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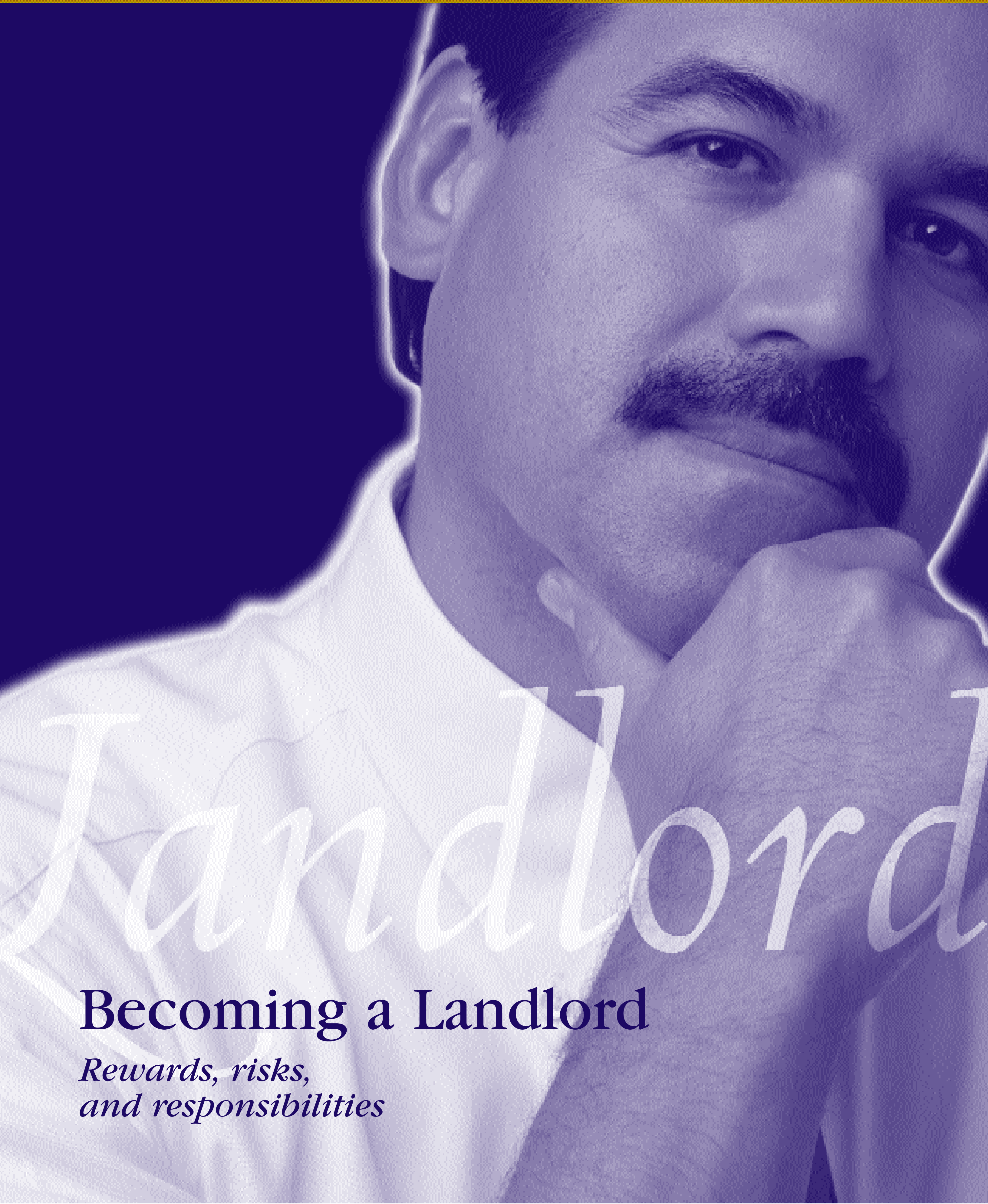

Becoming a Landlord

Rewards, risks, and responsibilities

Our Business Is The American Dream

At Fannie Mae, we are in the American Dream business. Our mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans. Because having a safe place to call home strengthens families, communities, and our nation as a whole.

Becoming a Landlord

Rewards, risks, and responsibilities

FannieMae.

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Acknowledgments

We wish to thank the following individuals and organizations for their contributions to this publication:

Peter A. Gagliardi
Hampden Hampshire Housing Partnership
Springfield, MA

Carlos Gutierrez
MidAmerica Bank
Cicero, IL

Florence Hagins
Massachusetts Affordable Housing Alliance
Dorchester, MA

Charlotte Moore
Mortgage Guaranty Insurance Corporation
Milwaukee, WI

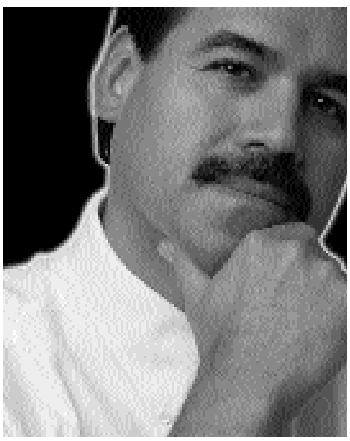
Rae Moreno
Chase CDG
New York, NY

Hala Pierro
Consultant
Island Park, NY

Linda F. Stefchak
Radian Guaranty, Inc.
Philadelphia, PA

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.

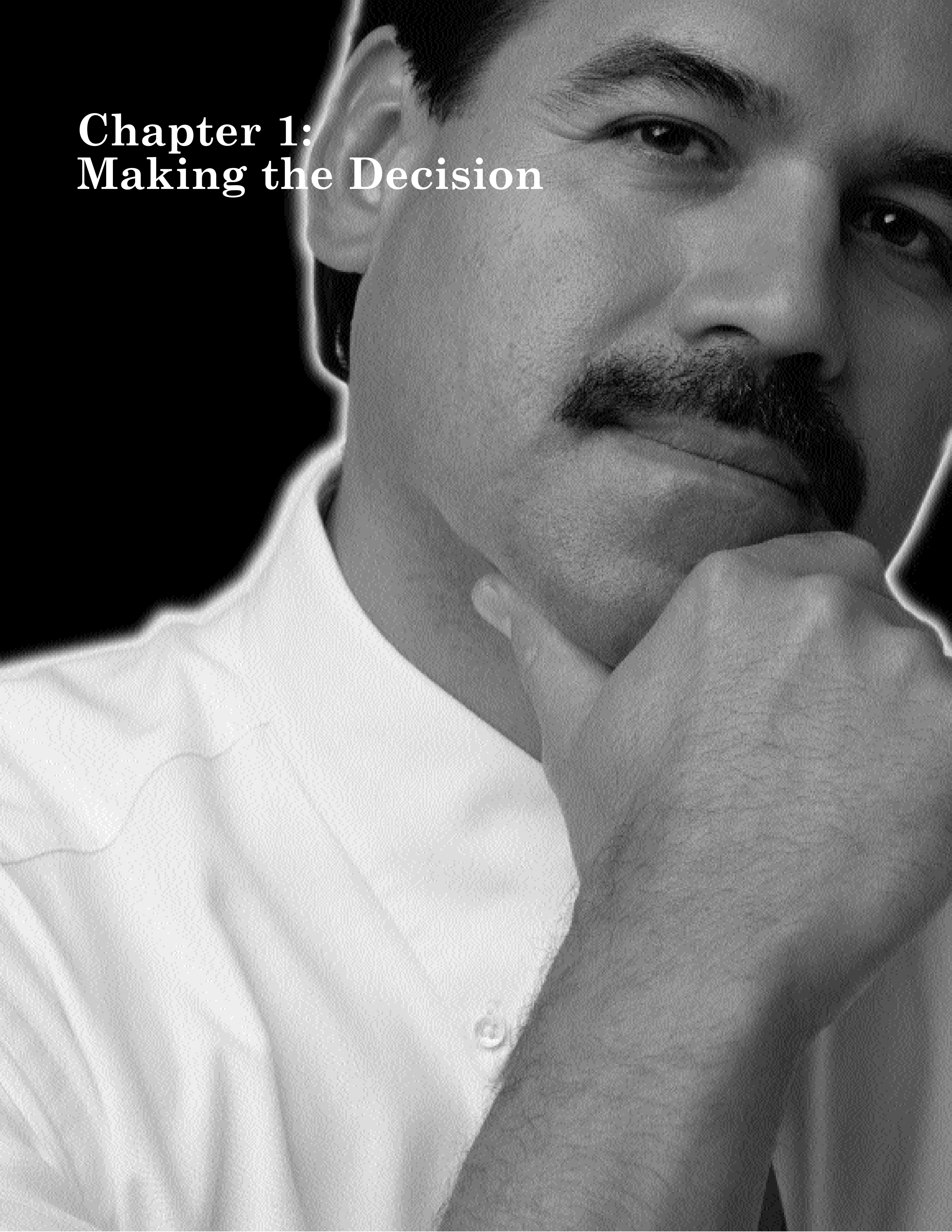


You have a lot to look forward to — many rewards, but also lots of responsibilities. You'll need to make sure your tenants' living quarters meet health and safety codes. You'll be responsible for abiding by federal, state, and local landlord/tenant laws. It will be your responsibility to find tenants, 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.

To help you succeed as a landlord, Fannie Mae, the nation's largest source of funds for mortgage lenders, 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



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, and
- become familiar with state, local, and federal laws and regulations regarding landlord and tenant relationships.

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. For example, restrictions apply that may make it ILLEGAL to convert the attic or basement of a single-family home into a 2-unit home.

Legal Obligations

- You must have a clear understanding of laws, rules, and regulations that govern rental housing. You are 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 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;
- supply running water, hot water, and heat in reasonable amounts at reasonable times; and
- provide trash receptacles and arrange for the removal of trash and rubbish.

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.

State Statutes

You should obtain a copy of and carefully read your state housing laws. State laws typically regulate landlord-tenant areas 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. If you have access to the Internet, you may be able to access your state statutes through your computer. However, not every statute is available online and the statutes or ordinances may be difficult to find without code section numbers. 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.

To Access State Statutes

Step 1: Go to www.findlaw.com.

Step 2: Click on state laws link under Laws: Cases and Code.

Step 3: Select your state and click on it.

Step 4: Choose the link that will take you to the state statutes or codes.

Step 5: Select the state statutes or codes.

Step 6: Search for your statute by key word or statute number and click "find statute" or you can browse through the table of contents, which is linked to the codes.

Step 7: Click on the statute.

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 also 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. You usually can obtain this information from your local building or housing authority, health or fire department, 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 the U.S. Department of Housing and Urban Development (HUD) that you may plan to use will require compliance with federal lead paint regulations. 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.

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; 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 record 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 Excel and Quicken. You also can purchase a software package designed specifically for property management.

You should 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. You should employ a certified public accountant or some other accounting professional with the expertise and experience in tax preparation for rental properties.

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. For example, you most definitely should seek legal advice in the event of a lawsuit alleging dangerous conditions, wrongful acts, or discrimination.

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 contracting with a lawyer, you should 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.

Are You Sure You're Ready to Become a Landlord?

