

**INVESTMENT**

**OWNER'S**

**GUIDE**

For Landlords and Property Managers

How to Successfully Manage  
Rental Houses in Kentucky

THIS DOCUMENT HAS BEEN APPROVED BY THE  
KENTUCKY REAL ESTATE COMMISSION FOR  
RESIDENTIAL REAL ESTATE TRANSACTIONS

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## Important Telephone Numbers

Appraisers' Board (Lexington)	(859) 543-8943
Auctioneers' Board (Louisville)	(502) 429-7145
FBI (Clarksburg, W. VA.)	(304) 625-2000
KY Association of Realtors (Lexington)	(859) 263-7377 1-800-264-2185
KY Real Estate Education Foundation (KREEF) (Lexington)	(859) 263-7948 1-800-815-3977
KY Home Inspectors (Frankfort)	(502) 573-0364
KY Human Rights Commission (Louisville)	(502) 595-4024 1-800-292-5566
KY Real Estate Commission (Louisville)	(502) 429-7250 1-888-373-3300
Louisville Apartment Association	(502) 426-6140
Lead-Based Paint Info	1-800-424-LEAD
Manufactured Housing (Frankfort)	(502) 564-3626
Mortgage Brokers (Frankfort)	(502) 573-3390
National Assn. of Realtors	1-800-874-6500
RISC Insurance (E &O Carrier)	(502) 897-1876 1-800-637-7319
State Gov't Info Operator (Frankfort)	(502) 564-3130



THIS FORM HAS BEEN APPROVED BY THE  
KENTUCKY REAL ESTATE COMMISSION

### TENANT MOVE-IN & MOVE-OUT CONDITION INSPECTION REPORT

RESIDENT NAME(S):			
ADDRESS	CITY	STATE	ZIP
			PHONE
MOVE-IN DATE			
MOVE-IN DATE	INSPECTION DATE	TIME	
MOVE-OUT DATE	INSPECTION DATE	TIME	

CONDITION CODES:			
✓ – Good	F – Fair	P – Poor	M – Missing
D – Damaged	S – Scratched	B – Broken	DT – Dirty
ST – Stained	NP – Needs Painting		

		<b>MOVE-IN CONDITION</b> <i>(Insert Condition Code &amp; Any Comments)</i>	<b>MOVE- OUT CONDITION</b> <i>(Insert Condition Code &amp; Any Comments)</i>
<b>ENTRY</b>	Walls & Trim		
	Ceilings		
	Closets		
	Windows		
	Blinds/Screens		
	Lighting Fixtures		
	Electrical Outlets		
	Flooring		
<b>KITCHEN</b>	Walls & Trim		
	Ceiling		
	Flooring		
	Countertops		
	Cabinets and Doors		
	Stove & Oven		
	Sink/Faucet		
	Refrigerator		
	Closets/Pantry		

	Dishwasher		
	Lighting Fixtures		
	Windows		
	Blinds/Screens		
	Electrical Outlets		
	Door(s)		
<b>LIVING ROOM</b>	Ceiling		
	Walls & Trim		
	Flooring		
	Fireplace		
	Electrical Outlets		
	Cable Adapter		
	Closet(s)		
	Lighting Fixtures		
	Windows		
	Blinds/Screens		
<b>DINING ROOM</b>	Ceiling		
	Walls & Trim		
	Flooring		
	Lighting Fixtures		
	Electrical Outlets		
	Windows		
	Screens/Blinds		
<b>BATHROOM #1</b>	Ceiling		
	Walls & Trim		
	Flooring		
	Sink(s)		
	Tub/Shower		
	Toilet		
	Cabinets and Mirror		
	Closet(s)		

	Door(s)		
	Lighting Fixtures		
	Electrical Outlets		
	Windows		
	Screens/Blinds		
<b>BATHROOM #2</b>	Ceiling		
	Walls & Trim		
	Flooring		
	Sink(s)		
	Tub/Shower		
	Toilet		
	Cabinets and Mirror		
	Closet(s)		
	Door(s)		
	Lighting Fixtures		
	Electrical Outlets		
	Windows		
	Screens/Blinds		
	<b>MASTER BEDROOM</b>	Ceiling	
Walls & Trim			
Flooring			
Closet(s)			
Door(s)			
Lighting Fixtures			
Electrical Outlets			
Windows			
Screens/Blinds			
<b>BEDROOM #2</b>		Ceiling	
	Walls & Trim		
	Flooring		
	Closet(s)		

	Door(s)		
	Lighting Fixtures		
	Electrical Outlets		
	Windows		
	Screens/Blinds		
<b>BEDROOM #3</b>	Ceiling		
	Walls & Trim		
	Flooring		
	Closet(s)		
	Door(s)		
	Lighting Fixtures		
	Electrical Outlets		
	Windows		
	Screens/Blinds		
<b>EXTERIOR</b>	Front & Rear Entrances		
	Patio		
	Garbage Containers		
	Walls		
	Door(s)		
	Lighting Fixtures		
	Electrical Outlets		
<b>GARAGE OR PARKING AREA</b>	Flooring		
	Walls		
	Ceiling		
	Electrical Outlets		
	Lighting Fixtures		



<b>BASEMENT</b>	Stairs/Stairwell		
	Walls & Trim		
	Flooring		
	Windows		
	Screens/Blinds		
	Lighting Fixtures		
	Electrical Outlets		
<b>MECHANICAL</b>	Air Conditioner		
	Furnace		
	Water Heater		
	Plumbing		
	Keys/Remotes		

Comments:

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We (Tenants) acknowledge that the above is an accurate assessment of the Move-In condition of the Property as of the date signed and further understand that we are liable for any damages exceeding the security deposit for which we are responsible pursuant to the Lease Agreement.

