Topic: How to Run a Credit Check on a Tenant

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Meta Description: Learn how to run a rental credit check on tenants to ensure financial reliability. This guide covers landlord credit reports, screening processes, and tenant approval steps.

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Introduction

As a landlord, one of your most significant responsibilities is vetting tenants who will pay their rent on time and be respectful and responsible for your property.

A rental credit check provides insights into your prospective renter's payment, financial, and credit history. While tenant credit checks cannot guarantee you won't run into issues, they help you decide whether the prospect will be a good tenant.

This guide will walk you through the legal and ethical considerations and the steps to conduct tenant credit checks effectively.

Why Landlords Need to Run Credit Checks

As a landlord, there are many reasons why you should run a credit check on tenants.

To start, your renter is much less likely to be upfront about previous financial problems such as late payments or bankruptcy, but a credit check can give you a window into their history of borrowing and repaying debts.

If they show a consistent history of repaying on time, it's a good indicator that they can follow through on your lease agreement by making on-time rent payments.

Rental credit checks are often accompanied by other assessments like the affordability standard test, which says that a renter should have an income 2.5 times higher than their yearly rent. So, performing a tenant credit check minimizes the risk of future eviction issues.

What is a Rental Credit Check?

A credit check for renters refers to a review of the financial health and history of a prospective renter.

It is a good tactic for landlords to vet their potential tenants to avoid bad tenants who might struggle to pay rent in the future.

So, who are the bad tenants?

A tenant credit score determines whether a tenant is good or bad. Most credit bureaus rely on the FICO® score and the Vantage Score that ranges from 300-850.

A score below 579 indicates an unsuitable tenant and a score above 800 refers to an exceptional client.

Age may also play an important role in determining the average tenant credit score.

Some primary factors used to determine the tenant credit score include:

- Credit score–A higher score shows tenant's reliability in making payments.
- Payment history–If they miss/delay the payment of other bills, they are less likely to pay rent on time or consistently.
- Credit inquiries–A tenant that regularly applies for credit is an indicator of financial struggles.
- Outstanding debts–Too many outstanding debts could make it difficult for tenant to prioritize rent payment.

Let's now look at the step by step process to perform credit check for landlords.

How to Run a Credit Check on a Tenant: Step-by-Step Process

1. **Obtain Tenant Consent**

Before you credit check a tenant, you are legally obliged to obtain written consent from them.

You should provide your prospective renter with a written statement stating you intend to to do a credit check and explain your reasons for doing the check.

Make sure they sign this agreement to show that they have given consent.

2. **Collect Necessary Tenant Information**

Once you gain consent from your tenant, you need to gather some tenant's details such as their name, address, contact details, and social security number or equivalent.

You can get the details on the rental application or ask your prospects to fill in their details.

Make sure to inform your clients any fees you will be charging for the check.

And, ensure their personal information remains confidential by limiting access, storing it securely and disposing it effectively once it is longer needed.

3. **Choose a Credit Reporting Service**

Choose a reputable credit reporting service to help you obtain reliable information on your client.

Some examples of such reputable services include Equifax, Experian, and Transunion.

These are well-established credit report services that observe data protection regulations and they provide comprehensive credit reports.

While you can also consider free online credit check options, ensure you do a thorough research.

4. **Request the Tenant's Credit Report**

After gathering your applicant's information and gaining their consent, submit a request to your credit reporting service.

The service will produce a landlord credit report. Also referred to as a soft inquiry.

Most agencies charge a fee for this report—the fee is often borne by the landlord.

Remember, in some instances, the potential renter does a hard inquiry—where they requested their credit score on their own prior to their application.

Such a report is admissible if it was obtained within a reasonable period prior to the rental application. The common reasonable period is 90 days or less.

5. **Review the Credit Report**

Once you receive your credit report, carefully look through the information received.

Pay close attention to elements like payment history, credit score, outstanding debts, and staments on prior evictions or defaults.

Some red flags that indicate a high risk client include County Court Judgements, defaulted debts or a history of late or missed payments

6. **Make an Informed Decision**

After carefully analyzing the credit report, you can now make an informed decision whether to accept or reject the tenant.

Remember, do not solely rely on a prospective tenant's credit score to make your decision.

You can accept tenants with a poor credit score by considering other options such as co-signing, verifying their employment status, or asking for a bigger security deposit.

If you do end up rejecting the tenant, you must inform them of your decision and provide them with information on the credit report agency you used to get the report.

How to Handle Applicants with Poor Credit

While a low credit score is a often a good indicator of an unsuitable applicant, there are many great applicants with credit scores that fall outside the acceptable range.

It may be a good idea to discuss with such applicants if you consider accepting their tenancy.

You can opt to accept them on these conditions to protect your property:

1. Ask for a co-signer who fills out an application and agrees to a credit report check.
2. Ask for a larger security deposit depending on local and state laws.

Common Legal Issues & Fair Housing Compliance

Running a rental credit check on your potential tenant, requires you to adhere to various regulations.

Based on the Fair Housing Act a Landlord is prohibited from discriminating against potential tenants in the protected classes — race, religion, national origin, sex, disability, or familial status.

Also, while you can use credit score as a factor, you cannot use it as the sole determining factor.

To comply with FHA standards, ensure focus on financial responsibility during your selection, rather than other factors.

Further ensure that your screening criteria is consistent and your screening process is not limited to credit scores.

You should also ensure you tenant's credit reports and personal information is:

- Only accessed by authorized personnel
- Stored securely
- Disposed effectively after use

Another guideline you need to follow is the FCRA that requires a landlord to get consent from their applicant before requesting a credit check.

Some credit check guidelines can vary by state. For example, a California landlord should adhere to California Consumer Credit Reporting Agencies Act.

In New York, there is a limit on the amount of money a landlord can charge for a tenant's credit report– $20–refundable if tenant offers own credit report.

Best Practices for Running a Rental Credit Check

Here are a few tips to help you run a rental credit check effectively:

- Get permission– Ensure your tenants sign a written approval of consent before doing the credit check.
- Define your criteria—Define your criteria for acceptance to make sure you are consistent during the screening process.

- Decline properly—If you reject a prospective renter, you must offer a candid explanation why you rejected their application. And direct them on where you obtained your credit report.
- Confidentiality —Ensure your tenant's information is not exposed to unauthorized personnel, stored carelessly, or disposed poorly.

Conclusion

Nothing can guarantee issue - free tenancies. But, a rental credit check is a simple and inexpensive method to minimize the risk of taking in clients who cannot cover their rental payments.

As a landlord you simply need to get your applicant's consent, get their information, obtain a credit report, review it, and then make an informed decision.

And, don't forget to observe all the fair housing guidelines.

Following these steps will help you find qualified tenants and create good tenant-landlord relationships.

FAQs

1. **How do you run a credit check on a tenant?**

   To run a credit check on a client you need to obtain consent from the tenant, gather tenant Information, select a reliable credit agency, obtain and review the credit report, and make an informed decision based on your assessment of the report.

2. **Can landlords check tenants' credit scores without permission?**

   No, According to FCRA regulations a landlord should seek written consent before checking the tenant's credit scores.

3. **What is a good credit score for renting?**

   A good credit score based on the FICO average scores is anything above 670.

4. **How can I check a tenant's credit for free?**

   Yes, there are various online tools that you can use to obtain a tenant's credit report for free. Make sure you conduct through research before using any tools to avoid violation of data protection regulations.

5. **What should I do if a tenant has no credit history?**

   To screen a tenant with no credit history, you can rely on other factors such as their employment status, rental history, or proof of income. You could also ask for a larger deposit or ask them to provide guarantors.