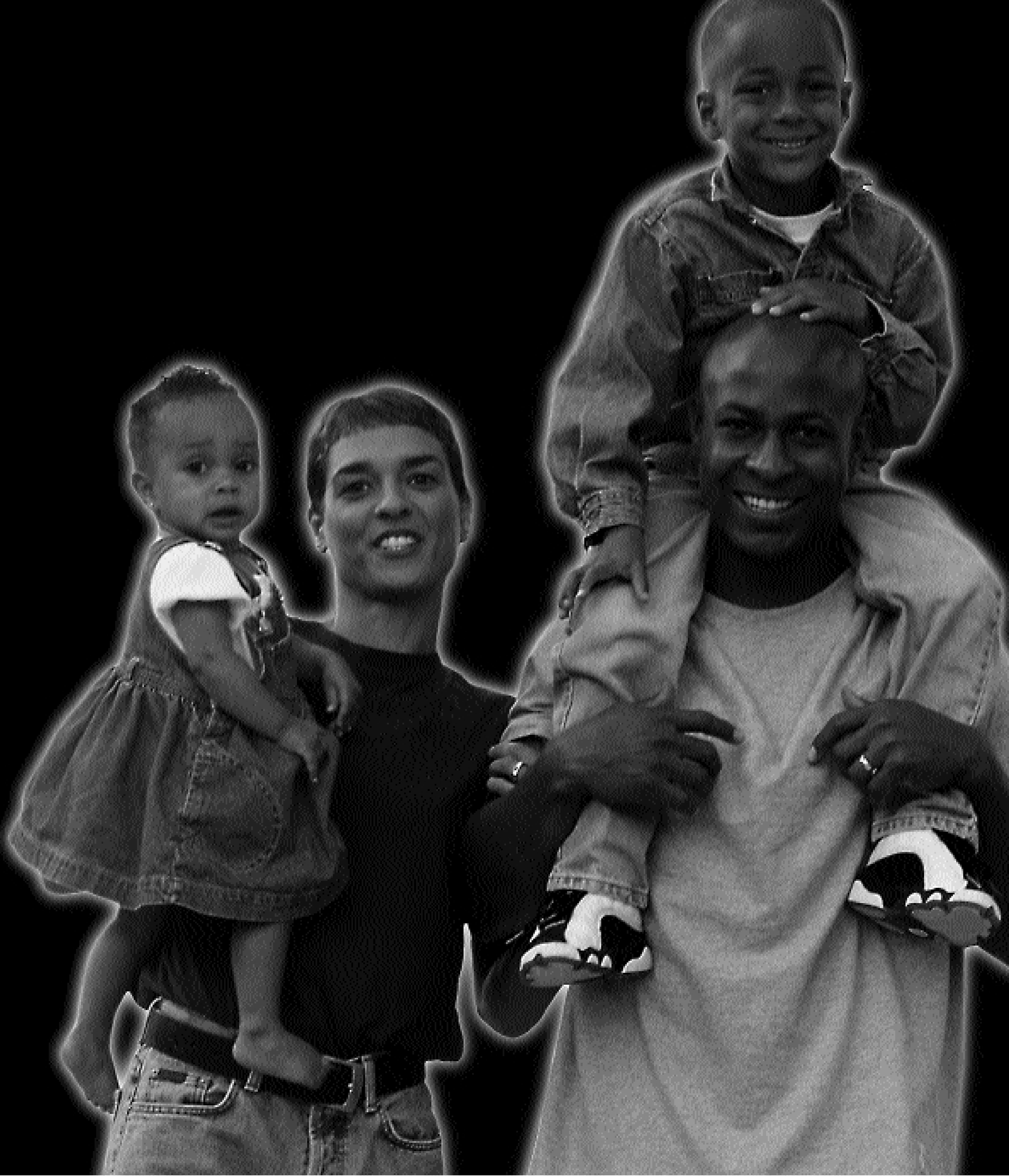
To help determine whether you're ready to take the next step toward becoming a landlord, complete the following checklist:

Landlord Readiness Checklist

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

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



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 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, disabilities, or religion.

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 abut 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, sexual preferences, or immigration status.

State and local laws also frequently address the issue of housing for disabled tenants. The most aggressive laws require landlords to rent to acceptable disabled applicants even if it means remodeling — or allowing the tenant to remodel — entrances or other aspects of their homes. In some locations, 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 of any description 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.

Be sure your ads do not discriminate

As previously mentioned, the federal Fair Housing Act prohibits advertisements that discriminate against particular groups. 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:

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 name(s) and telephone number(s) of current and past landlord(s);
- the address and phone number of the applicant's employer;
- the applicant's current income and, if necessary, other resources of funds; and
- the names of personal and credit references.

Make sure that applicants complete the entire application and that each prospective tenant, roommate or co-tenant over 18 completes the application. To verify identity, ask each applicant to provide a 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 also should 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, 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 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 also 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 need 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 you need to look for when you choose a tenant are

- the tenant's willingness and ability to make timely rental payments every month;
- 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
- your 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. You should not accept a new tenant without first taking certain basic steps to make sure he or she can and will pay.

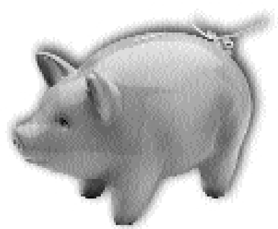
Verify the applicant's sources of income

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 under Fannie Mae's Community Home Buyer's Program™, 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 expense 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 expense 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
Times 33 Percent	x .33
33 Percent 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 outstanding monthly debts are $140. His total housing expense and outstanding monthly debt would equal $1,140 — 38 percent of his gross monthly income. That ratio precisely meets the 38 percent benchmark.

Total Debt Ratio

Total Gross Monthly Income	$ 3,000
Times 38 Percent	x .38
38 Percent 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 also are local and regional companies of this kind. One way to locate such companies is by looking in the "Tenant Screening Specialist Index" in *The Sourcebook of Public Record Providers*, which you can find in the reference areas of most libraries. 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.

Equifax	**Trans Union**
Credit Information Services	National Disclosure Center
P.O. Box 740256	P.O. Box 1000
Atlanta, GA 30374-0256	Chester, PA 19022
Phone: 800-685-1111	Phone: 800-888-4213
www.equifax.com	www.tuc.com

Experian
National Consumer Assistance Center
P.O. Box 2104
Allen, TX 75013-2104
Phone: 888-397-3742
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 is 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 deposit

Where local law permits, try asking for a returnable application deposit. 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.

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.

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 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. 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 you have any questions, you may contact (Name and Address of Credit Bureau). If their information is in error, you may work with them to correct the problem and resubmit an application for future vacancies."**

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, however, the Fair Credit Report Act requires that you advise the applicant that they have the right to submit a written request for information and that they have the right to a response in a reasonable period of time, usually within 60 days. You may consider using the following language in your notification:

> **"Based on a check of information provided in your application, you do not meet our rental criteria. If you have questions about this decision, you may submit a request in writing to (Insert Your Name and Address) within 60 days, and we will explain the basis for this decision."**

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. So it is important that you always document all conversations and maintain applications and other documentation in your files for at least three years.

Return application fees

You must return application fees 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. Check with your local landlord association to determine if state or local laws govern the timeframe in which 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. You will find information about establishing and enforcing rental policies in Chapter 3.

After reading this chapter do you understand:

- How Fair Housing laws apply to you?
- What your three most important criteria for tenant selection should be?
- 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

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 Worksheet I 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 rents 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 your neighborhood 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. The lease usually will specify the amount of prior notice that must be provided before you can increase rent. It's a good idea to give tenants a month or two advance written notice of any rent increases. But for tenants renting on a month-to-month basis, you can raise the rent more often — so long as you give the amount of notice required by law.

In some areas, a landlord can include a clause in a lease that, under certain circumstances, 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 can collect a security deposit for each unit. This deposit would cover any damage beyond normal wear and tear that you might discover after a tenant leaves.

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, 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).

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.

Collecting monthly payments

Your lease or rental agreement should 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. When collecting cash payments, always issue a written, dated receipt, stating the name of the tenant and the amount paid.

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 can 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. To protect yourself from checks that “bounce,” you can establish penalties requiring 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 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 please your tenants. 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” ensuring certain minimum standards. Failure to maintain those standards could result in fines and/or other penalties.

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 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 responsibility of the tenant.

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 are more stringent than state and local laws. And 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 them.

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, lockouts by the tenant, or the maintenance of common areas. 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.

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

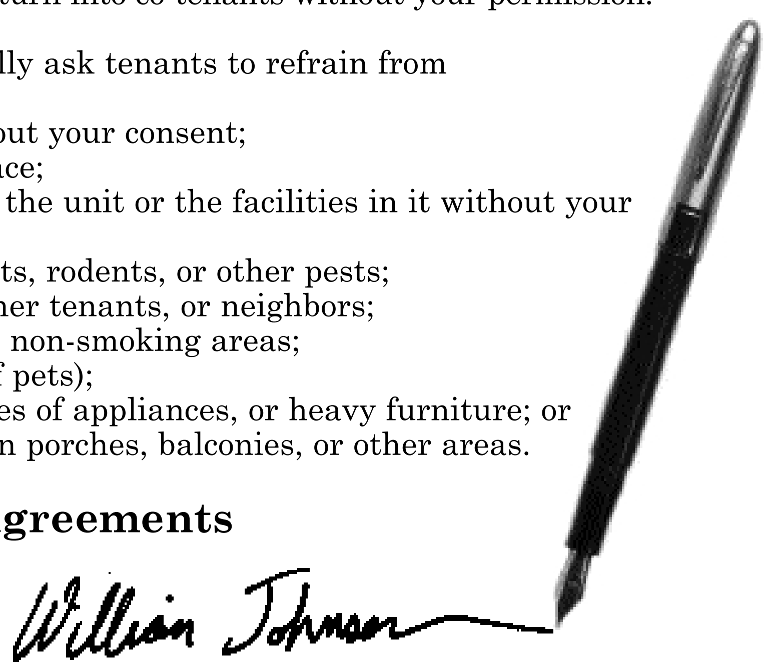
You can require tenants to behave according to your needs — so long as your demands fall within the law. You can usually ask tenants to

- 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 been known to have oral agreements, it is highly recommended that the landlord and the tenant enter into a written lease or rental agreement. 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. As indicated in Chapter 2, make sure that each adult over 18 years of age who lives in the unit signs the rental or lease agreement.

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.

Written rental agreements spell out the obligations of both the tenant and the landlord, and the terms and conditions of tenancy. 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. They are 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 allow you the greatest amount of flexibility. Under a month-to-month agreement, you 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.

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 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 most places, when a new owner buys a property where tenants with unexpired leases are still living, the terms of the original leases remain valid until the original leases expire.

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.

Make sure changes to an unexpired lease are mutual and 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.

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 in stationery stores, book shops, office supply 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. 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 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 is a lengthy, expensive, and often unpleasant process, it is always advisable 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.

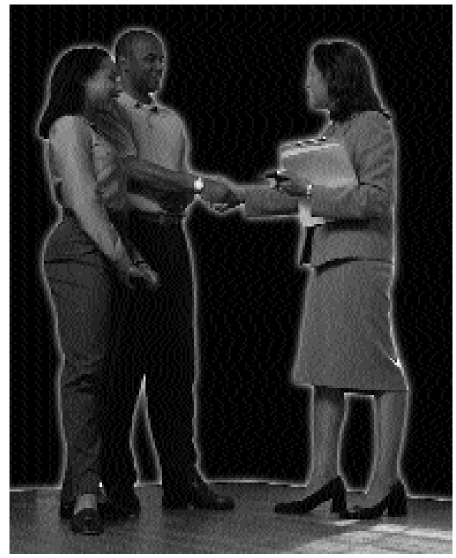
After reading this chapter do you understand:

- What to consider when setting your rents?
- 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 rents?

Chapter 4: Getting the Tenant Moved In

Getting the Tenant Moved In

Establishing landlord and tenant relationships



Maintaining professional business relationships with your tenants is one of the key roles of a landlord. Some basic steps for developing and maintaining the relationship include

- establishing and communicating rules and regulations;
- enforcing the rules and addressing problems immediately;
- knowing your responsibilities;
- conducting periodic inspections;
- watching for problems and maintaining a paper trail of all activity; and
- keeping communication channels open.

A key step in building a relationship with your tenant begins with both parties having a clear understanding of the rental or lease agreement. Take the first step in establishing this relationship when the tenant moves in by holding an orientation to review key rental terms and the unit. Consider providing a welcome package that highlights the terms of the rental or lease agreement, and a listing of 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 tenants get settled in, you may want to hold an orientation session at the beginning of their tenancy to welcome them to the community. During the orientation, you can

- 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.;
- provide information to the tenant on local cable services and neighborhood conveniences;
- provide information on who to contact for repairs and emergencies; and
- discuss house rules and regulations.