\_\_\_\_\_  
 Tenant Signature: Move-In Date

\_\_\_\_\_  
 Tenant Signature: Move-Out Date

Tenant's Forwarding Address:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

This Condition Inspection Report is also available on our website under our Licensee Restricted Documents and Forms: <http://www.krec.ky.gov>.

This Form Has Been Approved By The Kentucky Real Estate Commission  
(This is a Legally Binding Contract. If you do not fully understand the terms of this contract, contact an attorney.)

**SAMPLE RESIDENTIAL LEASE  
(KREC)**

**PARTIES**

Landlord: \_\_\_\_\_  
(print name)

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Tenant(s): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(print name(s))

1. **PREMISES.** Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord the premises located at \_\_\_\_\_, Kentucky \_\_\_\_\_.

2. **TERM.** The Term of this Lease will begin on \_\_\_\_\_, 20\_\_, and end on \_\_\_\_\_, 20\_\_. This Lease shall not automatically renew or convert to a month-to-month tenancy. Either party may terminate this lease upon thirty (30) days prior written notice to the other party.

3. **SECURITY DEPOSIT.** Upon the execution of this Lease, Tenant shall pay to Landlord a security deposit in the amount of \$\_\_\_\_\_ to be held as security for the payment of rent and the faithful performance by Tenant of all of its obligations in the Lease.

Landlord may use the security deposit to repair any damage to the Premises caused by Tenant or its guests, and to clean the Premises upon termination of this Lease. The security deposit shall be held and applied as provided by the laws of Kentucky. The security deposit shall be placed in the \_\_\_\_\_ (insert bank name) Bank in bank account # \_\_\_\_\_ (insert bank account number pursuant to KRS 383.580). If Tenant fully performs its obligations hereunder, the security deposit, or balance, shall promptly be returned to Tenant after the termination of this Lease.

4. **RENT.** Tenant agree to pay Landlord rental payments in the amount of \$\_\_\_\_\_ per month, payable on the first day of each month during the Term of this Lease.

Tenant shall pay the rent either by hand delivery or mailing it to Landlord at the address listed above. Tenant shall take all necessary precautions to ensure the safe and prompt delivery of each rent payment. Landlord shall consider rent received by mail after the due date as timely paid as long as it is post-marked by the due date.

5. **LATE CHARGES.** If Tenant fails to pay any installment of rent or any other amount within five (5) days of the due date, the Tenant shall pay Landlord a late payment charge in the amount of \$\_\_\_\_\_.

6. **POSSESSION.** Landlord shall be ready to deliver possession of the Premises to Tenant at the start date of the tenancy. If Landlord is unable to deliver possession due to circumstances beyond his control, he shall have ten (10) days to remedy the situation and put Tenants into possession. If he fails to do so, Tenants may immediately terminate the Lease and recover all prepaid rent and deposits.

7. **USE OF PREMISES.** Tenant shall not permit any other person to occupy the Premises. Tenant shall use the Premises only as a residential dwelling. Tenant shall not use the Premises or permit any guests to use the Premises for any unlawful activities or to unreasonably interfere with the rights, comforts, or conveniences of their neighbors or other Tenants.

8. **UTILITIES.** Tenant will pay for the following utilities and services furnished to the Premises: \_\_\_\_\_.  
Landlord will pay for the following utilities and services furnished to the Premises: \_\_\_\_\_.  
Landlord shall not be liable for the interruption or failure of any utility or service if due to any cause beyond Landlord's control.

9. **APPLIANCES.** Landlord will provide the following appliances in the Premises: \_\_\_\_\_.  
Tenant shall not remove the appliances from the Premises without the permission of Landlord. Landlord shall be responsible for any damages and/or repairs needed for the listed appliances so long as the damages and/or repairs are not due to the actions of the Tenant.

Tenant plans to provide the following appliances in the Premises: \_\_\_\_\_.  
Tenant is solely responsible for any damages and/or repairs needed for these listed appliances.

10. **SUBLEASES AND ASSIGNMENTS.** Tenant shall not sublease or assign the Lease without the prior, written permission from the Landlord. Landlord shall not unreasonable deny permission to sublease or assign.

11. **MAINTENANCE AND CONDITION.** Tenant acknowledges that it has examined the Premises and furnishings and personal property and that they are in a good and habitable condition. Tenant shall keep the Premises and furnishings and personal property in a clean and

sanitary condition and in as good order and repair as they were at the commencement of this Lease, ordinary wear and tear excepted.

