax deductible.

Abide by local health and safety codes

Most states, counties, cities, and towns have housing and safety codes that landlords must follow. If you maintain your property properly and take the safety precautions discussed earlier, your property will probably meet the standards set forth in those codes. To be sure it does, you should call the appropriate government office to find out what standards you're required to follow.

In general, housing and health codes require minimum standards for the cleanliness of kitchens, bathrooms, ventilation units, plumbing, water supplies, garbage and sewage disposal systems, and pest control. They also may set forth when, and at what temperature, heat must be provided for your tenants.

Other housing and safety codes generally set standards for fire prevention, the condition of electrical wiring and equipment, and security. They also frequently require additional precautions with regard to lead paint. In some areas, special laws require

landlords to have lead paint removed and replaced. It is especially important to be aware of laws regarding lead paint when children will be living on your property, because paint or plaster containing toxic levels of lead can cause permanent retardation, brain and kidney damage, and even death, if accidentally absorbed into the body. In fact, lead paint removal is itself dangerous. So it is advisable to hire professionals to do it, rather than to try to do it yourself.

You should follow health and safety codes because:

- **It's the right thing to do**

Your welfare and that of your tenants is at stake. Even if you're willing to take chances on your own health and safety, you cannot afford to develop a reputation for keeping rental units below standard. If you do, you will not be able to attract and keep tenants.

- **It's the law**

The law holds you responsible for knowing the health and safety standards you must follow — and for making sure the units you rent out meet those standards. You can be fined, or even jailed, for not adhering to these standards (or codes). In many areas you need certificates or permits showing that certain facilities on your property are up-to-code. In some states, tenants have the right to withhold rent payments if the units they are renting do not meet code requirements. And your tenants can sue you for negligence if they can prove they have been injured or made ill because of substandard conditions in the home they rent from you.

How to Make Your Home as Energy Efficient as Possible

Try to include money in your budget to make energy-efficient upgrades whenever you can. Such upgrades will not only make your property less expensive to maintain while you and your tenants live in it, they also will contribute to its market value when you sell it.

At the very least, be sure your property is well insulated and equipped with heating and cooling systems that work properly. If you can afford to buy more energy-efficient appliances or revamp heating and cooling systems to save energy, your investment will pay off. But even less expensive steps, like insulating doors and windows, will save you money and help conserve energy.

RESOURCES

"Energy Star® windows"

www.energystar.gov

Efficient Windows Collaborative

Lets you compare energy costs among different window frames and glazings for your climate.

www.efficientwindows.org

In many locations, utility companies, nonprofit organizations, or government agencies provide advice, information, and sometimes even subsidies to help landlords make their properties more energy efficient. In some places, landlords who rent to low- and moderate-income tenants may participate in a site assistance program that includes an energy-efficiency audit and financial help for making a home weather-tight.

RESOURCES

U.S. Department of Energy's Energy Efficiency and Renewable Energy Web site

For information on energy audits

www.eere.energy.gov

Home Energy Saver

Offers a do-it-yourself energy audit tool online

www.hes.lbl.gov

A call to your local electric company could be a good start for finding resources of this kind in your area. Some utility companies distribute publications that describe energy conservation products and ideas that can save money. A state or local energy office also may offer other helpful publications on subjects like

buying energy-efficient appliances, improving the efficiency of oil and gas heating systems, or insulating homes against cold air.

RESOURCES

National Association of State Energy Officials

For a list of state energy offices
www.naseo.org

Cooperative Extension Service

Select your state on their “State Partners of the Cooperative State Research, Education, and Extension Service” Web page to find an office near you
www.csrees.usda.gov

You also can hire energy-efficiency consultants to inspect your property and suggest long-term energy-saving measures. The fees for their professional advice are tax deductible, as Chapter 6 will explain.

AFTER READING THIS CHAPTER DO YOU UNDERSTAND:

- What factors — inside and outside your control — influence the market value of your home?
- What you can do to maintain or increase the value of your house?
- How to establish a repair and maintenance system?
- Why it’s important to observe local health and safety codes?
- How you can save money by making your home energy efficient?
- What resources are available to provide information to make your home energy efficient?

Chapter 6: Taking Care of Your Financial Responsibilities

Most people would like to spend less and save more but just don't know where to start. For many of us, creating a budget is like starting a diet — there's always tomorrow! This is a critical step in managing your business. Don't delay — take that first step TODAY!

A budget doesn't have to be painful or scary or complicated. It's simply a picture of money — the money that's flowing in and the money that's flowing out. And the goal is to have more money flowing in than flowing out.