Inspecting the property

You and the tenant should perform a joint inspection of the rental unit to identify the condition of the unit and its appliances prior to the tenant moving in. The condition of the unit should be documented on a checklist that is signed by both you and the tenant. The checklist serves as record of the condition of the unit when the tenant moved in and also can be used to document the condition of the unit when the tenant moves out. For items that don't work or may need repair, make specific notes as to exactly what doesn't work or what needs to be repaired, and repair them as soon as possible. You should place a checkmark or "OK" beside items that are in good working condition. If your unit doesn't have a particular appliance, you should indicate, "N/A."

Once you and the tenant have completed the inspection, you should both review the form to ensure that it has been completely filled out, and that you and the tenant agree on the condition of the items. You should each sign and date each page of the checklist. 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 a part of a security deposit.

Establishing a record system

You will want to keep a record on each of your tenants. Your record system should include records of complaints and repair requests made by the tenant, and records of conversations held with tenants. You also will want to create an individual file for each tenant that includes

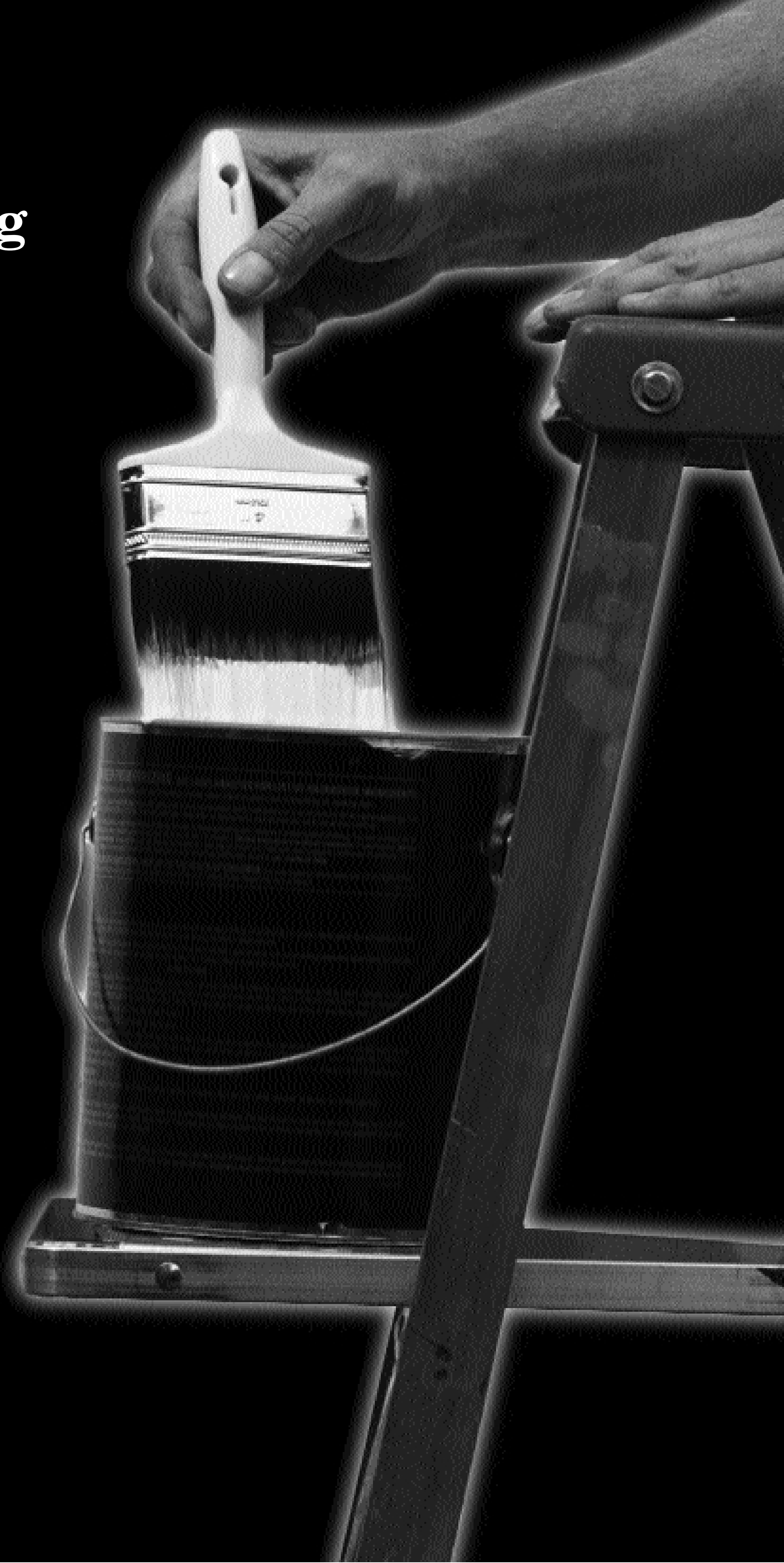
- the rental application, information related to credit, employment, and other references;
- a signed lease or rental agreement, and house rules or regulations;
- signed inspection checklists and move-in letter;
- payment history, showing when the tenant took occupancy, the amount of security deposit, date and amount of all transactions;
- records of repair requests and repairs made; and
- incoming and outgoing correspondence between you and the tenant.

Documenting all activities and transactions could be critically important in the event that a tenant takes legal action against you.

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 record system?

Chapter 5: Maintaining Your Property



Maintaining Your Property

When you buy your home or rental property, the lender who provides your mortgage will take an objective approach to determining your property's value and will hire 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 rental property's value. It also stresses the importance of maintaining the value of your home and rental property.

How to keep your property's "market value" up

The "market value" of your property is essentially the price a 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 convenience of the neighborhood to shopping and transportation, and the prices that comparable properties sell for in the neighborhood, for example.

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 are willing to pay, and the likelihood that tenants will pay higher rents in the future.

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 live in it.

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 the 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 buy your property, your mortgage lender will have an appraiser estimate its market value. When you sell your property, the buyer's lender will ask for a new appraisal, because many factors that affect market value can change. 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. He or she will examine your property inside and out, including such features as windows, screens, insulation, heating and cooling systems, kitchen appliances, attic space, and car storage facilities. And he or she will 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 rental property like yours, the appraiser also will assess how your rental units compare with others in your neighborhood. For example, when rental units in the neighborhood have bedrooms on the same level as a bathroom or kitchens convenient to dining areas, your property will probably be appraised at a higher market value if your units have similar layouts.

Think of your property as part of the neighborhood

In general, properties maintain their value best when they are similar to other properties in the neighborhood. 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.

Be aware of market factors outside your control

Although careful maintenance will generally contribute to the value of your property, there may sometimes be factors outside your control that also influence your home's market value. For example, the rate of supply and demand for housing in your neighborhood will affect the prices people pay for properties there. Factors like the accessibility to public transportation or the general economic health of the region also could affect property prices.

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 highlight upcoming chores.

"Do-it-yourself" repairs

Expensive tools or lots of experience aren't always required and you may be able to make many basic home repairs yourself. Taking care of small repairs before they become big projects can save you both time and aggravation as preventive maintenance can actually extend the life of appliances and systems and avoid expensive repairs. Some hardware 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.

If you have access to the Internet, check out the many Web sites devoted to home maintenance and repair topics. Home Depot's popular Web site, www.homedepot.com, provides a wide range of information on home repairs.

The following organizations offer free or inexpensive brochures on specific maintenance projects:

Superintendent of Documents
Box 371954
Pittsburgh, PA 15250-7954
(202) 512-2250
www.access.gpo.gov/su_documents

American Society of Home Inspectors
3299 K St., NW
Washington, DC
(202) 842-3096

Federal Consumer Information Center
Pueblo, CO 81009
www.pueblo.gsa.gov

To get started, you should obtain the basic tools, which can be found at your local hardware store for a nominal cost. The following is a list of these tools:

Basic Tools

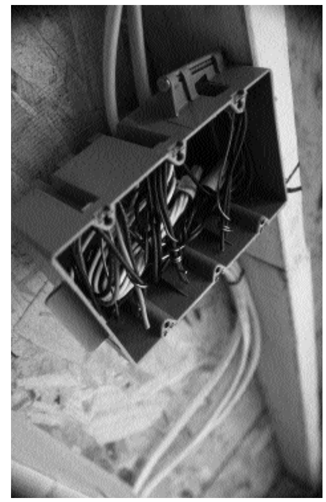
Claw hammer	Wood saw and hacksaw	Paint brushes
Flashlight	Razor knife	Flat-head screwdriver
Needle-nose pliers	Wire cutters	Electric drill
Awl or punch (ice pick)	Black electrical tape	Duct tape
Phillips screwdriver	Spirit level	Set of allen wrenches
Regular pliers	Paint roller	Ladder
Wire strippers	20-foot tape measure	Drop cloths
Pipe wrenches	Electric continuity tester	Level
Metal files or rasps	Crescent wrenches	Pail buckets
Vise-Grip pliers	Razor blade scraper	
Putty knives		

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 limits the amount that you will pay the contractor. Your contract also should include start and completion dates; 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 10 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 to help homeowners. NAHB's *How to Find a Professional Remodeler and NARI's The Master Plan for Professional Home Remodeling* 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.

- 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 your and your tenant's responsibilities 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, as you could be held accountable for personal injuries or in some cases the tenant may be entitled to withhold rent.

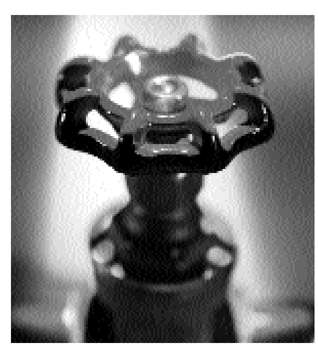
How to protect your home against emergencies

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 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 home, 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 home 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 health and safety codes that landlords must follow. If you maintain your home properly and take the safety precautions discussed earlier, your house 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. Very often the local board of health will be responsible for enforcing local codes and can provide the information you need.

In general, 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.

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-efficiency upgrades whenever you can. Such upgrades will not only make your home less expensive to maintain while you live in it, they also will contribute to its market value when you sell it.

At the very least, be sure your home 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 you conserve energy.

Resources

- Check out the "Energy Star® windows" Web page: www.energystar.gov/products/windows/index/html
- Want to compare energy costs among different window frames and glazings for your climate? Check out the Efficient Windows Collaborative Web site: 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 homes 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

- Visit the Office of Building Technology, State and Community Programs' Web site "BTS — Getting an Energy Audit for your Home" for information on home energy audits: www.eren.doe.gov/buildings/home_enrgyaudit.html
- Also visit "The Home Energy Saver" Web site to find out the annual utility bill for an average home in your area: www.homeenergysaver.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 discuss energy-saving ideas that can save homeowners 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. The U.S. Department of Energy offers publications with tips on saving fuel, insulating water heaters, and reading utility bills.

Resources

- Visit the National Association of State Energy Officials Web site at www.naseo.org for a list of state energy offices
- Visit the Cooperative Extension Service's Web page "State Partners of the Cooperative State Research, Education, and Extension Service" and select your state to find an office near you at www.reeusda.gov/1700/statepartners/usa.htm

You also can hire energy-efficiency consultants to inspect your home 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

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 are personal; the other two-thirds are rental. You may use the Monthly Spending Planner worksheet for your personal budget and the Operating Budget worksheet for your rental business. Both worksheets are included in the Worksheet section of this publication.

Preparing your Operating Budget for Rental Property

STEP # 1: 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.

STEP # 2: 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, sales taxes, etc.

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, 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; garbage pickup; and paint, cleaning, stationery 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 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.

STEP # 3: Section 3: Compare your total monthly income and expenses

Enter your 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.

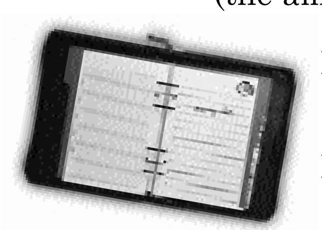
If Monthly Rental Income is less than Monthly Reserves, treat the difference as an expense. Enter the amount on your Monthly Personal Spending Planner, After Home Purchase, item 13, Household Operations/Maintenance.