Tenant shall dispose of all garbage in designated disposal facilities. Tenant will pay for all damage to the Premises and repairs required due to the misuse or negligence of Tenant or Tenant's guests. Landlord will maintain the Premises and common areas in a habitable condition. Landlord and Tenant each agree to maintain and repair the Premises in compliance with all laws, ordinances and regulations applicable to them. Tenant agrees to promptly give notice to Landlord of any required repairs or unsafe conditions and Landlord will be afforded a reasonable period of time to complete the same.

12. **PETS.** Tenant shall be allowed to keep the following pet(s) in or about the Premises: \_\_\_\_\_. No other animals or pets of any kind may be kept in or about the Premises without Landlord's prior written permission.

13. **ALTERATIONS.** Tenant shall not alter or permit any alteration of the Premises, including but not limited to paint, wallpaper, structural alterations or removals, and additions of fixtures (including TV antennae or satellite dish receivers), without the prior, written permission of Landlord. This clause pertains to any alterations made inside and outside the Premises, including changes to the surrounding land or common areas.

14. **ACCESS.** Landlord and its agents may enter the Premises at all reasonable times and upon reasonable notice to Tenant to conduct inspections, make necessary or desired repairs or improvements, or to show the same to prospective tenants, buyers or lenders. Landlord may also enter the Premises when the same appear to be abandoned and for the purpose of placing signs offering the Premises for sale or rent. In an emergency, and as permitted by law, Landlord may enter the Premises without prior notice to Tenant.

15. **TERMINATION IN EVENT OF SALE.** It is expressly agreed that Landlord, at its option, may terminate this Lease upon \_\_\_\_ days notice to Tenant in the event of a sale of the building containing the Premises.

16. **LOSS OR DAMAGE.** Unless, caused by the negligence of Landlord, Landlord will not be liable for any loss, damage or theft of any property of Tenant or others kept or stored in or about the Premises. Tenant acknowledges that it is Tenant's responsibility to insure its own possessions.

17. **DEFAULT.** Tenant will be in default of this Lease upon the occurrence of any one of the following events:

- a. failure to pay any installment of rent or any other amount hereunder on the date it is due;
- b. failure to perform or comply with any other agreement, term or condition of this Lease;
- c. abandonment of Premises;
- d. any misrepresentation or omission of Tenant mad to Landlord in connection with this Lease; or

- e. assignment for the benefit of creditors by, appointment of a receiver for, or any filing of a petition under any bankruptcy or debtor's relief law by or against Tenant or any guarantor.

18. **REMEDIES OF LANDLORD.** Upon any default by Tenant, Landlord may, at its option, terminate this Lease and/or commence eviction proceeding in accordance with the laws of Kentucky.

19. **WAIVER OR BREACH.** No waiver of any breach of the Lease on any one occasion shall be construed to operate as a general waiver of another breach on a subsequent occasion. If any breach occurs and is later settled by the parties, this Lease shall still continue to bind the parties until amended, in writing, by the parties.

20. **SURRENDER.** At the expiration or sooner termination of this Lease, Tenant will remove its possessions and peaceably deliver possession of the Premises to Landlord in as good repair and condition as they were at the commencement of this Lease, ordinary wear and tear excepted.

Any personal property left on the Premises after Tenant vacates or abandons the Premises shall be deemed abandoned and Landlord may remove, store and/or dispose of the same as it sees fit, subject to the applicable law.

21. **DISCLOSURE OF LICENSEE STATUS.** The owner of the Premises is a licensed real estate broker licensed in the State of Kentucky.

22. **SEVERABILITY.** The provisions of this Lease are severable, and if any part of the Lease is held illegal, invalid, or inapplicable to any person or circumstance, the remainder of this Lease shall remain in effect.

23. **ENTIRE AGREEMENT.** This Lease contains the entire agreement and understanding between the parties regarding the Premises and is subject to no agreements, conditions or representation that are not set forth herein. This Lease may only be amended in a writing that is signed by both Landlord and Tenant.

24. **APPLICABLE LAW.** This Lease will be interpreted and enforced in accordance with the laws of Kentucky.

25. **LEAD-BASED PAINT DISCLOSURE.** For Landlords whose premises were built prior to 1978 you are required by law to provide a Lead-Based Paint Disclosure to the Tenant. By initialing here, Tenant acknowledges receipt of the Lead-Based Paint Disclosure Form.

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We, the undersigned, hereby represent that we have read this entire Lease and agree to be bound by its terms and conditions.

Landlord:

\_\_\_\_\_

Landlord

\_\_\_\_\_

Date/Time

Tenant(s):

\_\_\_\_\_

Tenant

\_\_\_\_\_

Date/Time

\_\_\_\_\_

Tenant

\_\_\_\_\_

Date/Time

\_\_\_\_\_

Tenant

\_\_\_\_\_

Date/Time

This Sample Residential Lease is also available on our website under our Licensee Restricted Documents and Forms: <http://www.krec.ky.gov>.

## Exterior Maintenance

These are some general items to consider and keep in mind regarding the exterior maintenance of your residence. However, it is important for you to check with your local building and code enforcement office for specific ordinances relating to the exterior maintenance of residential buildings.

Those who own, lease, occupy or are in control of property are responsible for maintaining their property. All exterior property and premises must be maintained in a clean, safe, and good condition. All vacant structures and land must be kept clean, safe, secured and otherwise properly maintained.

