

The check is on the Internet

# Payment Tipping Point

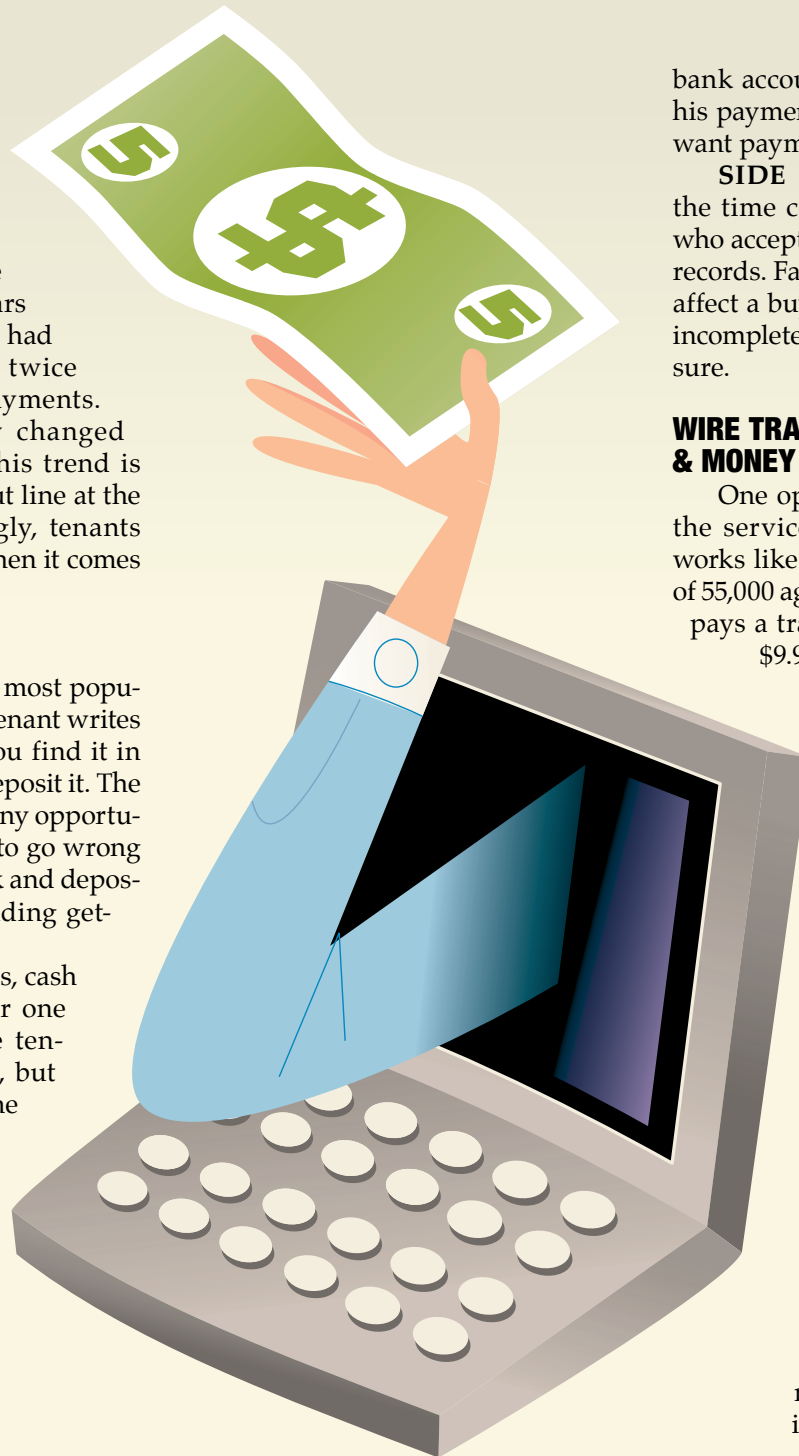
By Teresa Bitler

In 2003, electronic payments exceeded check payments in the U.S. for the first time, according to the Federal Reserve. Three years later, electronic payments had increased to more than twice the number of check payments. Americans have clearly changed the way they pay, and this trend is not limited to the checkout line at the grocery store. Increasingly, tenants are looking for options when it comes time to pay the rent.