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

STEP #1: 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).



If you are paid weekly, multiply your take-home pay by 52 and divide by 12 to get the monthly income figure.

If you are paid every other week, multiply your take-home pay by 26 and divide by 12 to get the monthly income figure.

You also should include Social Security benefits, pension payments, alimony, child support, workman's compensation, and disability payments. Annual bonuses, income tax refunds, occasional overtime or other infrequent sources of income should NOT be included. Focus only on what flows in on a regular basis each month.

Do not include your projected rental income in your Monthly Net Income calculation until you have completed your Annual Operating Budget.

STEP #2: Section 2: Determine the total monthly expenses

Item 1: Housing. Enter your actual mortgage payment (and property taxes and homeowner's insurance if you pay these bills directly rather than having the lender include them in the mortgage payment). Record only your personal portion of the mortgage payment and applicable taxes.

Item 2: Installment Loans. Automobile loans, furniture, and appliance loans as well as any payments you are currently making to finance companies or on any installment debts should be recorded here.

Item 3: Revolving Credit. Department store charge cards, bankcards, and any other credit card payment you make should go into this section.

Item 4: Utilities. Enter the average monthly payment for each applicable utility. Talk to the previous owner or contact local utility companies for historical costs. Record only your personal portion of the utility bills for which you are responsible.

Item 5: Insurance. Enter any direct payments for applicable insurance. Enter only your personal portion of any property-related insurance not paid out of your escrow account maintained by your lender.

Total your column and carry the amount over to the top of page 2 of your Monthly Personal Spending Planner.

Item 6: Spouse/Child Care. Enter expenses for alimony, child support, child care, and school fees here.

Item 7: Donations. Include any contributions to a religious organization or charity in this section.

Item 8: Dues. Union, youth group, and professional organization dues can often be overlooked or included with miscellaneous expenses, but they can add up and should be listed here.

Item 9: Medical. Even though health and dental premiums were listed above, there are often additional health-related expenses that are not covered by insurance, including deductibles and co-payment amounts. Doctor and dentist bills, drug charges, hospital payments, contact lenses, and eyeglasses are just some of the items that fall into this category. Estimate a lump sum and divide by 12 for a monthly expense amount.

Item 10: Transportation. Gasoline, oil changes, repairs, preventive maintenance, and all other costs associated with maintaining a car are listed here. Parking costs and money spent on things like public transportation, buses, subways, and taxis also are included.

Item 11: Food. There are two major categories for food purchases. Groceries and school or work lunches. The tendency is to use the supermarket receipt totals as "food costs," but many nonedibles also are included in supermarket purchases, such as cleaning supplies and personal care items. Try to take this into account when entering your cost for groceries.

Item 12: Clothing. New clothing purchases, uniforms, laundry, dry cleaning, hair care, cosmetics, and toiletries fall into this category.

Item 13: Household Operations. Heating/cooling system maintenance; carpet cleaning; carpentry; landscaping/gardening; appliance, electrical and plumbing repairs; garbage pickup; and paint, cleaning, paper and general supplies, including tools, light bulbs, fixtures, hardware, etc. — anything that you would use to keep up your apartment or home would be listed here. As a general rule of thumb, set aside 2 percent of your property value annually to cover maintenance expenses. **Record only your personal portion of household operations expenses.**

Item 14: Major Improvements. Enter the estimated costs for improvements that you may plan to make for your heating/cooling system, appliances, siding, or other areas. 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 the monthly amount you will need to save to make the improvement. You need to determine whether the project affects your personal property, your rental property or both. If the improvement affects both, budget only the portion of the price of improvements that pertain to your personal property.

Total your column and carry the amount over to the top of page 3 of your Monthly Personal Spending Planner.

Item 15: Professional Services. You may need to retain the services of an attorney to help you with legal and personal matters, such as creating a lease. You may need an accountant's services to keep your books or if you're not knowledgeable about tax codes and appropriate deductions. An attorney/accountant will be able to provide you with an estimate of the fees for these services. Record only your personal portion of these expenses.

Item 16: Miscellaneous. Enter costs for sports, hobbies, entertainment, vacations, and gifts here. Be sure not to lump too many expenses under this category; otherwise, it becomes too large and does not help you plan. Be as specific as possible when categorizing your expenses.

Item 17: Savings. Include savings bonds, credit union, or bank accounts not handled through payroll deduction.

Total your expenses.

STEP # 3: Section 3: Compare income and expenses

Now it's time to analyze the bottom line. **Enter your Total Net Income from Section 1, and the total of your expenses from Section 2**.

If your Monthly Net Income is greater than your Monthly Expense total, congratulations! You are now ready to start setting goals. You may want to setup some short-terms goals (perhaps a home improvement or a vacation) and long-term goals (such as saving for your children's college education or retirement).

If your Monthly Net Income is less than your Monthly Expense total, you need to examine your expenses for opportunities to cut back.

Some expenses are fixed (the amount cannot be changed, such as the mortgage, or car payment), while others are discretionary (you decide how much to spend in these areas — for example, entertainment). You should divide your expenses into two lists, fixed and discretionary, to determine which discretionary items can be reduced or eliminated.

Evaluate your budget and make changes if necessary

Once you've created your budget, compare the rental income you expect to earn with the sum of all your budgeted items. Your expenses should not be higher than your income.

If you create a realistic budget and find that your rental income, combined with any other financial resources you may have, will not cover it, you may need to re-evaluate some budget items. *If, when you look ahead to your first year as a landlord, you find that every item in your budget is vitally important and you are not able to pay all of your expenses, it might be wise to consider waiting until you have enough resources before you buy your home.*

Be sure to budget for possible vacancies

If any of your rental units remain vacant for a month or more, you will have less rental income than expected. To be sure you can continue to make your mortgage payments and pay your maintenance costs when your units are vacant, do not base your budget on the assumption that all units will be occupied at all times. Instead, set aside a portion of your budget to cover these expenses during periods when your units may be vacant. It may be wise to contact some local appraisers to obtain vacancy rates for rental units in your neighborhood.

Ask the previous owner for existing security deposits

Make sure your home's previous owner has transferred to you any security deposits that eventually have to be returned to existing tenants. You will be responsible for returning those deposits, even if it has to come out of your own pocket.

Types of insurance

Buy adequate insurance

Although insurance premiums may seem expensive when you pay them, the amount of money they can save you in an emergency can be enormous. There are various types of insurance you may want to buy and a few types you really cannot do without. At the very least, you should protect yourself with liability insurance, which protects you in case anyone is hurt while on your property, and basic property insurance, which usually covers losses caused by fire or theft. Before buying any insurance, however, keep in mind that different insurance companies — and even different policies from the same companies — will vary. Also, different insurance companies may call the same type of insurance by different names. You must be sure to discuss the terms of any policies you buy with your insurance agent. Don't hesitate to ask for definitions when you need them.

Basic property insurance
This kind of insurance is so important that lenders require homeowners to buy it. It generally covers losses from damage caused by fires, storms, or motor vehicles, and sometimes also protects homeowners from theft and vandalism.

Tenant relocation insurance
This type of insurance will provide your tenants with relocation costs if your home becomes uninhabitable due to damage from a fire or other type of disaster. In some areas, a landlord must buy this type of insurance in conjunction with his or her policy covering fire damage.

Flood insurance
You must buy this type of insurance if you live in a location designated as a "flood area" by the Federal Emergency Management Agency (FEMA). Generally, you must obtain it through a policy that is separate from your basic property insurance.

"Rent loss" insurance
This type of insurance would protect you from the loss of rental income in the event that fire or certain other types of disasters were to make your home unfit for your tenants to live in. Policies for this kind of insurance may have limits, however. So if you purchase this type of insurance, be sure to ask your agent to explain the extent of your coverage.

General liability insurance
This type of insurance protects you from lawsuits by people claiming they were injured on your property due to negligence on your part. It protects you from liability for such injuries up to an amount you choose when you purchase the insurance. With this type of policy, you also should find out if there are any limitations on the extent to which you're covered.

Bonding
Bonding protects you against any loss you might experience if you or anyone you hire is robbed after collecting rents.

How to maximize your tax advantages

As a landlord, you will be entitled to certain tax advantages. You can enjoy some of these each year when you submit your income tax return, and you also may be eligible for others when you sell your home.

Enjoy the good news

Like all homeowners, each year you will be able to deduct the interest payments on your mortgage from your income when you file your federal tax return. But as a landlord, you also enjoy additional tax advantages.

For example, even though the income you collect as rent is taxable, you can deduct many of your home maintenance costs from it. You also can defer paying some of the taxes on your rental income by deducting "depreciation" — the cost of wear and tear on the part of the house that you rent. You also may be able to deduct the value of major improvements you make to your house.

Know what tax deductions you can take

To get the most out of the special tax treatment available to landlords, you need to know exactly what your tax advantages are, understand how they work, and keep them in mind when planning landlord-related activities and expenses. You can find official detailed information about tax deductions for landlords in various publications available through the Internal Revenue Service (IRS). These publications are written expressly for taxpayers.

At tax time, an experienced tax professional can help you apply the tax deductions available to landlords to your personal situation. For now, you can get a general idea of the most frequently used deductions from the descriptions that follow.

Repairs and routine maintenance costs
If you make repairs to keep the part of your property you are renting in good condition — for example, if you fix the gutters on the roof, plug leaks, plaster ceilings, or replace broken windows — you can deduct the cost of the work from your rental income. You also can deduct the cost of supplies such as paint, light bulbs, or small household tools.

Depreciation
For the part of your home you are renting to tenants, you will be eligible for a tax deduction known as "depreciation." This deduction is intended to compensate you for wear and tear on the part of your house that you rent out, and allows you to defer taxes until the sale of the home. Through it, you can deduct a portion of your taxable income each year over a period of years.

The IRS allows you to deduct the cost of major improvements to the rental units in your home by means of your depreciation deduction. Such improvements might include large-scale renovations or remodeling jobs, like the addition of a family room, the installation of an extra bathroom or new plumbing, major rewiring, or the replacement of the roof. Or they might include other work that, according to IRS language, "adds to the value of your property, prolongs its useful life, or adapts it to new uses."

Maintenance for vacant units
The IRS does not offer a deduction based on income you lose during periods when your units are vacant. However, you may deduct the routine expenses of managing and maintaining those units during such periods.

Advertising
You may need to place advertisements in newspapers or elsewhere to find electricians, gardeners, plumbers, or others to help you maintain your property. Or you may choose to place ads to find tenants for vacant units. The cost of ads for these purposes is tax deductible.

Wages and fees
The IRS allows you to deduct "reasonable" wages paid to people you hire to help you maintain your property. You also can deduct fees paid to professionals like lawyers, architects, energy-efficiency consultants, or accountants.

Property taxes and costs for local services
As a landlord, besides deducting your property tax each year, you also can deduct any local taxes you pay for the maintenance of streets, sidewalks, sewage systems, or other community benefits. You also can deduct charges you pay for services such as running water and trash collection for your rental units.

Expenses for rental items
You may deduct the cost of renting furniture, appliances, or other items for your tenants' use. You also may deduct the cost of renting equipment — lawn mowers or carpet cleaning machines, for example — that you use to maintain your property.

Insurance premiums
As discussed earlier in this chapter, you will need to purchase various types of insurance coverage to protect your investment in your home. You may deduct the cost of premiums for the insurance you buy.

Travel and transportation
The cost of travel outside your area to collect rent or manage your property is deductible. So is the cost of local transportation for these purposes.

Utilities
You may deduct the cost of providing heat, water, gas and/or electricity for your tenants. You also may deduct the cost of installing an extra telephone to conduct property-related business in the part of the house in which you live.

Outdoor painting
From time to time, you will want to paint your home to attract tenants and to protect the building. This is another expense that is tax deductible.