All exterior surfaces, including but not limited to: siding, roofs, foundations, doors, door and window frames, cornices, porches, trim/fascia, balconies, decks, fences and accessory structures must be maintained in good condition and be structurally sound so as not to pose a threat to the public health, safety or welfare.

Here is a list of some of the exterior areas that you should be mindful of by checking with your local building and code enforcement office

- Exterior surfaces
- Exterior walls
- House numbers
- Drainage areas and ground cover
- Exterior stairway, deck, porch, and balcony
- Sidewalks, walkways, stairs, driveways, and parking spaces,
- Accessory structures
- Structural members
- Foundation walls
- Roof and flashing

*Call the Office of Building and Construction at 502-573-0364 for specific answers to your situation*



## Illegal Activity of Residents

### Common Indicators of Potential Drug Activity

Pays rent with cash	Expensive cars owned by the renter or frequently visiting the property
Provides false or vague information on rental application	Blinds always drawn or heavy covers placed over them (including basement windows)
Reluctant to show identification or provide vehicle license number (helps you determine over-occupancy or unauthorized sub-letting)	Screens missing or slashed from windows
Refuses to allow criminal history check	Reluctant to allow repairs or inspections
Vague or incomplete previous rental history	Drug residue on coffee tables, etc
Frequent short visits especially in the evening and late night hours	Unusual number of plastic bags/baggies (especially with the corners torn off)
Tenant is home all the time - no apparent means of support but always has cash	Unusual residue in sinks, toilets, stove top or laundry areas
Tenant receives frequent packages or deliveries	Maroon residue on aluminum trim or windows
Large amounts of money seen in apartment or in renter's possession	Small pieces of folded paper
Chemical, ammonia like smells or burning marijuana odors detected	Several pagers or cellular phones Unusual amounts of baking soda, tin foil, lithium batteries or solvent containers
Renter changes all the locks, excessive fortification of the exterior and/or interior (such as deadbolts on bedroom doors)	Large numbers of antihistamine or ephedrine-based over-the-counter medications
Lab equipment - glass beakers, tubing, chemicals or unusual residue on pots/pans	Boxes of fabric softener sheets or packages of duct tape
Towels left at foot of door or near vents	Drug paraphernalia, scales, weapons, ammunition or safe

**Call 911 or your local police to report all suspicious activity.**



## Personal Safety

### PROTECTING YOURSELF

These suggested practices can be carried out quickly and unobtrusively and should not be a deterrent to successfully renting to desirable resident(s). When showing a unit the following precautions may both deter an assault and give the message to a potential renter that you are concerned about the safety and security on your property.

1. Whenever possible, show your property by appointment. **Do not accept walk-ins.**
2. During the initial call, request home, work and cell phone numbers from potential renters. Look up their information in the phone book to verify the applicant's work and home address prior to your appointment. It also makes it easier to call back to verify appointments.
3. Let potential applicants know you require a valid picture identification **before** you show property. It may serve as a deterrent to an assault, and will provide you with proof that the person is the applicant you spoke with over the phone. If possible, keep the I.D. in your possession at a location other than the property being shown (such as your business office). If that isn't an option, check the I.D. and call someone with the applicant's information before handing it back.
4. Conspicuously tell someone where you are – make the applicant aware of this fact. If you've phoned someone to tell them the information from the I.D., make a second call—even if it's just to your own voicemail. State clearly: the address you are showing, the name and phone number of the person you are with, and a time that you'll check back.
5. When showing a unit, try to have another person with you besides the prospective renter.
6. Carry a screech alarm or cellular telephone. Do not hesitate to call police for help.
7. Bring a doorstop with you and prop the door open while you are inside.
8. Stand near the exit. Let the prospective renter(s) look through the unit. Don't let them get between you and the exit. If the unit is still occupied, you may want that resident(s) or someone else present to make sure nothing is disturbed.



## **Private Data Protection**

When a person hands over their information as proof of identify and rentability they are entrusting you with a precious commodity, extremely private and valuable data. It is their key to housing, employment and credit. And, it's a thief s ticket to a free ride.

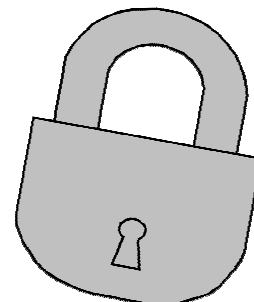
When accepting that information you are also accepting the responsibility of protecting and keeping their identity secure. With the constant changes in technology the key is to be vigilant, review your policies and seek frequent updates on the topic.

Protection of personal information can also be a marketing tool. Show pride in the lengths you go to secure an applicant's personal information, demonstrate great care for their privacy and remind them to protect their information. They may not be aware of their own vulnerability. Learn more about identity theft by visiting the Federal Trade Commission website: [www.ftc.gov](http://www.ftc.gov) and search "ID Theft" to link to a great handbook.

Identity theft is not just important for you to know and prevent but also imperative that your renter understands prevention strategies. Should your renter become a victim of identity theft they may not be able to pay you rent, impacting your business.