You should be prepared to incur various types of expenses. For example, you are likely to have:

- fixed costs — like your mortgage payment, taxes, and insurance premiums;
- monthly utility bills;
- costs for services like garbage collection, pest control, or annual furnace upkeep;
- occasional maintenance expenses — like the cost of repairing the roof, plumbing leaks, or broken-down appliances, and the cost of painting and cleaning units between tenants; and
- emergency expenses — like the costs of fixing pipes that freeze in winter or replacing a cooling system that breaks down in mid-July.

It could be overwhelming to consider all the types of expenses you could encounter while you own your home. But by creating a budget, you should be able to manage the upkeep of your home more easily.

Each year, create a new budget for repairs and maintenance. Include the cost of predictable expenses, some money for occasional repairs, and a financial “cushion” for emergencies. If at all possible, try to

budget resources each year for some preventive maintenance work.

To create your budget, you will need to figure out what portion of your property expenses applies to your personal budget and what portion applies to rental for the housing, utilities, homeowners insurance, household maintenance, major improvements, and professional services. For example, if you purchase a 3-unit property and live in one unit, one-third of these expenses probably are personal; the other two-thirds probably are rental. You may use the Monthly Personal Spending Planner worksheet for your personal budget and the Operating Budget for Rental Property worksheet for your rental business. Both worksheets are included in the Resources and Worksheets section of this publication.

Preparing Your Operating Budget for Rental Property

Section 1: Determine your monthly rental income

Your first step is to enter the amount of rent that you expect to receive for each of your units. Add the amount of rent for each unit to obtain your total Monthly Rental Income.

Section 2: Determine your monthly expenses and cash reserves

Item 1: Mortgage, Taxes, and Fees. Indicate the rental unit(s) portion of the monthly mortgage payment and any mortgage-related taxes that are not included in your monthly payment, e.g., real estate taxes, personal property taxes, county taxes, and sales taxes.

Item 2: Insurance. Homeowners insurance is generally included in the mortgage payment. If it is not, indicate the rental portion of that expense in this section. If you purchase mortgage credit life insurance, only reflect the rental portion of the cost. If you have “loss of rents” insurance that reimburses you for loss of rent from rental units that have been sidelined, the full expense should be indicated. For example, if there is a fire or other disaster that prevents you from renting out the property, the premium paid for this coverage is solely for the benefit of the rental property.

Item 3: Utilities. Only budget those utilities for which you are responsible. If the utility services both your unit and rental units, divide the expense accordingly; otherwise indicate the full expense. To estimate costs, talk to the previous owner or contact local utility companies.

Item 4: Maintenance. Heating/cooling system maintenance; carpet cleaning; carpentry; landscaping/gardening; appliance, electrical, and plumbing repairs; and paint, cleaning, office, and general supplies, including tools, light bulbs, fixtures, hardware, etc. — anything that you would use toward the upkeep of your rental unit should be listed here. As a general rule of thumb, set aside 2 percent of your total property value annually to cover maintenance expenses.

Item 5: Major Improvements. Identify improvements that you plan to make. Determine how soon the improvements need to be made. Once you’ve set the time frame, divide the cost by the number of months to determine a monthly amount.

Item 6: Vacancy Reserves. You’ll need to advertise your property to attract tenants. If you plan to advertise in your local or community newspapers or use a rental/property management company, contact them to obtain their rates. You’ll also need to set aside an amount equal to two or three months of rental income in the event of a vacancy.

Item 7: Professional Services. You may need to retain the services of an attorney who specializes in real estate to help you prepare your lease(s), interpret and comply with local and state landlord-tenant laws, or facilitate an eviction. You may need an accountant’s services to help with tax code compliance and tax filing, as well as for advice regarding methods for separating personal and rental expenses. These expenses for legal or accounting consultation are tax deductible.

Item 8: Other. You should enter miscellaneous expenses not listed above here.

Section 3: Compare your total monthly income and expenses

Enter your total Monthly Rental Income from Section 1 and the total of your Monthly Reserves from Section 2.

If Monthly Rental Income is greater than Monthly Reserves, add the difference to your Monthly Net Income total in Section 1 of your Monthly Personal Spending Planner.

If Monthly Rental Income is less than Monthly Reserves, treat the difference as an expense. Enter the amount on your Monthly Personal Spending Planner, Item 13, Household Operations/Maintenance.

Once you have a picture of where your money is going, it’s usually easier to see where changes can be made.

Preparing Your Monthly Personal Spending Planner

Section 1: Determine the household’s total monthly net income

Your first step is to add up all sources of income, including your take-home pay (the amount left after taxes and deductions have been subtracted).

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