



## What You Should Know About Online Rent Collections

by Zachary Lawrence JD

I spend way too much time handling and processing monthly rent checks. During the beginning of each month, I'm driving to my office, collecting rents, opening envelopes, endorsing checks, entering the data into a software program, and making multiple trips to the bank. I know all of my bank tellers by name and bring them donuts.

In an effort to reduce the time I spend processing paper checks, I looked into the many companies that now offer landlords the ability to collect their rents electronically. Just imagine - no more collecting piles of rent checks, processing paper rent checks or multiple trips to

the bank.

Many of the ads for these online companies show a picture of a landlord on a beach.

*Most online rent collection firms charge a fee for each transaction. This fee is usually paid for by the tenant. However, the landlord may elect to absorb the costs.*

sipping a cocktail, as he looks at his Smartphone, presumably to review his on line rent payments.

Someone please hand me a shot of Tequila and some sunscreen. It's the beginning of the

month and time to collect my on line rents!

### Going Paperless

The concept of going "paperless" is indeed appealing. However, going "paperless" should not result in a landlord becoming clueless. And as I learned the hard way, some of these online companies sell the "sizzle", but the steak is lousy.

And ... a Colorado-based on line rent provider is being sued by multiple landlords in multiple states because their rents got lost somewhere in cyberspace. The lawsuit claims that the company creates the impression that it manages its payment processing system, when it actually contracted with **another** electronic third party, which in turn, contracted with yet **another** electronic processing firm to process the rents. Maybe it's just me, but this sounds like way too many cooks in the cyberspace broth!

Based on a study conducted in 2014, 22% of tenants pay rent in cash, 42% by check,

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16% by money order and 15% electronically. If you are considering using an on-line rent service for collection of your monthly rents, please put down your sunscreen and start asking questions; lots of questions.

First, let's look at the process. Online rent collection services deliver your rents electronically by using an "ACH", which stands for Automated Clearing House. This is an electronic "hub" used by banks to move money from one point to another. These online rent companies are acting as a middleman between you and the ACH. Most online rent collection firms charge a fee for each transaction. This fee is usually paid for by the tenant. However, the landlord may elect to absorb the costs. One eviction attorney told me that because the transaction fee is for the benefit of the online rent company and not the landlord, the transaction fees are not treated as a rent increase. The same eviction attorney reports that a landlord may only request, but not compel, a tenant to use an on line service for payment of rent.

### What You Should Know

These are just some of the questions and issue that I would suggest a landlord raise before engaging any online service for collecting rents:

- **How long has the company**

**been in business?** Check on line reviews and contact the Better Business Bureau. Some of these companies have been reported for failure to distribute or release funds in a timely manner.

- **Bank statement information:** Make sure that the company you select will identify, on your bank statement, the name of the tenant and the corresponding amount of rent paid. For example, I have multiple tenants that pay rent of \$1,000.00 month. If I receive a bank statement that reflects a rent payment for \$1,000.00 and nothing else, I won't know which tenant made the payment. Most on-

line companies will indeed send you an email indicating which tenant has initiated the payment, the amount of the payment and the date that it posted to your bank account. However, if you are audited, or if there is a dispute with the tenant, it's essential that your bank statements identify the paying tenant, the date that the funds were posted, and the corresponding amount posted to your account.

- **Can you wait for your money?** As per the terms of his lease, your tenant, Joe Smith, is required to pay rent on the first day of each month. If Joe Smith is paying rent using an


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online service, the landlord will usually receive an email from the online rent company, stating that tenant Joe Smith has "initiated" his rent payment on the first of the month. However, because the rent was paid online, it will often take approximately three to five business days for the "initiated" funds to post to your account. Are you, the landlord, okay with this? Or do you require access to your funds immediately upon the due date?

- **Late fees:** Again, tenant Joe Smith "initiated" his payment on the first of the month. However, because of the ACH time lag, Joe Smith's rent did

not post to your bank account until the fifth of the month. Is Joe Smith's rent now considered "late"? According to eviction attorneys, the answer is no. If Joe Smith "initiates" his online rent payment on the due date, and notwithstanding the date the funds are posted to his bank account, the landlord may not demand a late fee.

- **Customer service:** Some online rent collection companies only provide support via email. Others offer both phone support and live "chat rooms". Ask yourself if you require phone support or if email-only support will suffice.

By using an online service for rent collection, the landlord is entrusting the security of his rental income to an electronic third party. This process may be a dream come true for some or a nightmare for others. So ... before you head to the beach and sip that cocktail, look before you leap, ask lots of questions, and consult with your CPA. 

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