### **Tips for Securing Personal Information:**

- Keep rental files, including files in a secured location.
- Consider at a minimum a locking file drawer (and use the lock). An even better option is a hidden file cabinet.
- Electronic files should have password protected or saved to a disc rather than your hard drive.
- Destroy information at disposal. Don't just toss electronic documents in the trash - shred them.
- Question persons seeking information on your renter; ask for a signed waiver before releasing any information.
- Have a schedule for destroying denied applications (should keep these for three years).
- Control access to the file storage area, and your computer.



# APPLICATIONS AND LEASES

## Application and Lease Basics

A good application and lease are the building blocks of a good business. The information provided here is just an overview. You may want to attend a class to learn more about your business forms and legal documentation.

The following are some basic tips regarding the application, lease and enforcement:

1. Institute a comprehensive rental application form and check all references and phone numbers given by the applicant. Cross check this information in the phone book or using the internet. Strongly consider using a screening company. If any information is false, you may reject the application. Your application needs to ask enough questions to verify your screening criteria.
2. Establish a written code of conduct for all current and future residents. This code should clearly define behavior which will not be tolerated such as excessive noise, unruly behavior by residents' friends, parking violations, riding of bicycles on lawn, length of time a guest may stay, unsupervised children. After establishing, review with an attorney for the fair housing "smell test".
3. A lease should clearly indicate the total number of persons that occupy a unit {see number four on page twenty-three for more detail}.
4. Some repairs or maintenance duties (like yard work) can become the duty of the renter if: both parties agree in writing that the renter will do the work; and the renter receives adequate consideration such as a reduction in rent or direct payment from the landlord.
5. All applicants should supply license and registration information regarding their car. Do not allow vehicle maintenance work in your driveways or in the street in front of your property. An exception to this rule is the changing of a flat tire.
6. If you have a problem renter, make sure you serve them with conduct violation notices (certified mail is the best form of delivery). Include a police report (if provided), and a highlighted copy of the signed lease or code of conduct agreement. Be sure you send copies of this notice to any co-signer to the lease. This serves as official written notice that their conduct violates the rules and policies. Keep records of all violations. Most judges in Eviction Action hearings will accept two documented conduct notices as sufficient grounds for removing problem residents if the notices were well documented and served in a timely manner.
7. Keep written documentation of all disruptive conduct, failure to pay rent on-time, loud parties, unruly guests, and police calls to your property.
8. Notify the police IMMEDIATELY if you suspect drug dealing on your rental property. Call 911 and tell the dispatcher as much as you can about the persons and vehicles involved in the suspected sale. Use 911 even if the incident has passed. This will start the process of investigating a crime. If you have information about possible drug dealing, call your local police.



## **WARNING SIGNS**

### Warning Signs of a Dishonest Applicant

**Watch for gross inconsistencies.** When an applicant arrives in a brand new, luxury sports car and fills out an application that indicates an income of \$1,000 a month, something is not right. You may deny the applicant for other reasons that common sense would dictate are clearly suspicious (credit reports also can reveal such oddities - for example, if the applicant is paying out much more per month to service credit card debts than the applicant is taking in as income).

You may deny on the basis of many factors *provided the effect is not a disproportionate denial of a protected class*. If you deny an applicant, record your evidence and the reason for your decision- keep the denial on record for three years. The law is written to prevent discrimination against protected classes. You are not required to look the other way when gross inconsistencies are apparent.

**Be aware that people involved in illegal activity may use "fronts" to gain access to your property.** You may rent to someone who has an acceptable rental history and no record of illegal activity, yet once that person moves in, boyfriends, girlfriends, other acquaintances, or family members may move in and begin committing crimes or nuisances. Make it a point to drive past your property frequently, check license and vehicles in the driveway to those provided on the application- they should match. TIP: Drive past on garbage day, or the night before garbage day. Large amounts of trash indicate over occupancy.

**Consider a policy requiring that applications be filled in onsite.** Require that all applications to be filled out on-site or in an application interview. Applicants who are unsure of some information should fill in what they can and come back to fill in the rest or provide the necessary materials to complete the application. This policy can hamper the ability of dishonest applicants to fabricate a story and allow for dishonest or dangerous applicants to exit with minimal confrontation. Leaving without an application they are less likely to come back.

*If you use such a policy, make sure it includes reasonable accommodation for otherwise qualified people whose particular disability or other protected characteristic would cause this policy to be a barrier to their application.*

**Watch out for Friday afternoon applicants who say they must move in that very weekend.** Drug dealers know that you may not be able to check references until Monday, by which time they will already be in the rental unit. Tell the applicant to find a hotel or a friend to stay with until you can check references.

**Observe the way applicants look at the unit.** Do they check out each room? Do they ask about other costs, such as heating, garbage service, and others? Do they visualize where the furniture will go, which room the children will sleep in, or how they will best make use of the kitchen? Or did they barely walk in the front door before asking to rent, showing a surprising lack of interest in the details? People who are planning an honest living care about their home and often show it in the way they look at the unit. Some people who rent for illegal operations forget to pretend they have the same interest.

