



ONLINE RENT PAYMENTS

SOLVING THE RENT PAYMENT PUZZLE



INDUSTRY'S PIECE
OF THE PUZZLE

CONNECTED CONSUMERS WANT CONVENIENCE



CONVENIENCE THROUGH TECHNOLOGY DRIVES RENTAL HOUSING

There's a new Generation being targeted by advertisers and it's not an age group. It's called "Gen C" or the "Connected Generation" and it's defined as anyone who buys, communicates or connects via digital interactions. Connected consumers embrace technology, demand convenience and expect instant gratification. Why is this important? Because the number of connected consumers is rising, and many conveniences are becoming expectations for this growing congregation of technologically savvy consumers.

To keep Generation C happy in the rental housing space, property managers will need to continually offer new amenities and options that fit this group's lifestyle interests. That means providing the ultimate in convenience and speed via better technology.

THE RISE OF ONLINE PAYMENTS

One rapidly growing technological advantage in single family property management is offering online payments. While paying rent online wasn't possible less than 15 years ago, today's tenants automatically assume that they'll be able to pay rent online, if they choose. That includes ACH (Automated Clearing House) transactions, ePayments, automatic bill payments, bank transfers, credit and debit card payments and similar electronic methods. Payment options like these are no longer a premium amenity. They're becoming a "first choice." It's a change that has transformed the way the entire multifamily industry does business.

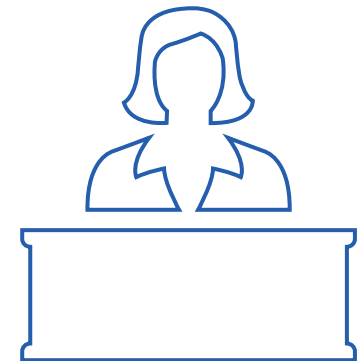


OFFLINE TO ONLINE: A HISTORIC SHIFT

Many tenants today expect to have access to at least one electronic payment technology. While this transition didn't happen overnight, it has taken less than a decade to occur. That's a radical shift for a venerable industry.

Times are changing for everyone. In multifamily studies as recent as 2012, more than 70% of renters were reported as paying their rent by check. However, a 2015 NMHC Renter Preferences Study on multifamily renters revealed an entirely new trend, showing that over 68% of those renters now pay electronically every month. This suggests a clear trend that is already being seen in other industries and one that will certainly spill over into single family. With this widespread acceptance and adoption of electronic payments, it's clear that potential tenants no longer want to deliver a handwritten check to a specific location.

Following are payment methods that property management companies should be accepting and the benefits and disadvantages of each.



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**45% OF
AGES 65+
PREFER TO PAY
AT THE FRONT
OFFICE**

OFFLINE PAYMENT CHOICES

Paying offline, where the tenant must deliver a check or paper money order to the management office, requires office staff to manually enter the rent into the system, prepare a bank deposit and then leave to deposit funds at the bank. Upon payment, the tenant is provided with a written (or sometimes only verbal) confirmation that payment has been received.

While this method has its drawbacks in terms of convenience, paying in person is a straightforward transaction. It helps the tenant feel “comfortable” that the payment has been received in the right place at the right time. It’s a tried-and-true method that, however inconvenient and time consuming, still works. Here are the most commonly accepted “offline” payment types you should continue to accept.



CHECK

While fewer tenants pay rent by check, it’s still common enough today that property managers must accept it as a form of payment for one in four tenants who prefer it. Without the assistance of check scanners that eliminate error prone and time consuming manual data entry, accepting and processing checks requires more time for staff.

To help in processing some of these paper documents, check scanners allow the property to scan checks for immediate deposit. For example, with the Check 21 method, a tenant’s paper check is scanned (front and back) and electronically deposited in the bank.



MONEY ORDER

Money orders are used to a lesser degree than in the past but they are still necessary, especially in underbanked and lower income areas. Unfortunately, this method poses security risks as money orders can still be stolen in transit and are at risk to employee theft.



CREDIT AND DEBIT CARDS

Some property management companies offer credit card or debit card payments onsite in the office. This requires a merchant account, processing software and equipment to slide the card. It can sometimes cost the property management company a fee for each transaction. Continue reading to learn more about online payment options and merchant accounts.

