Tenants in Transition

by Robert L. Cain

They were sold the dream of homeownership. And did the lenders and REALTORS® ever make it easy for them. You saw the ads: "Buy the home of your dreams with nothing down and an 'introductory' interest rate of only 1 percent," "Bad credit? No problem. We can find a loan for you!"

Little did they realize that the 1 percent interest rate included negative amortization and that the payment adjusted monthly with no annual or lifetime cap. Little did they know that the value of the home they bought was about to take a precipitous drop. Their house payment jumped 52 percent and the value of their home dropped 9½ percent.

They could not make the payments and they could not sell the house for what they paid for it. They handed the keys back to the bank or the lender foreclosed. In the process they became part of a growing trend. Nationwide, almost 971,000 foreclosure filings were reported last year, 51 percent more than the 641,000 in 2005, reports Foreclosures.com.

Now they are our customers again, but their credit is shot and they have been beaten on, chewed up and spit out by the real estate machine. They are tenants in transition. Undoubtedly this is a disheartening time for them.

Tenants-in-transition is one of the four classes of tenants that we have always seen. The other three are tenants by choice, tenants new to the market and tenants who probably shouldn't rent in the first place. Tenants-in-transition is a group that we as rental owners and managers count on as customers and a group we need to be ready to serve.

How then, are we to handle this influx of returning tenants? Their credit is likely bad. They may not only have the foreclosure, or deed in lieu of foreclosure, on their credit report, but they may have other slow pays because they let other bills slide while they tried to keep up with their mortgage payments.

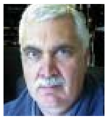
They were often some of our best customers before we lost them to homeownership. Now their credit might look just as bad as that of some of our worst applicants. But we want these customers back, unlike the bad applicants. The problem is, if you accept someone with a bad credit report who just went through a foreclosure, you may run into Fair Housing complaints if you reject someone with an equally bad credit report who has never owned a home and he or she is a member of a protected class.

Our job is to rent to the most qualified applicants we can attract. Poor credit often disqualifies an applicant. But a bad credit report that resulted from a foreclosure might be a mitigating factor, much as a bankruptcy due to medical bills is a mitigating factor to mortgage lenders. We need to rethink our credit policies so that we can welcome these tenants-in-transition back to the rental market.

Rethink them how? One way is to restructure our rental standards so that a poor credit report need not disqualify an applicant if it is the result of a foreclosure and other debts are current. That can eliminate the conflict of accepting a former homeowner and rejecting a bad tenant with a horrible credit report.

Another way is to be willing to look at an applicant's explanation of the mitigating circumstances of the bad credit report. Yet another way would be to accept a less-than-ideal credit report if the rental history and landlord references are satisfactory.

These were some of our best customers. They are likely to be again. We need to find ways to see to it that we are able to rent to them.



Robert L. Cain *is a nationally-recognized speaker and writer on property management and real estate issues. For a free sample copy of the Rental Property Reporter or Northwest Landlord call 800-654-5456 or visit the website at www.rentalprop.com.*