## Applicant Screening and Fair Housing

### How to Avoid Problem Renters and Discrimination Claims

Every time you turn down a potential tenant/applicant that is a member of a "protected class," you run the risk of a discrimination claim. Aggrieved persons who believe they have been discriminated against on the basis of race, creed, color, ancestry, national origin, religion, sex, marital status, familial status, status with respect to receipt of public assistance, disability, and sexual orientation, can file a claim with HUD, the state, or city civil rights department alleging discrimination. (Check your local human rights codes/ordinance for additional requirements/"protected classes." When a discrimination claim is filed, the burden is on the owner/management company to prove the tenant was rejected for a valid, nondiscriminatory reason.

Even a good reason for rejection of a tenant can result in a successful discrimination claim if there is also a discriminatory motive or there is evidence that the owner/management company does not reject other tenants for the same reasons. The damages in discrimination cases can be high.

Demands of \$25,000 to \$50,000 are not uncommon. They can also be costly to defend. Although an owner/management company can represent himself/herself/itself in these cases, this is seldom advisable.

#### **The best way to avoid these claims is to:**

- A. Have written standardized screening/occupancy standards that are given or made available to all applicants.
- B. Train all persons speaking to prospective renters about fair housing laws and your standards. The same general information should be given to all callers and applicants.
- C. Take special care in training people that show rentals. Showings should follow a standardized routine for showing common areas, offering all showable units on an equal basis, avoiding any comments about suitability or conduct that could be considered "steering." Be consistent in requesting or holding any photo ID.

Avoid answering any questions about the neighborhood or other people in the community. Invite prospective residents to call the local police or sheriff's office.

The correct answer to give to questions about the people who live in any adjoining rentals would be, "People who have completed an application, met our rental criteria, and signed our lease paperwork."

- D. Train people who speak with prospective renters to avoid cross-examining questioners and to avoid questions that challenge your standards. Have a routine process for referring callers who question or challenge your standards. Do not lie or "sugar coat" grounds for rejection. If a tenant screening service has been used, comply with the laws that give the applicant the right to contact that service.
- E. Be consistent. If you want to make exceptions to your policies, have a written exception policy. If an exception is based on income/money issues, you can require additional security/rent to cover risk of making an exception.

## Applicant Screening and Fair Housing

### SAMPLE SCREENING STANDARDS

1. **Minimum Income.** You cannot get a mortgage without having a certain minimum income. Rental housing should be the same. The trick is picking a standard that will work for you all the time.

Income from all sources available to pay rent should be considered. If a person has insufficient income, a rental might be considered with a co-signer, additional security deposit, or payment of the last month's rent. Screen a co-signer the same as you would a renter.

WARNING: The well established practice of using minimum income standards is occasionally challenged by tenant advocates as discriminating against persons on public assistance and under state and federal laws prohibiting discrimination on the basis of race, familial status, and disability. This is an area where owners and managers should be watchful of potential change and challenge. Consistency of enforcement becomes very important. It is also important that owners show that all applicants (not just those receiving public assistance) are told about minimum income standards. It may help an owner to have an exception policy where persons without sufficient income can qualify (assuming all other screening standards are met) by providing additional security deposit or prepaying rent.

2. **Housing History — Rented and/or Owned.** Requiring applicants to give 1-2-3 years of verifiable address histories for verification is fair and reasonable. You also may want to obtain references from a landlord once removed. Generally exclude roommates and relatives as references but you will want continuous address history. Omission of an address is grounds for rejecting application. Carve out exception for first time renters such as students. Screen Cosigners. Use co-signers that are local; it is easier to collect from them should the need arise.

3. **Verifiable Income and Credit Records.** If application information cannot be checked out, this is valid basis for rejection.

4. **Density/Occupancy Limits.** Restrictions on numbers of people per unit/bedroom may be acceptable but beware of restrictions that have a negative impact on families. You will need to check the ordinances in your local city or town to determine what type of occupancy guidelines you must follow.

Physical limitations of building systems, such as unusually small sewer or septic systems might be grounds for a more restrictive density standard. Likewise, if a bedroom is so small that a local building or zoning code provides that it can only be occupied by one person, then a stricter standard could be upheld.

Under its investigative guidelines, HUD will not generally pursue an action against an owner for having an occupancy standard no more restrictive than two persons per bedroom. But, keep in mind that circumstances where there is an extra room, such as a den, or unusually large bedrooms and living areas will make it harder to defend a two person per bedroom standard.

Because additional persons do cause extra "wear and tear," rents could be set based on the number of occupants per unit without being "discriminatory" if done across the board. But you should first

determine whether this practice is done in your locality because it could invite challenge or encourage “cheating” with undisclosed residents.

This is an area where what is said, rather than what is done and enforced, may make a big difference in a case. Telling an applicant, "Your household size is too large," may avoid legal challenge. Telling an applicant, "You have too many children," invites a discrimination challenge.

**5. Application Requirements.** It is acceptable to have applicants produce government issued photo identification and to have all applicants sign the application. You can refuse to process an incomplete application or an application submitted without the required fee. Be sure to do this on an even handed basis with all persons. Many professional screening companies recommend that owners or managers get proof of a validly issued Social Security number in the form of a card, pay stubs, or tax returns. Evidence that a Social Security number is invalid is grounds for rejection. A preliminary verification of the Social Security card can be done looking for security features added to cards issued after October 1983. Hold the card in your hands and feel for raised printing: the pillars and printing are all slightly raised. In addition, the signature line consists of micro-line printing of the words "Social Security Administration" in a repeating pattern - use a magnifying glass to view this security feature.