Loss from casualties or thefts

IRS regulations also allow you to deduct losses resulting from a theft or from damage, destruction, or loss of property caused by a "sudden, unexpected, or unusual event." However, this deduction does not include amounts reimbursed through your insurance coverage. When you take this deduction, you must report the losses associated with the part of the house you're renting out separately from losses associated with the part of the house in which you live.

Tax preparation

As a landlord, you would be wise to seek help from a reliable tax professional when you begin preparing income tax returns. You may be able to deduct the fees you pay for this service, as long as you report them for the year in which the tax return is prepared. For example, if in 2001 you pay an accountant to prepare your 2000 income tax return, you may be able to deduct his or her fees on your 2001 return.

What you need to do to get special tax treatment

In order to receive the tax advantages, for which you're eligible, you need to report income and expenses properly on your tax returns. For you, the owner of a home that doubles as your residence and a rental property, that means reporting "personal" and "rental" income separately.

Be sure to document all your expenses and keep receipts and records in a place where you can find them when you need them. Document each tax deductible expense *as it occurs*.

Keep track of

- the amount of each expense;
- what the expense covers, preferably in terms of the categories for which the IRS allows deductions;
- who receives your payment;
- the date on which you incur the expense; and
- the date on which you pay the expense.

Keep copies of leases and ads for tenants

A "landlord" who is only temporarily renting out his or her home while trying to sell it is not eligible for all the tax deductions and deferments discussed here. Proof of your intention to rent units over a long-term period is the basis for many of the tax deductions you can take.

One way you can demonstrate your intention of renting units for the long term is to have your tenants sign long-term leases. Another way is to place newspaper ads that state explicitly that you're looking for long-term renters. Keep leases and advertisements that support your intention to be a long-term landlord in a place where you will be able to find them if you are audited by the IRS.

Keep organized receipts

If audited by the IRS, you may be asked to verify the information you report on your tax returns. To begin with, you may need to document the simple fact that you've collected rent. This will be easy to do if you give each tenant a receipt when you collect the rent and keep a copy for yourself.

If asked to verify your expenses, you will need to have receipts or cancelled checks handy. So the way you organize your documentation is very important. To make it easy for yourself at tax time, try to keep receipts organized both by date and by the categories for which the IRS allows deductions. Some people find it helpful to use desk organizers, folders, or notebooks to help them keep track of rental income and deductions. If you buy supplies like these, remember that they, too, are tax deductible.

Hold on to your receipts when you pay property tax, insurance premiums, or bills from carpenters, electricians, plumbers, gardeners, accountants, and lawyers. And when you pay for supplies — even small items such as brooms and light bulbs — keep those receipts!

Also retain receipts from advertisements you place to search for tenants or employees. If you use a real estate agency to help you find tenants, keep receipts for the agency's commission or fee.

Document your depreciation deductions

As previously explained, for each year that you rent units in your home, you can deduct a portion of the cost of your house from your income as "depreciation" to compensate for wear and tear. And, by means of this depreciation deduction, you also may deduct, over time, the costs of major improvements you make to the rental units in your home. Documentation for depreciation should include records and receipts for costs associated with improvements, too.

Keep track of the amounts of depreciation you have claimed in previous years — and of the total depreciation you have claimed since purchasing your house. When you sell your home, the IRS will require you to factor the depreciation you've deducted into your calculation of your profit from the sale. Later in this chapter, you will find out how this works.

Consider maintaining a separate checking account

Many landlords find it easier to prepare their tax returns when they pay bills related to their rental property from a separate checking account. If you do this, your monthly statements will provide you with many tax-related records in one place.

Sometimes when you maintain such an account, you may authorize utilities or other companies to draft monthly payments directly from your account. Such an arrangement frees you from waiting for bills and keeping track of when you paid them, since each draft will be made automatically and documented in your monthly bank statement. However, you will need to ensure that there are sufficient funds in the account to cover these automatic drafts.

Find a reliable accountant

The benefits of hiring a reliable accountant generally outweigh the cost. And accountants' fees are tax deductible.

An experienced tax professional can help you create a basic list of categories for which you can take deductions from year to year. Such a professional also can make you aware of any limits the IRS places on the deductions you can take, and identify which IRS forms you need to submit based on your personal situation.

The IRS requires you to separate expenses associated with the part of your house that you rent out from those associated with the part in which you live. The IRS also requires you to separate expenses for routine repairs from expenses for improvements. And the IRS accepts several methods of making these distinctions. An experienced tax specialist can help you through these procedures and can advise you as to which method would be best for you.

You will find professional advice particularly useful when you calculate depreciation. There are various methods of calculating depreciation costs, and all are somewhat complex. An experienced tax professional will know which method should be used in your particular case. He or she should also know how any IRS rules that are open to interpretation apply to you.

He or she also may help you to make important decisions about income and expenses for the year to come and help you to establish long-term financial goals. And, finally, when you sell your home, a tax professional can help you factor all the depreciation deductions you've taken over the years into your calculation of your profit on the sale.

How you're taxed when you sell your home

If you make a profit when you sell your home, you will also have to pay taxes on your profit, or "gain." The higher your gain, the more taxes you will have to pay. But, fortunately, the taxes you pay may be offset by various factors. For example, you may subtract the closing costs you paid when you purchased your home from the proceeds you get when you sell it.

Remember to pay the taxes you've deferred when you sell

As previously discussed, when you sell your home, the IRS requires you to factor taxes you've deferred through depreciation deductions over the years into your profit calculation. In a practical sense, this means that if you have taken deductions for depreciation, the IRS will not view your profit simply as the difference between the amount you receive when you sell your home and the price you paid for it. It will instead look at your profit in a different way. Essentially, it will expect you to calculate your gain by following a formula that takes into account the total amount of the depreciation deductions you've claimed over the years.

It's easiest to think of that formula as a two-step calculation resulting in what the IRS considers to be your gain:

STEP # 1

	The price you paid for your home (in IRS terms, your home's "basis")
minus	Total depreciation you've deducted
equals	What the IRS considers your home's cost to you if you have taken depreciation deductions (in IRS terms, your home's "adjusted basis")

STEP # 2

	The selling price you receive for your home
minus	What the IRS considers your home's cost to you if you've taken depreciation deductions (the result of Step 1)
equals	Your gain, according to the IRS

To look at this another way, let's use this example:
Let's say you purchased your home for $60,000, then took a total of $20,000 in depreciation deductions during the years you owned it, and finally sold it for $70,000. By filling in the two-step formula with these numbers, you can see how your gain would be calculated:

STEP # 1

	$60,000	**[the price you paid]**
minus	20,000	[total depreciation you've deducted]
equals	$40,000	[what the IRS considers your home's cost to you if you've taken depreciation deductions]

STEP # 2

	$70,000	**[the selling price you get]**
minus	40,000	[what the IRS considers your home's cost to you if you've taken depreciation deductions (the result of Step 1)]
equals	$30,000	[your gain, according to the IRS]

As you can see, the IRS would consider your profit as $30,000 — not $10,000 (the difference between your selling price and what you paid). And the taxes you would pay on the sale of your home would be based on $30,000.

You also have to separate your proceeds into two parts

Even though you will sell your whole house together, the IRS will require you to report your proceeds as if you sold the house in two separate parts. It will require you to report the proceeds from the sale of the part of the home in which you lived separately from the proceeds from the sale of the part you rented. This is another area of tax reporting where an experienced tax professional can be of great help.

Capital gains vs. ordinary gains

For the most part, everything you own and use for personal or investment purposes — including the home in which you live — is a capital asset. Any profits you realize from selling capital assets are called "capital gains" and are taxed accordingly.

However, the IRS considers rental property as a business asset rather than a capital asset, and treats profits realized from selling rental property as "ordinary gains." This is important to understand, because some of the profit from the sale of a combination residential/rental home will be taxed as "capital gains," and some will be taxed as "ordinary gains."

Ordinary gains are generally taxed at the same rate as your annual earned income. However, capital gains are taxed at somewhat lower rates.

Your profit on the sale of the part of the home you lived in will be taxed as capital gains, while your profit from the sale of the part of the house you rented out will be taxed as ordinary gains. But sometimes part of the ordinary gains realized from the sale of a house used for both residential and rental purposes can be converted to capital gains, giving you a tax advantage. The rules and calculations involved in such a conversion are very complex. If you want to use this tax advantage, you should rely on the advice of an experienced tax professional.

Even if you take a loss, you gain

As explained in Chapter 5, if you are diligent about repairing and maintaining your property while you own it, and if similar properties in your area increase in value, your property is likely to be worth more when you sell it. However, as also explained, your property's market value also depends upon some factors outside your control. You could conceivably sell your property at a loss. But in such a case you could have yet another tax advantage: you might be able to take a tax deduction based on the percentage of the loss related to the part of your property you rented.

Regardless of your gain or loss, you will have had the experience of owning your own home. And you will have had the opportunity to learn how to earn property-related income.

After reading this chapter, do you understand:

- How you can manage costs through budgeting and planning?
- What types of insurance you should buy to protect you in emergencies?
- What tax advantages you'll be eligible for as a landlord?
- What you'll need to do to get the most from these tax-saving opportunities?
- When and how you'll have to pay taxes you defer through depreciation deductibles?
- Why it pays to get professional tax advice?

Chapter 7:
Ending Rental Tenancies

Ending Rental Tenancies

For various reasons, you will experience some turnover with your tenants. Some of your tenants will decide to leave voluntarily and choose not to renew their leases; others may give inadequate notice or simply abandon the property; or you may end up taking action to evict a tenant because of their failure to meet obligations stated in the lease or rental agreement. Regardless of the reason that tenants leave, you'll need to understand what's involved with ending tenancies and the actions that you'll need to take to protect yourself and your investment. This chapter explains the process of ending rental tenancies and steps involved, depending on whether the termination is voluntary or involuntary.

Ending Tenancies

Ending Month-to-Month Rental Agreements

All that is required to end a month-to-month tenancy is proper notification by you or the tenant. Most states do not require that you provide a reason; all you need to do is give the tenant a written notice that allows them the minimum number of days required by state and local laws, usually 30 days. The notice should state the date that the tenancy will end. If you want a tenant to move because of violation of rental obligations indicated in the rental agreement, the period for notification is usually shortened. You may want to consult a landlord's association or local rent control board or your state statutes to determine if your local area requires any special formats and instructions on how the delivery should be made.

Tenants also must give you at least 30 days notice. Although not always required, for your protection you should insist that the tenant put the notification in writing. If you collected "last month's rent" when the tenant moved in, you are legally obligated to use this money for the last month's rent. Once the tenant has provided you with notification of intent to move, your acceptance of rent beyond the move date cancels the termination notice and creates a new month-to-month tenancy. If a tenant fails to give you proper notice or simply leaves the rental unit, the tenant is still obligated to pay rent through the end of the required notice period.

Ending Lease Agreements

As a rule of thumb, neither you nor the tenant can end the tenancy until the end of the lease term. At this point, you should have the tenant sign a new lease, convert to a month-to-month agreement or move. When a lease is about to expire, you should provide the tenant with written notice at least 60 days prior to the lease expiration date. This provides you and the tenant time to renegotiate the lease or time for the tenant to locate a new place if he doesn't want to renew the lease. Sixty days' notice also provides you time to market the apartment if the tenant is planning on leaving. In most states, if the tenant continues to pay rent after the lease expires, you have created a month-to-month tenancy with the terms of the old lease. If you want to change the terms, you will have to follow the same rules as if ending a month-to-month tenancy.

Once the lease expires, you do not have to keep renting to the tenant. In most states, you can start an eviction lawsuit once proper notice has been provided. Be sure to check your state and local laws to ensure that you are in compliance.

When a tenant leaves

Just as it is important to follow a process and set clear expectations when tenants move in, it is equally important to follow a process and set expectations when the tenant vacates a property. To avoid disputes, it is important that you provide the tenant with information on the inspection procedures, the kinds of deductions that legally may be taken from the security deposit, and when and how you will send the security deposit that is due. Make sure that you understand and comply with the state laws governing security deposits.

