

Tips for Homeowners Turned Accidental Landlords

By **Sheree R Curry** Mar 4th 2010 @ 11:00AM
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Umesh Singh's suburban Minneapolis home sat on the market for nearly two years after he had moved on to a new job in Florida. After dropping the price of his 5-bedroom, 4-bath home from \$429,000 in December 2007 to \$385,000 by summer 2009, Singh, who carries two mortgages, decided enough was enough. It was time, he concluded, to rent it out.

That was how Singh, like a growing number of homeowners, became an "accidental landlord." But like many new landlords, he quickly discovered the challenges of renting in a bad economy.

Singh listed the rental on [Craigslist](#) and with rental agencies for \$2,095 per month. He was even willing to consider options to buy. But Singh soon learned that finding a qualified renter was proving to be almost as difficult as it was finding a qualified buyer. It was a good thing he checked into their [credit](#) backgrounds, and other first-time landlords should too.

"I was actively trying to rent it and had about 10 people see the house. Five of them actually filled out the application but in four cases, they were in financial difficulty-- bad [credit](#), no job, etc.," Singh said. It took him almost six months to find a qualified renter.

More and more homeowners are becoming accidental landlords as a result of not being able to sell their homes. The leery, often first-time landlords are being cautious when it comes to renting out their homes, because they still hope to sell it when the market recovers and they don't want to risk [foreclosure](#) from bounced renter's checks in the meantime. As a result, background checks on potential tenants are on the rise, reported [The Real Deal](#), which quoted [R.Q. Investigations](#), a full-service private investigation company.

"During a bad [economy](#), [real estate](#) investors and [real estate](#) professionals are being a lot more cautious when it comes to approving a rental agreement," according to R.Q. "An individual with judgments, liens or bankruptcy is more likely to default on a home loan or rental agreement"

RentedSpaces, HousingWatch's sister site, taps into what renters can do to [prove to landlords](#) that they are a creditworthy tenant, but here is what experts say the homeowner-turned-landlord should do:

1. Call the employer. Don't just verify a prospective tenant's employment, but have a conversation with the boss about the tenant's long-term future with the company or any looming layoffs, advises Jim "Mack" McClelland of [Mack Industries](#), who owns and rents out 350 homes in the Chicago suburbs. He says a good prospect should be in their current job for 3 years or longer, and have no more than 30 percent of the gross pay going toward rent. (Calculations tip: Multiply monthly rental amount, say its \$1,500, by 40 to determine minimum acceptable annual gross income (\$1,500 x 40 = \$60,000 annual required income.)

2. Check credit report. Definitely check the [credit score](#) and credit report of prospective tenants, Scott Gamm of the personal finance website [HelpSaveMyDollars.com](#), told HousingWatch. "If a tenant has had a repossessed car or [foreclosure](#) in the past, or is in significant credit card debt, the homeowner should be careful about renting to that tenant, since their [credit score](#) is low, which raises concern about that tenant's ability to pay the rent and to pay it on time."

3. Set a credit score limit. Have an objective standard of who will qualify for residency and who will not. This could mean selecting a specific credit score and anyone falling below that number will automatically be disqualified, advises Robert Kaye a South Florida attorney at [Kaye & Bender P.L.](#) who represents more than 700 homeowner and condominium associations.

4. Avoid being too discriminate. Avoid discrimination in those areas that are constitutionally protected, which include race, color, religion, national origin, sex, handicap, and familial status, says Kaye. "Financial condition is not a protected class and disapproving an application on that basis is not discrimination," he says.

5. Keep all information confidential. The number one item of caution for anyone who undertakes a background check is that the information obtained must remain confidential. If that individual under scrutiny desires to see the content, they must submit a written application to the outside agency that provided the credit report.

6. Use a Web-based credit check system. When conducting background checks, choose a system that is Web-based, says Mike Mauseth of [TransUnion SmartMove](#), a division of TransUnion credit reporting agency. "This will reduce time, costs and give new landlords a place to maintain, store and protect confidential information," he told HousingWatch. Also, "choose a system that masks social security numbers and credit information," he told HousingWatch. Also, "choose a system that masks social security numbers and credit card numbers, securing both yourself, the homeowner, and prospective tenants."