**6. Section 8. WARNING:** Until 1998, it was generally accepted that a property owner/manager could refuse to participate in the Section 8 program without committing illegal discrimination. In 1998, Legal Aid began to challenge an owner's right to refuse to participate in the Section 8 program. The position of Legal Aid is that Section 8 constitutes public assistance and even though state and federal agencies have been telling landlords that the program is "voluntary," a landlord cannot choose not to participate without a risk of suit.



## Selecting a Screening Company

With all the considerations and liabilities involved in applicant screening, many landlords choose to hire a third party screening service. A screening company can help to distance you from the decision handling disputes and help you meet fair housing guidelines. They reveal information that is public record, they know where to get the pertinent information that you need and follow all laws pertaining to data collection and privacy. Screening companies charge for their service but it is customary for the prospective renter to pay this fee.

The following are some questions to consider when selecting your screening company.

- Is the company a member of the NAPBS (National Association of Professional Background Screeners) which exists to promote ethical business practices, promote compliance with the Fair Credit Reporting Act and foster awareness of issues related to consumer protection and privacy rights within the background screening industry?
- Is the data fresh, updated at least once every three months?
- Does the company offer multiple report transmission methods (i.e. fax, internet, mail) in the event your primary method fails or isn't available?
- Is it a local company or do they have a local office (or at minimum a local representative) that can be consulted if necessary?
- Does the company charge any sign-up, annual, monthly, or other fees beyond the cost of the reports being ordered?
- Is the company bonded, insured, and carrying all appropriate licenses necessary to provide personal consumer information that is being requested?
- Can the company provide manual verifications including landlord references, income and employment verification, etc. in addition to data verifications?
- Can/will they provide references from your local area to contact and see how they like the service?





## Turning Down an Applicant

### HOW TO TURN DOWN AN APPLICANT

In general, if you have posted fair rental criteria and you screen *all* applicants against those criteria, you may safely reject an applicant who does not meet your guidelines. Opinions vary regarding the amount of information that is required to be given to an applicant who is denied a rental unit. At minimum, follow the guidelines for denial of credit defined by the Federal Government in the Fair Credit Reporting Act (FCRA). If you are using a screening company, you must provide the prospective renter with their contact information prior to screening.

If the rejection is based on information from a credit report, screening company, or other organization that you pay to provide screening information the Fair Credit Reporting Act requires that very specific information be provided. While the information may be provided orally, it is a good idea to give written notification to make sure you are in full compliance with the Act. The following is intended only as a brief orientation. The screening company or other consumer reporting agency you work with should be able to answer your questions and provide you with a simple, written form.

In situations where adverse decisions are based, in whole or in part, on information from a consumer credit report, a landlord is *required* to provide the rejected applicant all of the following information:

- Notice of the rejection. Sample wording:
  - "Based on information we have received from your credit report (or other paid source) you do not meet our written rental criteria and we have therefore chosen to deny your application for tenancy."
- The name, address, and telephone number (including a toll-free number if the agency is one that keeps nationwide consumer files) of the consumer reporting agency used that furnished the information. Explain that the consumer reporting agency did not make the decision to reject the applicant and therefore it is likely that they will not be able to explain the reason for the adverse decision.
- The applicant has the right to contact the consumer reporting agency within 60 days to receive a free copy of his or her report.
- The applicant has the right to dispute the accuracy or fairness of information in a consumer report furnished by the consumer reporting agency. (Note: Tell the applicants to obtain a copy of their consumer report directly from the credit reporting agency, rather than, for example, providing the applicant with a photocopy of the report you received.)

## Turning Down an Applicant

As a reminder: in Kentucky you must not discriminate against people because of their:

Age  
Sex  
Race  
Color  
Creed  
Religion  
Ancestry  
Disability  
Marital Status  
Familial Status  
National Origin  
Sexual Orientation (in some areas)

These are protected classes.



**EQUAL  
HOUSING  
OPPORTUNITY**

- Bad credit, criminal histories, bad rental histories, past nuisance violations, registered sex offenders or poor references are not protected classes.

## ADDITIONAL TIPS

### LEAD PAINT

Housing built before 1978 may contain lead-based paint. Lead from paint, paint chips and dust can pose health hazards if not managed properly. Lead exposure is especially harmful to young children and pregnant women. Before renting pre-1978 housing, landlords must provide a federally mandated lead-based paint disclosure form, and the pamphlet "**Protecting Your Family From Lead in the Home**". These mandatory forms are available from the National Lead Information Center: 1-800-424-LEAD, <http://www.epa.gov/lead/index.html>.

### MOVING IN

Before signing the rental agreement, walk through the property with the tenant and make a visual inspection together. Some landlords use move-in/move-out forms (available from Kentucky Real Estate Commission website: [www.krec.ky.gov](http://www.krec.ky.gov)) developed for this purpose; others take photographs, which are then signed by both parties; still others make a videotape. Regardless of the approach, agree on what repairs need to be made. Write an agreement and have both parties sign it. Make any repairs agreed upon, document and obtain signatures indicating completion. Keep signed and dated copies in your file.