ONLINE PAYMENT CHOICES

Automated payments have been adopted rapidly and favored on both sides of the renting transaction due to their speed, convenience and cost per transaction. In fact, many landlords and tenants already take advantage of this method. Paying online is easy and it saves time. It also adds another level of ease and security for landlords that are not onsite or conveniently nearby. Finally, it removes many of the human elements that cause mistakes, many of which can be time-consuming to fix. If you haven't already adopted one of these online payment types, you should consider accepting one of the following:



ECHECK

Sometimes referred to as direct transfer or Automated Clearing House (ACH is the network it uses), e-check is an Internet-initiated payment from the tenant's account to the property management company's bank account. Similar to direct deposit, which is used by thousands of companies to pay employees, it is a popular form of online payment for retail and is already being used to pay rent.



CREDIT/DEBIT CARDS

Though incredibly convenient and commonplace in online commerce, credit and debit cards like Visa® and MasterCard® have not become as popular for property managers due to the perceived liability issues and transaction costs. However, thanks to some new online credit and debit card processors, these perceptions are changing. Like ACH, credit and debit cards can be set up as recurring payments to avoid tenants paying late fees.

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TENANTS WANT TO PAY RENT WITH A CREDIT CARD



CREDIT AND DEBIT CARDS: THE FUTURE OF PAYMENTS

As online payments permeate every corner of the business world, companies in all industries should be prepared to take as many different forms of online payment as possible, from ACH to credit and debit cards. In fact, a paradigm shift is already occurring for renters in other markets. In a recent NMHC Renter Preferences study, renters were asked if they would be interested in paying by credit card. The response was strong. More than 63% said they would consider using this payment type. This kind of response has made many in the single family industry wake up and take note.

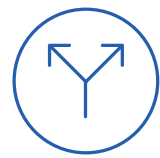
In addition, an internal RealPage study says that 12% of renters already pay with a credit card when the option is available to them, up from 7% just a year ago¹. One reason is because new renters need the flexibility of short term debt. When a renter's budget is tight one month, credit cards offer a cheaper alternative to paying a late fee, adversely affecting their credit and rental history or risking the possibility of being evicted.

A second reason they choose credit cards is for the "rewards." Many credit cards offer an option to earn airline miles, vacations

consumers choose this option as a way to rack up these rewards. Combine these reasons with convenience and security, and you have a very desirable payment option.

In addition to credit card customers, there is a large and growing demographic of prepaid or reloadable debit card holders. Aside from consumer use, many federal, state and local government benefits are issued on these prepaid cards. It's an appealing reason for property management companies appealing to lower income tenants to accept this type of payment.





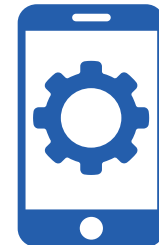
OPTIONS FOR ACCEPTING CREDIT AND DEBIT CARDS

Accepting credit and debit cards online is a very sensible answer for landlords and property management companies that want to provide more security for themselves and more payment options for their tenants. So why aren't more property management companies taking credit cards? To start, there is a substantial amount of unintended misinformation and miscommunication surrounding credit card companies and processors due to the rules and regulations involved. Clarification is definitely needed.

Let's start with the basics. When deciding to accept credit cards online, there are two real choices: set up your own merchant account or use a credit and debit payment service provider. As you'll see, payment service providers offer an easier solution for many property management companies, especially when used for online purposes.

OPTION #1: ONLINE, IN-HOUSE

If you're going to accept credit cards without an online payment service provider to process them, there are several steps that must be followed. First, your business will need to set up a merchant account. Next, you'll have to learn and follow all regulations for accepting credit cards and other online payments. Finally, you must continue to keep up with changes in credit card laws. It's a complex process.



GETTING A MERCHANT ACCOUNT

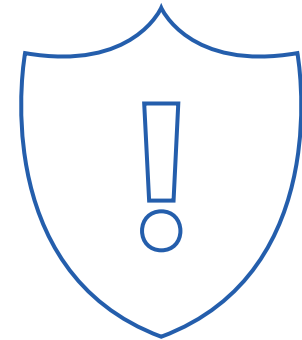
To accept credit cards, your property management company will need to start by setting up a merchant account. This account is a holding account for credit and debit card payments when they come in. Once the credit/debit card company approves the payment, the money is transferred to your business' bank account. Merchant accounts have monthly costs and transaction fees as well. These costs are usually based on the dollar amount of each individual transaction.