Inspect the unit

You will want to inspect the unit to determine what cleaning and damage repair is necessary. It is a good idea to perform the inspection with the tenant to avoid surprises and settle potential disputes before the unit is vacated. Note the estimated cost of repairs on the inspection sheet and discuss the withholding of the amount from the security deposit. Upon completion of the inspection, make sure that both you and the tenant sign the Inspection Report. In the event of a dispute, this will serve as evidence of the condition of the unit when the tenant moved out.

Return the security deposit

Most states require that you return the security deposit to the tenant within 14 to 30 days after the tenant leaves the unit. The deposit should be mailed to the tenant's forwarding address and include

- the tenant's entire deposit, with interest if required by the state; and
- a written, itemized accounting as to how the deposit has been applied toward back rents and costs of cleaning and repairing damages.

Remember that if no portion of the tenant's deposit was called "last month's rent" you are not legally obligated to apply it this way. However, if a tenant asks you to apply the security deposit towards the last month's rent, you may do so, provided that it is in accordance with state law. Remember that you run the risk of having nothing to reimburse you for cleaning or repairs.

When you should consider evicting a tenant

Eviction – the legal procedure for forcibly removing a tenant from a landlord's premises – is probably the least-liked aspect of the rental business. It is a costly, time-consuming, complicated process that frequently requires the services of an experienced lawyer and should be undertaken only as a last resort. Before initiating an eviction, you need to understand the process thoroughly to be sure the effort and expense will be worthwhile.

When an eviction becomes necessary, it is usually for one or more of the following reasons:

- the tenant has not paid the rent;
- the tenant is not complying with the provisions of his or her lease or rental agreement;
- the tenant is engaging in illegal activity on your premises;
- the tenant is creating a major nuisance; or
- the tenant refuses to vacate the premises after his or her legal tenancy expires.

You may not evict tenants to retaliate against them for contacting government services like the Board of Health to enforce their rights. Nor may you evict a tenant because you would prefer to rent his or her unit to a friend, a relative, or someone willing to pay higher rent.

Do not stall

When an eviction is appropriate, you should not put it off. The eviction process can take months — too long to continue losing income or allow a tenant to damage your home, or disturb you and others.

Take separate action for tenants who behave illegally

If you need to evict tenants because you have evidence that they are engaged in illegal activities such as prostitution, gambling, or drug dealing, you also should call the police. But keep in mind that while the police can arrest such tenants, they do not have the right to evict them. That responsibility is yours. If your tenants have leases, they have the legal right to occupy their units until either their leases expire or you have them evicted.

What you can do to avoid the eviction process

As stressed earlier, eviction should be thought of as a last resort. You may be able to avoid the expense, time, and unpleasantness of conducting an eviction by trying to resolve a dispute with a tenant or by encouraging him or her to leave voluntarily.

Try mediation

Mediation is a process through which a neutral third party helps a landlord and a tenant work out their differences. Depending on where you live, you may be able to find a mediator through a public or private institution in your area. There are places where the courts provide free mediation services. In some other areas, Housing Commissioners have some authority to help resolve disputes between landlords and tenants.

Use arbitration

Many organizations that offer mediation also conduct arbitration if the parties can reach an agreement. Almost any dispute with a tenant or party that can be litigated can be arbitrated. With arbitration you can get a relatively quick and inexpensive solution to a dispute without going to court. The arbitrator is a neutral third party that has power to hear the dispute and make a final decision. In binding arbitration, you agree in advance in writing to submit to arbitration and to be bound by the arbitrator's decision.

Make it easy for the tenant to leave voluntarily

Sometimes you can offer to alter a tenant's lease so it expires sooner. The tenant may be happy to go along with this alternative if he or she knows you have grounds to win an eviction and you offer him or her some time to find another home.

This technique is especially effective in the case of tenants conducting illegal activities on your property — if they know you can prove it. If you have been managing your property according to the law and you have evidence of a tenant's illegal conduct, the tenant's lawyers are not likely to advise him or her to fight an eviction.

You should not use this technique unless you have sufficient evidence. To handle the situation properly, you may want to write the tenant a letter stating that you have reason to believe that he or she is engaged in illegal conduct on the premises in violation of the lease. In the same letter, offer to release the tenant from the terms of the lease if he or she agrees to leave.

If the tenant will not leave, proceed with beginning eviction procedures as soon as possible. But, you may not lock out the tenant or forcibly remove him or her. By accepting rent when you know a tenant is behaving illegally, you could be creating the impression that you condone the tenant's actions, and you may jeopardize the success of your eviction proceeding.

When you should initiate an eviction

In many states, evictions are handled by Small Claims Courts. In other areas, other courts, such as Housing Courts or Housing Sections of Superior Courts, may hear eviction cases. Before taking any legal steps, you should call your local government information office to make sure you are aware of the proper court. If you are not represented by an attorney, you may wish to visit the court and consult with any available court personnel prior to undertaking any eviction action.

How you should conduct an eviction

Although the laws that govern the eviction process differ from location to location, they generally require the same basic steps. Once you are familiar with these steps, you will find it much easier to understand the fine points of the particular laws in your area.

It is extremely important to understand these laws. Eviction cases often can be delayed, or even dismissed, because of technical errors on a landlord's part. Simple mistakes like using the wrong form, providing a name different from the tenant's, serving notice improperly, or submitting a form late, could hold up your case.

An attorney specializing in evictions can help you avoid mistakes like these. He or she also can guide you through the considerable "red tape" involved in each step of the eviction process.

Step 1: Serve notice

Once you are familiar with local procedures, you are ready to serve your tenant with a document called a "notice." The form of notice is specified by the laws of your area covering the type of tenancy (month-to-month tenancy, or tenancy at will, for example) and the reason for eviction. Proper service of this document on the tenant is the first step in the eviction process. In some areas, you do not need to serve notice in cases where the tenant is using your property to conduct illegal activities.

You may be called on to prove both that you served the notice according to the letter of the law and that the tenant received it by the date required. So it's often wise to have the sheriff deliver the notice if possible. In some areas, you may need or wish to use a company which specializes in legal service of papers.

In many locations, you also may have to prove that a copy of the notice was delivered to the court. If this is the case in your area, be sure you obtain written documentation that the court received the copy.

Once the tenant receives the notice, he or she becomes a "tenant at sufferance." From that point on, his or her right to occupy your unit is in the hands of the court.

This does not mean, however, that you can lock the tenant out or forcibly remove him or her. He or she will have the right to remain in the unit until you actually obtain a court order authorizing the eviction.

Step 2: Initiate the eviction proceeding

After serving the notice, and upon the expiration of the applicable number of days set forth in the notice, you may commence an eviction proceeding in court. Consult your local rules to learn the specific requirements in your area. Generally, you will be required to submit a petition or complaint to the court and pay a filing fee. The court will issue a notice or summons demanding that both you and your tenant show up in court at a specified date. The court notice or summons will be accompanied by the petition or complaint. The petition or complaint should state your reasons for initiating the eviction and any amount of money you believe the tenant owes you. Be sure the notice and petition or summons and complaint are served upon the tenant in accordance with local law. If they are not, your case could be delayed or dismissed.

Step 3: Wait for the answer day and filing date

Once the tenant receives the summons and complaint, he or she must respond to the complaint by a date established by the court. The tenant may either concede that your complaint is valid or offer a defense.

When a tenant offers a defense, he or she has the right to a fair hearing, and the court will set a hearing date. Here are some examples of defenses the tenant might offer:

- court papers either were served improperly or listed the tenant by the wrong name;
- you are retaliating against a complaint the tenant made to a government agency or tenant organization; or
- your complaint is not valid.

If your complaint relates to the tenant's failure to pay rent, the tenant's defenses may state the following:

- he or she has already paid all or part of any rent you are demanding;
- he or she withheld the rent because you have not made repairs you are legally required to make;
- you stated an incorrect amount of overdue rent in your complaint;
- because of a previous overcharge, you are demanding more rent than is actually due; or
- you accepted rent after serving the proper papers.

Step 4: Attend the hearing

Once the court has received the tenant's answer and has set a hearing day, it is essential that you show up on time and present your case in a professional, objective manner. If you do not appear in court, the case may be dismissed.

In most places, if your tenant does not appear in court at the appointed time, you are likely to win your case by default. This may not happen if the tenant takes the initiative to show good cause for being absent (by documenting that he or she was hospitalized, for example).

When you appear before the court, it is important to present your facts as objectively as you can. It is usually appropriate to state them in chronological order.

When the tenant speaks, do not interrupt. Make notes if necessary during the tenant's presentation. Then, after he or she has finished, ask the judge if you may respond. When making your comments, be as objective as you can.

Step 5: Get an eviction order

Once a judge rules in your favor, you will receive an Order giving you the right to evict your tenant. You may have to wait for this document until your tenant's appeal period has expired.

Step 6: Enforce the eviction

To enforce the eviction, you may need to hire the sheriff to remove the tenant forcibly from the premises. The sheriff must give the tenant at least the minimum amount of notice local law requires. And when giving notice, the sheriff must name a specific time by which the tenant has to leave.

In most locations, landlords are required to try to store any evicted tenant's belongings that are left outside the house. Laws regarding how, where, or for what duration the items should be stored — and for how the storage should be paid — differ from area to area.

In some places, if the eviction was not due to the tenant's refusal to pay rent, the tenant has the right to ask the court for a Stay of Execution. Such a ruling temporarily blocks your right to evict and gives the tenant more time to contest your complaint. However, while the Stay of Execution is in force, the tenant may still be legally responsible for paying rent to you, depending on local laws.

How evictions affect your maintenance responsibilities

Throughout all steps of an eviction, you must continue to maintain the tenant's unit according to local housing laws and health and safety codes. Doing this is to your advantage as well as your tenant's, as you will want the unit to be in good condition to attract a more desirable tenant. As explained in Chapter 5, taking proper care of your home will probably help to maintain the house's value so you can get the best price for it when you sell it.

After reading this chapter, do you understand:

- How to terminate month-to-month and long-term tenancies?
- What are the steps that you should take upon terminating a tenancy?
- What are the five most common reasons for eviction?
- What two alternatives to eviction sometimes work?
- Where a landlord should originate an eviction?
- What six basic steps most evictions require?
- What technical errors you must avoid to prevent the delay or dismissal of an eviction case?
- Why it's wise to engage the services of an experienced eviction attorney when you must evict a tenant?

Chapter 8: Hiring a Property Manager

Hiring a Property Manager

You may decide to hire a property manager to handle the day-to-day details of managing your business. The property manager's responsibilities may include selecting tenants, maintaining the building, and collecting rent, relieving you of these responsibilities. You will still be responsible for hiring and supervising an employee, filing paperwork with the Internal Revenue Service, and assuming liability for all of the property manager's acts. This chapter suggests certain criteria you can use to help identify a property manager. It also discusses the role of the property manager and laws that you need to follow when taking on a property manager.

Deciding the role of the property manager

Hiring a property manager is one way of freeing yourself of many time-consuming duties associated with being a landlord. When making the decision to hire a property manager, you will need to define the job as you would in hiring someone in any other business. Key considerations would include the following:

- **Responsibilities** – What will be the property manager's responsibilities? You should develop a list of duties that you want the property manager to perform. These duties typically include selecting tenants, resolving day-to-day problems, maintaining the property, and collecting rent.
- **Salary** – How much do you plan to pay the property manager? Will salary be on an hourly basis or will you pay a flat salary? The salary that you pay will depend on the manager's responsibilities, the number of hours worked, and the market rate in your community.
- **Full-time or part-time** – How many hours do you need the manager to work and what hours?
- **Residency** – Will the property manager live on the rental property? Many property managers live on the property, but it's not always a requirement. If the property manager does live on the property, you will need to decide how much rent to charge and, of course, you'll need to have a vacant unit.

As an employer, you will have specific obligations, such as following laws governing minimum wage and overtime. Other obligations will include the following:

- Obtaining a tax identification number for tax purposes. You can obtain an Application for Employer Identification Number from the Internal Revenue Service.
- Having the manager fill out a federal W-4 form (Employee Withholding Allowance Certificate) and deduct federal and state taxes from the manager's payment. You will be required to turn over the withheld funds each quarter to the IRS and the appropriate state tax agency.