If your renter damages the property, you have a way to prove the damage happened after the tenant took possession of the unit. A walk through or check-in inspection is also a good time to identify what constitutes excessive wear and tear on a unit and explain to your renter that this may be grounds for withholding the security deposit.

The inspection can reduce the likelihood of tenants damaging the premises. The inspection also can protect you against the rare case of a renter who may attempt to block a legitimate eviction attempt by damaging the premises and then claiming that the damage was preexisting.

### TRADE PHONE NUMBERS WITH NEIGHBORS

Landlords of single-family residential housing sometimes don't hear of dangerous or damaging activity on their property until neighbors are enraged and the police are involved. Often such a situation could have been prevented if the landlord and area neighbors had established better communication.

Find neighbors who seem responsible, concerned, and reliable. Trade phone numbers and ask them to advise you of serious concerns. You will know you have found the right neighbors when you find people who seem relieved to meet you and happy to discover you are willing to work on problems. Conversely, if neighbors seek you out, work with them and solicit their help the same way. Encourage them to first call the police, or **911** to report suspicious activity, and then place a call to you.



## Understanding Section 8

### What is Section 8?



Section 8 is a federal housing assistance program funded by the Department of Housing and Urban Development (HUD) and administered by local agencies. In Kentucky, local public housing agency offices administer the program. Please go to

<http://www.hud.gov/offices/pih/pha/contacts/index.cfm> to find your local office. There are two types of Section 8 assistance:

Voucher Based (flexible assistance that stays with the renter) and

Project Based (fixed assistance to a specific apartment). Project based is not covered here since it does not apply. The goal of both programs is to offer affordable housing opportunities to low income renters in order to foster economic growth and provide stability for our communities and neighborhoods. Renters who qualify and receive Section 8 benefits pay 30-40% of their monthly income for rent Section 8 pays the remainder.

### Who is Eligible?

The program is limited to US citizens and specified categories of non-citizens who have eligible immigration status. Each Housing Authority determines eligibility based on the total annual gross income and family size. In general, the family's income may not exceed 50% of the median income for the county or metropolitan area in which the family chooses to live. By law, a Housing Authority must provide 75% of its vouchers to applicants whose incomes do not exceed 30% of the area median income. Median income levels are published by HUD and vary by location.

Under the **Housing Choice Voucher Program** your local public housing agency will issue an eligible person/family a voucher and the person/family selects a unit of their choice (as long as it meets criteria listed in the landlord section). The person/family goes through the same application process at the apartment just as any other renter would. Once approved, a renter will move in and pay their portion of the rent and utilities (not to exceed 40% of their income), Section 8 pays the remainder. If the family moves (at the end of the lease) the contract with the owner ends, the family takes their voucher and can move to another qualified rental unit. If the family is evicted, in addition to losing their housing they may also lose their Section 8 benefits. TIP: if a Section 8 renter does violate the lease, copy your local public housing agency on the lease violation notice. Anything sent to the renter should also be sent to your local agency.

## Understanding Section 8

### **How does a Landlord or a Unit Qualify for Section 8?**

Once a renter qualifies for a Section 8 Voucher, they need to find a housing unit that meets the program criteria and accepts Section 8. Typically Section 8 renters will phone a landlord and, ask if they accept Section 8. If a landlord doesn't, it is rather easy. If a landlord chooses to accept Section 8, they must take these steps:

- A Section 8 participant expresses an interest in the available rental unit.
- The landlord screens the prospective renter using their established screening criteria.
- The renter supplies the landlord with "Request for Tenancy Approval" (RTA) form for completion. The RTA form is an inquiry of the rent amount, mailing address for payment, address of the unit, utility responsibility, etc.
- Renter returns completed RTA by the 15th of the month.
- Your local public housing agency "approves" rent and tenancy.
- Your local housing agency schedules and performs housing quality standards inspection.
- Your local housing agency staff mails contract documents to the owner.
- Owner reviews documents, signs and returns to Metro HRA.
- Upon return of necessary contract documents and passed inspection, your local public housing agency issues rent assistance payment to landlord.

In addition to the above criteria, the unit must fall within the rent limit. Maximum rent limits are set each year. You can find information on maximum rent limits for your area and type of property at the following website:

<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/rent/2007/index.cfm>.

The payment standard, utility allowances, and household income, are established and determine the participant's budget. If the unit rent is greater than the payment standard the renter is required to pay the additional amount. By law, a renter will not be allowed to rent an apartment if more than 40% of their adjusted monthly income for is used for rent and utilities.

Affordable housing is essential to foster economic growth in the region and provide stability for our communities. By participating in the Section 8 Program, owners/landlords can benefit from incentives and help lay the foundation for a more competitive region and healthy communities.

## LIST OF RELEVANT DOCUMENTS AVAILABLE ON KREC WEBSITE

- Sample Residential Lease Agreement
- Sample Tenant Move-In/Move-Out Condition Inspection Report
- Blank Lease
- Lease Option Contract
- KREC & KAR Safety Guide Brochure

You can find these documents and others on our website. Most of the documents can be found under the Licensee Restricted Forms and Documents at [www.krec.ky.gov](http://www.krec.ky.gov).

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