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THE PASS MARK
FOR PCI IS
100%.
IF YOU FAIL
ONE PART, YOU'RE
NON-COMPLIANT

SECURITY:

Once you get a merchant account, you'll want to look at security, starting with rules and regulations, especially the Payment Card Industry Data Security Standard (PCI DSS). This, too, is a detailed process. The PCI DSS encompasses a set of requirements established by the Security Standards Council to ensure that all merchants who process, store or transmit credit card information maintain a secure transaction environment. It's governed by the credit card industry, so you could pay fines if you don't follow the rules.



HERE IS A BRIEF SNAPSHOT OF THE PCI RULES:

1. Build and Maintain a Secure Network: Install and maintain a firewall configuration to protect cardholder data; do not use vendor-supplied defaults for system passwords and other security parameters.
2. Protect Cardholder Data: Protect stored data; encrypt transmission of cardholder data across open, public networks.
3. Maintain a Vulnerability Management Program: Use and regularly update anti-virus software; develop and maintain secure systems and applications.
4. Implement Strong Access Control Measures: Restrict access to cardholder data by business need-to-know; assign a unique ID to each person with computer access; restrict physical access to cardholder data.
5. Regularly Monitor and Test Networks: Track and monitor all access to network resources and cardholder data; regularly test security systems and processes.
6. Maintain an Information Security Policy: Choose and uphold a policy that addresses information security.

PCI also recommends fraud prevention and other security measures.

ADDITIONAL REGULATIONS

IRS Mandates - Merchants are required to report their annual gross payment card transactions processed by credit, debit or co-branded cards and third-party network transactions to their merchant services providers, who pass the information along to the IRS. Make sure your accounting staff is aware of this.

Durbin Amendment - Passed in 2010, this law required the Federal Reserve to limit fees charged to retailers for debit card processing. Essentially, it lowered the fees that Visa and MasterCard networks could charge merchants. Some believe it actually raised the cost of traditional banking services.

Regulations like these can affect the cost of doing business. Therefore, knowledge of the law is essential. You must deal with these regulations carefully, following all financial and compliance guidelines. Any issues not handled correctly can result in fines or other penalties.

OPTION #2: ONLINE PAYMENT SERVICE PROVIDERS

A simpler option for taking credit cards is to use a third party to process your credit card transactions online. It just doesn't make sense for a business short on time, manpower or interest to go through the work of managing the myriad of details involved in handling your own payments.

But there is more to these providers than meets the eye. Not only do they make it easier to accept payments online, some offer important legal and financial benefits that could affect your business.

CREDIT CARD PROCESSORS

Most payment providers operate by acting as a transaction processor only, providing the method for entering and validating card information and transferring the tenant's rent from the credit or debit card account to your bank. To perform this service, they charge you a fee.

Sometimes these fees are just an acceptable cost of doing business. After all, to be competitive and offer the best amenities, you have to make sure you can offer the most convenience. On the other hand, some processors charge the tenant a fee as well. This is where the danger comes in.

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PCI NONCOMPLIANCE
FINES CAN
COST UP TO
\$100,000/MO

Recent litigation on both the federal and state level has outlawed certain fees for consumers. For example, ten states have outlawed checkout fees, a surprise fee that a retailer tacks onto a consumer's bill when a credit or debit card is used. Some of these laws are being challenged, and others are being evaluated, so it's important to keep up with recent developments.

Even if your processor is the one responsible for adding a fee, you could still be in danger of fines or other penalties. Some of these processors have offered an indemnity clause that claims to protect you, but that may or may not be effective to manage risk.

LICENSED MONEY SERVICES BUSINESSES

A less complicated way to address the legal and financial complexity of accepting rent online by debit and credit card is to choose a Licensed Money Service Business. A duly licensed money services business is a nonbank financial institution that has gone through the elaborate licensing process for each state's jurisdiction.