- Paying social security and medicare taxes to the IRS on a quarterly basis. This also includes the payment of funds that you deduct from the manager's paycheck.

If you prefer not to handle these administrative matters, you should consider having an accountant perform these responsibilities for you.

How to select a property manager

As in selecting tenants, selecting a property manager is an important decision. You will want to make sure that you choose your candidate carefully. You should hire someone with experience as a property manager who is honest, reliable, and trustworthy. In some states, property managers must hold active real estate licenses. As owner of the building, you could be held liable for the acts of a manager. For example, if your property manager violates Fair Housing Laws or state or local laws, you could be sued. Thus, it is important that your manager is familiar with basic landlord-tenant laws.

You may decide to run an advertisement in your local or community newspaper or you may use an employment agency to find a property manager. When writing an advertisement, remember to stick to the job skills needed and basic responsibilities. You also may be able to identify potential candidates through "word-of-mouth" by talking to friends, relatives, or other landlords. What works best for you may depend on the local area and your particular needs. You may want to screen potential managers over the telephone before setting up an interview.

Conduct the interview

Ask potential managers to bring a current resume with relevant experience and names and phone numbers of three to four references. A face-to-face meeting provides the opportunity to get additional information about a person's experience and background, and to assess the person's personality and style.

Before the interview, you should prepare a list of questions that focus on the applicant's experience and qualifications. Ask everyone the same questions and don't ask personal questions or questions that are not clearly related to the job. Following are some examples of questions that you might ask candidates:

- Tell me about your previous jobs managing rental properties.
- How much experience do you have collecting rents? Doing general repairs? Keeping records of tenants' complaints of repair problems?
- What have you liked most about previous manager jobs? What have you liked least?
- What kinds of problems have you encountered as property manager? How did you resolve them?
- Why are you interested in this job?

Even if the candidate appears to meet all of the qualifications for the job, hold off on making the offer until you have had the chance to check references. Be sure that the applicant signs a written form authorizing you to check credit history and references.

Check references

No matter how wonderful someone appears in person or on paper, it's essential that you check references. Be sure to check the following sources:

- **Employment** – You should talk to at least two former employers or supervisors with whom the applicant held similar positions. Again, you may want to make a list of questions to ask prior to making the call. Ask about the applicant's previous job responsibilities, character and personality traits, strengths and weaknesses, and reasons for leaving the job. Ask follow-up questions for information that may appear to be in conflict with the applicant's resume or information from the interview. If you sense that the employer is not being forthright, you should follow-up with more specific questions.

- **Credit history and background** – Checking an individual's credit history is especially important if you want a manager to handle money. A prospective manager with sloppy personal finances is probably not a good choice for managing rental property. Before you order a credit report, be sure you get the applicant's consent. You also may wish to ask a credit bureau to do a background report. Investigators will talk to friends, neighbors, and employers to get information about the applicant's character, reputation and lifestyle. If you decide to order a background report, you must inform the applicants in writing within three days of your requesting the report; include a statement of the applicant's right to make a written request— to you or the credit agency — for a description of the nature and scope of the investigation you have requested; and provide that description within five days of receiving the applicant's request.

- **Criminal and driving record** – A property manager occupies a position of trust, often having access to tenants' apartments as well as to your money. It's essential that the manager not present a danger to tenants. You may want to check an applicant's criminal history, which is sometimes included in credit reports. You should be able to obtain information on obtaining and using information on arrest and conviction records when making employment decisions from your state agency office or local library. You may want to consider obtaining an insurance bond to protect against employee theft. *The Employer's Legal Handbook* published by Nolo also includes information on using information from criminal and driving records.

Make the offer

Once you make your decision, you are now ready to make an offer. When making the offer, be prepared to negotiate some terms with the applicant, such as hours, start dates, salary, etc. In such an instance, you and the applicant must arrive at mutually agreeable terms. Once all terms and conditions of employment are mutually agreed on, you and the manager should complete a Property Manager Agreement, which covers the manager's responsibilities, hours and pay, and a termination clause.

As a common courtesy, you should inform unsuccessful applicants that you have hired someone else for the job. If your rejection is based on information in a credit report, you must comply with the Fair Credit Reporting Act and include the following information:

- the name, address and phone number of the credit bureau you used;
- a statement that the credit bureau did not make the rejection decision and cannot provide the reasons for the rejection;
- a statement of the applicant's right to obtain a free copy of the report from the credit bureau if he requests it within 60 days of rejection; and
- a statement telling the applicant that he can dispute the accuracy of the report as provided by Section 1681 of the Fair Credit Reporting Act.

After reading this chapter, do you understand:

- What the criteria are for selecting a property manager?
- What information you should review before hiring a property manager?
- Your responsibilities and obligations as an employer?
- What information should be included in a Property Manager Agreement?

Chapter 9: Earning Your Certificate of Achievement

Earning Your Certificate of Achievement

Sometimes getting a mortgage for the type of home you're buying requires that you earn a Certificate of Achievement to show that you understand the basic principles involved in being a landlord. This chapter explains who needs to earn the Certificate and offers tips and instructions for completing the Self-Study Exercise in this book that can qualify you for obtaining your Certificate.

What the Certificate of Achievement means for you

When your lender or home-buying counselor signs your Certificate of Achievement acknowledging that you have demonstrated a clear understanding of the concepts discussed in this book, you will have completed the first step toward becoming a successful landlord — developing a practical knowledge of the landlord business. Your Certificate will state that you have completed all the questions in the Self-Study Exercise at the back of this book to the satisfaction of your lender or home-buying counselor. And with the level of knowledge your Certificate shows you have achieved, you will be able to begin life as a landlord with confidence as soon as you obtain your mortgage and complete the purchase of your new home. Earning a Certificate of Achievement, however, does not necessarily mean that your mortgage loan application will be approved by your lender.

Who should complete the Self-Study Exercise

You will find a Self-Study Exercise in the back of this book. This Self-Study Exercise was designed to give you an opportunity to review the material you have read and demonstrate your understanding of it.

While anyone who reads this book should find the Self-Study Exercise a useful tool, the only people who are required to complete it are those who need a Certificate of Achievement signed by their lenders or a home-buying counselor in order to qualify for mortgage loans. If the lender or home-buying counselor who gave you this book instructed you to complete the Exercise, you should proceed according to the instructions that follow. If you are not sure whether you are required to complete the Exercise, you should contact your lender right away.

How to complete the Self-Study Exercise

As you will see, many of the questions in the Self-Study Exercise require more than just one answer. All the questions cover significant points made in this book.

To get the most out of the Self-Study Exercise, try to give answers that pertain directly to your own personal situation whenever you can. Many of the questions are worded to encourage you to think about how the standard issues covered in the book apply to you.

Consider this an "open book" exercise

The purpose for the Self-Study Exercise is to make sure you understand what you need to know before becoming a landlord. If there are any facts or concepts that you're still not sure about, you are encouraged to look them up in the first eight chapters of this guide while you are working on the Exercise. You should not, however, look for answers in other books or other information sources. The lender or home-buying counselor who signs your Certificate of Achievement is required to do so based on your demonstrating that you understand the information in this guide.

Answer *all* the questions

To earn your Certificate, it is important that you answer all parts of all the questions in the Self-Study Exercise. If you are not sure that you know the answer to a question and cannot find the answer in the guide, try to answer based on your general understanding of what you've read.

Where you should submit your completed Self-Study Exercise

When your lender or home-buying counselor gave you this guide, he or she should have told you whether you are required to complete the Self-Study Exercise. Your lender or home-buying counselor also should have explained where and how you should submit the Exercise once you've completed it. If you did not receive this information, or cannot remember it, contact your lender to be sure the Exercise is delivered to the proper place. This will help to avoid delays in the approval of your mortgage loan.

When will you receive your Certificate

Before you can receive your signed Certificate, someone from the lending institution or the home-buying counselor will look over your completed Exercise. He or she will make sure that you have answered all the questions and will determine whether your answers are accurate. If necessary, they may ask to discuss some of the answers with you before signing your Certificate.

Once the Certificate is signed, your lender or home-buying counselor will give it to you immediately, whether your loan has been approved at that point or not. Keep the Certificate with your other important documents. If you should at any time apply for another loan on a rental property of the type described in this guide, your Certificate will serve as official documentation that you have successfully completed the Self-Study Exercise.

Good luck!

Your understanding of the responsibilities that go along with being a landlord should help you maximize the rewards available to you. Good luck in finding excellent tenants, managing your property efficiently, maintaining your property's value, and enjoying your new tax advantages!

Worksheets and Checklists

Monthly Rental Rate Calculator

1. Mortgage Payment	$____________________
2. Property Taxes	$____________________
3. Insurance	$____________________
4. Maintenance	$____________________
5. Repair Reserve	$____________________
6. Utilities	$____________________
7. Administrative Costs	$____________________
8. Other Debt or Reserves	$____________________
9. Vacancy Reserve	$____________________
10. Return on Investment	$____________________
11. TOTAL LINES 1-10	$____________________
12. Divide Line 11 by number of rental units to obtain average rental per unit	$____________________

Explanation of terms

1. **Mortgage Paymen**t. This is the amount of principal and interest due each month for your mortgage. If your monthly mortgage payment includes amounts for property taxes and insurance, include the amounts on this line item.

2. **Property Taxes**. This is the amount of your annual taxes. If you pay taxes semiannually, you should include the amount for both payments. Once this amount is determined, divide by 12 to determine the monthly amount. Check to determine whether your taxes are included in your monthly mortgage payment; if they are, leave this line blank.

3. **Insurance**. This includes both the property insurance and any mortgage insurance you may be required to pay as part of your mortgage payment. Once this amount is determined, divide by 12 to determine the monthly amount.

Check to determine whether an amount for insurance is included in your monthly mortgage payment; if it is, you should leave this line blank.

4. **Maintenance**. Consider the amount that you will have to pay for trash removal, yard work, snow removal, etc. each month.

5. **Repair Reserve**. This is the money you will need to set aside for capital expenditures and unexpected repairs; things like the roof, plumbing and heating system, or exterior painting. Consider the age of the building and what will need to be done over the next few years. One approach is to determine the average life of the items and take into account the estimated remaining life of the item and the cost to repair or replace it. Divide by 12 to determine the monthly amount.

6. **Utilities**. Remember that rents are usually set for a year at a time. Consider whether there are rate hikes pending for gas, electric, water, or sewer service.

7. **Administrative Costs**. Consider the monthly costs of advertising, accounting or legal services, copying, stationery, or any other administrative expenses that you will incur.

8. **Other Debts**. Consider whether you plan to do rehab work or other improvements and use the projected costs for these items. Divide these costs by 12 to determine the monthly costs.

9. **Vacancy Reserve**. You will need to calculate a reserve for those times when a unit is empty. Your expenses will go on, whether you're getting rent or not, so you'll need to factor in a little to cover these times. A typical vacancy reserve is 5 percent.

   Here's a way to calculate vacancy losses:
   a. multiply the number of units by 12 to get number of unit months
   b. multiply number of unit's month by vacancy reserve by average rent to get the amount of money lost through vacancy per year. You may use either the average rent from the appraisal or obtain an estimate from the previous landlord.
   c. divide by 12 to get monthly reserve required for vacancy

10. **Return on Investment.** You may want to discuss this figure with your accountant. The calculation of your percentage of return on your investment should include calculations for your equity in the building and the advantages you receive in federal tax deductions. Generally, a return of 5-8 percent would be considered a good return on investment. Once this number is determined, divide it by 12 to provide your monthly investment return.

11. Total your category sums.

12. Divide by the number of rental units.

Do a market survey to determine if what you plan to charge is comparable to other rents in your neighborhood. If your rents are lower than the area, you may choose to make an upward adjustment. If your rents are higher, however, you will need to look at ways to decrease your costs to make your property more marketable.