## TRADITIONAL METHODS

Checks are one of the most popular ways to pay rent. The tenant writes his check and mails it; you find it in the mail, process it, and deposit it. The problem is there are so many opportunities for so many things to go wrong between writing the check and depositing it in the bank, including getting lost.

In some tenants' minds, cash is a good alternative. For one reason or another, some tenants deal strictly in cash, but the drawbacks for you, the landlord, are obvious. Cash can't safely be mailed, which means it has to be delivered in person. That's inconvenient for you and the tenant, especially if you are going to do it every month. If a tenant doesn't have a



bank account or doesn't trust making his payment by check, he will need or want payment options.

**SIDE NOTE** — Be aware when the time comes to sell that landlords who accept cash must keep scrupulous records. Failing to do so can negatively affect a buyer's ability to get a loan on incomplete rent roll accounting disclosure.

## WIRE TRANSFERS & MONEY ORDERS

One option is a wire transfer, like the service Western Union offers. It works like this: the tenant goes to one of 55,000 agent locations in the U.S. and pays a transfer fee of approximately \$9.99 (the fee varies depending on where the money

is sent from, where it is sent to, and how much is being sent). He then is able to pay cash or, at many locations, use a debit card to transfer money to you instantly at another agent location.

"It's quick, convenient and reliable," said Kristin Kelly with Western Union. "Agents are located in grocery stores, convenience stores, and places where you're already going to be."

The process for a money order is similar. The tenant would bring cash to an agent location, and for a nominal fee, the agent would issue a money order, which

## PROPERTY MANAGEMENT COMPANIES REMOVE PAYMENT HEADACHES

Receiving rent payments is time consuming. Even if the tenant mails you a check every month before its due date, you still need to process and deposit that check. When you consider other possible weirdness — insufficient funds, lost checks and money orders, requests for alternative payment methods — sometimes it may seem like more hassle than it's worth.

Property management companies take the headache out of rental payments. "When it comes to rent, whatever the problem, the property manager deals with it," said Duane Hamilton of H & H Properties. "The landlord just gets a statement each month, and the money is deposited in their account."

Hamilton adds that with a property management company, if the payment is late, the property manager, not the landlord, follows up. The manager also deals with other payment issues, like requests to pay rent online or send payments by FedEx.

"Utilizing the right property manager takes all the headaches out of property management for the landlord, not just when it comes to collecting the rent," he said. "We have leasing agents, repairmen and landscapers we work with. We're here to make having properties easier for landlords."

Other regional or national property management companies that do this are Brewer Caldwell, GoRenter and Bennett (AZ), MemphisInvest (TN) or Retirement-Rentals (NC.) Nationally, Real Property Management is an ideal alternative.

the tenant could then send as payment. If the money order were to get lost in the mail, the tenant could call Western Union with the money order number and Western Union would follow up.

Western Union does have other payment options like online, telephone and mobile-to-mobile money transfers, but these are not available in the U.S. at this time. Kelly expects that at some point, Western Union will make them available. If it does, it could give tenants additional options.

### ONLINE PAYMENTS

While wire transfers and money orders may give your tenant more options, they certainly don't make life easier for you. In most cases, you'll still have to go somewhere to pick up the money, and you'll have to deposit it. Online payments let you collect rent wherever you can get an Internet connection. There are several ways you can have your tenant pay online, but PayPal is an online payment service that most people have at least heard of, if they haven't already used it.

"If someone wants to make an online payment, PayPal is one of the easiest and safest ways to do it," said Michael Oldenburg of PayPal. He adds that he has even used it to pay his own rent.

Oldenburg said that as a landlord, you can do one of two things. The first is you can create a business account on PayPal and send out an invoice to your tenant every month when rent is due. The e-mail would include a button that would bring them online for payment. They could pay using a credit card, bank account, or their own PayPal account.

Or, the tenant can log in to his own PayPal account, select the send money option, enter your email address and pay you from his credit card, bank account or PayPal account. Either way, account information remains secure. You won't see the tenant's financial information, and he won't see yours.

"PayPal also works really well with vacation rentals," Oldenburg added.

There are many rental management packages, like Renttropolis, that have online rental payment and merchant facility as features.

### AUTOPAYMENT BY DIRECT DEPOSIT

An online service like PayPal works well when you have one or two tenants who want to pay online. The more tenants you have, though, the more complicated things get because it's manual.

Direct deposits put rent collection on autopilot. Instead of waiting for your tenant to pay online, you arrange with your tenant to have the rent automatically withdrawn from his account each month and directly deposited into your property's account. For the do-it-yourself landlord, with a few properties and limited resources, it's easier said than done because the process is more complicated than moving funds from one account to another.

Before funds are transferred from the tenant's account to the property's account, they need to be verified and deemed "good." In other words, there needs to be confirmation that the tenant's account is open and that sufficient funds are available. This is done through the Automated Clearing House payment network.

As a landlord, you can transfer your funds through the ACH payment network yourself, but you need to partner with a bank that can process ACH transactions from tenants. The bank will set up an ACH account, purchase or lease the software necessary to create ACH files and learn how to transmit files to the network, all while complying with federal regulations governing ACH transactions.

"You can do it yourself, but it's very complicated," said Ryowon Kim with ClearNow, an online service specializing in direct rent deposits. "The bank you are working with isn't really going to help you if you have questions, and

they won't do a lot of handholding." It is possible to have funds automatically withdrawn and directly deposited into your property's account, Kim said, but you will most likely need the help of a company like ClearNow. The process is very simple. The landlord enrolls first by completing a one-page authorization and providing a voided check for the property's account. The tenant then also completes a one-page authorization and provides a voided check. Usually, if all necessary information is provided, the transaction should be set up within one to two business days (although it's recommended that all

paperwork be submitted at least two weeks before the date of the first withdrawal).

Once set up, rent payments are made automatically every month. Cost is \$14.95 to establish one ClearNow account. You need one account for each landlord bank account. If you are going to receive multiple deposits in one account, it's an extra \$2 per transaction fee. Additional ClearNow accounts cost \$7.95. There are no start-up fees and no contractual time obligations.

Kim points out that even though funds are being automatically with-

drawn, there is no guarantee that landlords will receive their rent payment. "Tenants need to have sufficient funds in their bank account to make the payment."

## OTHER OPTIONS

When it comes to rent payments, there are so many options and variations that it's impossible to touch on every service and resource available. That's good news, though, because whatever the needs of you and your tenant are, you'll be able to find the right solution. It's just going to take the time to do some research. ■



## RESOURCES

Bank of America  
[www.bankofamerica.com](http://www.bankofamerica.com)

Bennett Property Management  
[www.bennett2r480-969-1818](http://www.bennett2r480-969-1818)

Brewer Caldwell Property Management  
[www.brewercaldwell.com](http://www.brewercaldwell.com)  
480-834-9200

ClearNow, Inc.  
[www.clearnow.com](http://www.clearnow.com)  
866-882-5327

Federal Reserve  
[www.federalreserve.gov](http://www.federalreserve.gov)

GoRenter  
[www.gorenter.com](http://www.gorenter.com)  
602-512-8300

Duane or Craig Hamilton  
H & H Properties, LLC  
[www.idealhomeincomeproperties.com](http://www.idealhomeincomeproperties.com)  
208-388-3900

MemphisInvest  
[www.memphisinvest.com](http://www.memphisinvest.com)  
901-871-9029

NACHA – The Electronic Payments Association  
[www.nacha.org](http://www.nacha.org)  
[www.electronicpayments.org](http://www.electronicpayments.org)  
703-561-1100

NewWard Development LLC  
[Rentropolis.com](http://Rentropolis.com)  
518-899-5855

PayPal  
[www.paypal.com](http://www.paypal.com)

Real Property Management  
[www.realpropertymgt.com](http://www.realpropertymgt.com)  
801-546-4200

Retire on Rentals  
[www.retireonrentals.com](http://www.retireonrentals.com)  
866-747-7667

Service First Solutions  
[www.svcfirst.com](http://www.svcfirst.com)  
866-982-4400

Western Union  
[www.westernunion.com](http://www.westernunion.com)  
800-325-6000