Seasonal Home Maintenance Checklist

Fall checklist

Outside

- ❒ Check all weather stripping and caulking around windows and doors; replace or repair as needed.
- ❒ Check for cracks and holes in house siding; fill with caulking as necessary.
- ❒ Remove window air conditioners or put weatherproof covers on them.
- ❒ Take down screens (if removable type); clean and store them.
- ❒ Drain outside faucets.
- ❒ Clean gutters and drain pipes so they won't be clogged with leaves.
- ❒ Check roof for leaks; repair as necessary.
- ❒ Check flashing around vents, skylights, and chimney for leaks.
- ❒ Check chimney for damaged chimney caps and loose or missing mortar.
- ❒ Check chimney flue; clean obstructions; make sure damper closes tightly.

Inside

- ❒ Check insulation wherever possible; replace or add as necessary.
- ❒ Have heating system and heat pump serviced; change or clean filters on furnace.
- ❒ Drain hot water heater and remove sediment from bottom of tank; clean burner surfaces; adjust burners.
- ❒ Check all faucets for leaks; replace washers if necessary.
- ❒ Check and clean humidifier in accordance with manufacturer's instructions.
- ❒ Clean refrigerator coils.

Spring checklist

Outside

- ❒ Check all weather stripping and caulking around windows and doors, especially if you have air-conditioning.
- ❒ Check outside house for cracked or peeled paint; caulk and repaint as necessary.
- ❒ Remove, clean, and store storm windows (if removable type).
- ❒ Check all door and window screens; patch or replace as needed; put screens up (if removable type).

Inside

- ❒ Replace filters on air conditioners.
- ❒ Check and clean dryer vent, stove hood, and room fans; change or clean filters on furnace.
- ❒ Check seals on refrigerator and freezer; clean refrigerator coils; clean burner surfaces; adjust burners.
- ❒ Clean fireplace; leave damper open for improved ventilation if home is not air conditioned.
- ❒ Check basement walls and floors for dampness; if too moist, remedy as appropriate.
- ❒ Clean dehumidifier according to manufacturer's instructions.
- ❒ Check for leaky faucets; replace washers as necessary.
- ❒ Check attic for proper ventilation; open vents.
- ❒ Clean drapes and blinds; repair as needed.

Operating Budget for Rental Property

See Chapter 6 for detailed instructions.

Section 1: Monthly Rental Income

Monthly rent from: _____ + _____ + _____ = ____________________

UNIT 1 UNIT 2 UNIT 3 TOTAL MONTHLY RENTAL INCOME

Section 2: Expenses and Cash Reserves

	Annual Expense/12	= Monthly Reserves
1. Mortgage, Taxes, and Fees		
Mortgage Payment	______	______
Real Estate Taxes	______	______
Personal Property Taxes	______	______
2. Insurance		
Homeowners	______	______
Mortgage Credit Life	______	______
Loss of Rentals	______	______
3. Utilities		
Electricity	______	______
Gas	______	______
Fuel Oil	______	______
Water		
Sewerage	______	______
4. Maintenance		
Repairs and Routine Maintenance	______	______
5. Major Improvements		
Air Conditioning	______	______
Heating System	______	______
Appliances	______	______
Siding	______	______
______	______	______
______	______	______

	Annual Expense/12 =	Monthly Reserves
6. Vacancy Reserves		
Rental Reserve	______________	______________
Advertising Reserve	______________	______________
7. Professional Services		
Attorney	______________	______________
Accountant	______________	______________
8. Other		
______________________	______________	______________
______________________	______________	______________
Total	______________	______________

Section 3. Income/Expense Comparison

A. Total monthly rental income
(from Section 1, Income) A. $______________

B. Total monthly reserves
(from Section 2, Expenses and Cash Reserves B. $______________

C. Difference C. $______________

Note: 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, After Home Purchase, item 13, Household Operations.

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

Monthly Personal Spending Planner

See Chapter 6 for detailed instructions.

Section 1. Income

Monthly Income: Include child support, alimony, foster care, unemployment compensation, Social Security, seasonal employment income, commission income.
Paycheck ________ + *Paycheck* ________ + *Other* __________ = __________ *Total Income*

Section 2: Expenses

Expense	**Monthly Expenses**
1. Housing	
Mortgage	________
Real Estate Taxes	________
Personal Property Taxes	________
2. Installment Loans	
Automobile(s)	________
Furniture/Appliances	________
Installment	________
3. Revolving Credit	
VISA	________
MasterCard	________
________________	________
________________	________
________________	________
4. Utilities	
Electricity	________
Gas	________
Fuel Oil	________
Telephone	________
Water Sewerage/Garbage	________
5. Insurance	
Automobile	________
Health	________
Life	________
Dental	________
Disability	________
Homeowners	________
Other	________

Section 2: Expenses (continued)

Expense	Monthly Expenses
Items 1-5 Subtotal	________
6. Spousal/Child Care	
Alimony/Child Support	________
Child Care	________
School Fees/Tuition	________
7. Donations	
Church	________
Charity	________
Subtotal	________
8. Dues	
Union	________
Organizations	________
9. Medical (not covered by insurance)	
Doctor/Dentist	________
Drugs	________
Hospital	________
10. Transportation	
Gasoline	________
Maintenance	________
Parking	________
Public Transportation	________
11. Food	
Groceries	________
School/Work Lunches	________
12. Clothing	
New Clothes	________
Dry Cleaning/Laundry	________
Uniforms/Required Items	________
Personal Care	________
13. Household Operations	
Repairs/Maintenance	________
________	________
________	________
14. Major Improvements	
Air Conditioning	________
Heating System	________
Appliances	________
Siding	________
________	________
________	________

Section 2: Expenses (continued)

Expense	Monthly Expenses
Items 1-14 Subtotal	______________
15. Professional Services	
Attorney	______________
Accountant	______________
16. Miscellaneous	
Clubs/Sports/Hobbies	______________
Entertainment (Eating out, movies, etc.)	______________
Vacation	______________
Gifts	______________
Cable TV	______________
Other	______________
17. Savings	
Regular Savings	______________
Holiday Account	______________
College Fund	______________
Retirement Fund	______________
Total	______________

Section 3: Income/Expense Comparison

Total net income (from Section 1, Income) $______________

Total expenses (from Section 2, Expenses) $______________

Note: If your Monthly Net Income is greater than your Monthly Expense total, congratulations! You are now ready to start setting goals. You may want to setup some short-terms goals (perhaps a home improvement or a vacation) and long-term goals (such as saving for your children's college education or retirement).

If your Monthly Net Income is less than your Monthly Expense total, you need to examine your expenses for opportunities to cut back.

Some expenses are fixed (the amount cannot be changed, such as the mortgage or car payment), while others are discretionary (you decide how much to spend in these areas — for example, entertainment). You should divide your expenses into two lists — fixed and discretionary, to determine which discretionary items can be reduced or eliminated.

Life Expectancy of Appliances

Appliance	Life in Years
Dishwasher	**10**
Standard Freezer	**16**
Automatic Washer	**13**
Dryer	**14**
Built-in Electric Range	**17**
Built-in Gas Range	**14**
Central Air-conditioning Unit	**15**
Water Heater, Gas	**11/13**
Water Heater, Electric	**14**

Source: National Association of Home Builders (NAHB)

Self-Study Exercise

See Chapter 9 for detailed instructions.

Instructions

Before completing this Self-Study Exercise, please detach it from your book.

Before answering the questions, be sure to fill in your full name, the name of your loan officer, and the name of your lending institution on the first page of the questions ***and*** print your name at the top of ***all*** the pages.

Since this Self-Study Exercise is based entirely on information in this guide, *Becoming a Landlord*, you should complete it only after you have read the guide in its entirety.

Read ***all*** of the following instructions carefully before beginning:

- This Self-Study Exercise is an ***open book*** exercise. That means that as you complete it, you may look for answers in the guide *Becoming a Landlord* if you wish. The questions are organized by chapter to help you do this.
- Do not use sources other than this guide for answers. The Self-Study Exercise is designed to give you an opportunity to show your understanding of the material in *this* guide.
- To earn your Certificate of Achievement, you must answer **all** the questions correctly.
- Always answer questions completely. When a question asks you to give more than one answer, be sure to respond with the number of items requested. Partial answers do not count toward your successful completion of the Self-Study Exercise.
- Check over your answers before turning in the Self-Study Exercise.

If you are required to take this Self-Study Exercise to meet home buyer education requirements, please submit the completed form to your loan officer. If you have questions, please call your loan officer and follow his or her instructions.

PRINT **YOUR FULL NAME**

PRINT THE NAME OF **YOUR LENDING INSTITUTION**

PRINT THE NAME OF **YOUR LOAN OFFICER** (or other contact within the lending Institution)

Questions

Chapter 1: Making the decision

1) What are two advantages of owning a small rental property?
1. ______
2. ______

2) What are two drawbacks of owning a small rental property?
1. ______
2. ______

Chapter 2: Finding reliable tenants

1) Two federal laws prohibit discrimination in selecting tenants. List three factors on which you may NOT base your tenant selection according to these laws.
1. ______
2. ______
3. ______

2) What are three ways you can avoid discriminating against any group during the process of selecting tenants?
1. ______
2. ______
3. ______

3) What are three ways to find out whether someone who wants to rent one of your units is able to pay the rent?
1. ______
2. ______
3. ______

4) What are three valid reasons for turning down someone who wants to be your tenant?
1. ______
2. ______
3. ______

Chapter 3: Taking care of business

1) What are two important things to consider when you decide how much rent to charge?
1. ______
2. ______

PRINT **YOUR FULL NAME** ______________________________

2) What are the three basic things a tenant has the right to expect regarding the condition of your rental unit?
1. ______________________________
2. ______________________________
3. ______________________________

3) What are two sources of help available to you when you create a lease?
1. ______________________________
2. ______________________________

4) What are four things you can require of tenants?
1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

Chapter 4: Getting the tenant moved in

1) What are two important steps that you can take to establish a relationship with your tenants?
1. ______________________________
2. ______________________________

2) What are the three items that you will want to include in your records for each of your tenants?
1. ______________________________
2. ______________________________
3. ______________________________

Chapter 5: Maintaining your property

1) Where can you get information about local health and safety codes?

____

____

____

2) What are four steps that should be part of your repair and maintenance process?
1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

Chapter 6: Taking care of your financial responsibilities

1) How often should you create a new budget?

____

2) What are three different items you need to include in your budget?
1. ______________________________
2. ______________________________
3. ______________________________

PRINT **YOUR FULL NAME** ______________________________

3) What are two types of insurance you should consider purchasing as a landlord?
1. ______________________________
2. ______________________________

4) Where can you get official detailed information regarding tax advantages for landlords?

____

5) Why is it important to keep copies of leases for tax purposes?

____
____
____

6) What are two types of expenses for which you should keep receipts?
1. ______________________________
2. ______________________________

7) What are three ways an experienced tax accountant can help you to prepare your tax returns once you've become a landlord?
1. ______________________________
2. ______________________________
3. ______________________________

8) What single factor — other than the price you sell your home for and the price you originally paid for it — will the IRS consider when calculating your profit on the sale of your home?

____
____
____

Chapter 7: Ending tenancies

1) What does an eviction enable you to do?

____
____
____

2) What are four of the most common reasons for eviction?
1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

3) What are two alternatives you might try before evicting a tenant?
1. ______________________________
2. ______________________________

PRINT **YOUR FULL NAME**

4) What can happen if you do not follow every step of an eviction to the letter of the law?

5) What should you do if your tenant won't move out of your unit after you've won an eviction ruling?

General: Questions on your personal situation

1) For you personally, what will be the biggest (a) reward, (b) risk, and (c) responsibility of becoming a landlord?

a. __________

b. __________

c. __________

2) What are two types of responsibilities you plan to hire professionals to help you with once you've become a landlord?

1. __________
2. __________

3) What are two types of responsibilities you plan to take on yourself once you've become a landlord?

1. __________
2. __________

Certificate of Achievement

Awarded to

For the Successful Completion of Fannie Mae's

Becoming a Landlord Course

Loan Officer Date

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