State requirements for becoming a Licensed Money Service Business vary but may require the following items:

- An application
- Credit reports (business and personal)
- Resident / registered agent
- Bank accounts
- Financial statements
- A Business plan
- Registration with the state to do business
- A management chart
- Company officers have gone through a criminal and credit check and provide personal finances, employment record, education, credentials, resumes, legal matters (criminal or civil), financial report including cash on hand, real estate and other assets.
- Fingerprints
- A Surety Bond to assure coverage
- Sample documents (receipts, how the product works, employee handbook, disaster and recovery plan)
- Letters of reference from other banks
- Tax form
- Examinations by state regulatory bodies and banking partners (typically every 12-18 months)
- Filing Fees
- Annual license renewal in every jurisdiction
- An anti-money laundering program
- An Annual financial audit
- A CAMS certification (Certified Anti-Money Laundering Specialist) for every member of the compliance team
- A minimum net worth is required to satisfy state requirements to be in business

These strenuous guidelines help the government assure protection for both merchants and consumers. They also offer protection from compliance issues, regulatory laws and security problems.



AREAS TO COMPARE WHEN CHOOSING A PROVIDER

Regardless of whether you choose a credit card processor or licensed money services provider, not all online payment service providers are created the same. Some offer simple processing, while others provide an array of services and features. It's extremely important to choose the right provider to fit your needs. Otherwise, you might be paying too much or missing a feature that could affect your bottom line. Below are some crucial items to consider.



COSTS

Cost should be a key factor in your decision. Some providers charge you, as the merchant, either a flat fee or a fee based on the number of transactions you perform. More commonly, they charge a percentage of each transaction. This can be costly.

Traditionally, a money services business doesn't charge you a fee, but does charge the tenant a service fee to use their credit and debits cards. These providers can charge tenants a service fee that never reaches your ledger - only the rent does. This model, used by some licensed money services businesses, shifts the cost burden to the tenant.



LIABILITY

While regulatory issues can be complex, making sure your transactions are in line with local, state and federal laws is crucial. Discuss these risks with your own accountant and attorney.



FLEXIBILITY

Some services not only offer online payments, but also provide in-house or offline options. It's worth looking for a provider that can offer the most amenities available. That way, you can save money by putting all of your payment methods under one roof.



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ALL 50 STATES REQUIRE SEPARATE LICENSES TO BECOME A MONEY SERVICES BUSINESS



INTEGRATION WITH YOUR PROPERTY MANAGEMENT SYSTEM

You'll definitely want your provider to integrate with your property management software. An effective integration allows you to avoid extra work, offering seamless integration with your accounting processes. Buyer beware: savings on the front end could mean productivity costs on the back end, so look for a provider that delivers real-time updates on all rent payments, deposits, fees and balances, right in your own accounting system.



A WEBSITE

Some merchant services companies create their own separate online interface where your tenants go to pay via ACH or credit card. Others will "co-brand," making their system look like yours. Branding will save you from tenant calls asking if they paid at the right website. Make sure support is included when building a co-branded interface. Some service providers provide limited or no help and you have to create a web storefront on your own. Ask if they can deliver a clean branded interface that creates an easy transition, direct from your tenant portal.

DO YOUR DUE DILIGENCE

A little research now will affect the amount of time, money and paperwork that you'll have to spend after you're stuck in a contract. And those are three resources that most property management companies can't afford to lose. For the best in service, look for an online payment service provider who:

- Is a licensed money service business (MSB)
- Has no out-of-pocket fees
- Offers the best legal and financial protection

These providers offer the best option for any property.



EVALUATING YOUR PAYMENTS SOLUTION

Regardless of the choice you make, take the time to research your payment options thoroughly. Use RealPage® “Evaluating Your Payments Solution” survey below to ensure you address major payment concerns.

SURVEY	Y/N
Do you have an online resident portal to allow residents to pay rent via ACH or credit/debit cards?	
Can you accept payments on-site with credit/debit cards?	
Do you have an in-office check scanner that automates check processing and eliminates trips to the bank?	
Is your provider part of the ACH electronic network?	
Does your provider have at least one staff member responsible for understanding and addressing compliance and regulatory issues regarding the electronic payments system?	
Does your service include a money services option that takes you out of the payment process, thus reducing cost, risk and potential liability?	
Can your payments solution eliminate transaction costs from the management side?	
Is your current payments system integrated with a property management system?	

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Propertyware Payments

The One Solution That Meets All Tenants Needs

With increasing demand from tenants for more online conveniences, it's necessary to have a payments processing solution that has the flexibility to facilitate in-office payments and still enable you to accommodate tenants who want online options that are quick, simple and secure. With an integrated payments solution, you can increase staff productivity by automating routine tasks like posting payments directly to the ledger and reducing trips to the bank. Providing more options to pay, especially online, also increases rent collection rates. Overall, integration helps to ensure compliance and meet tenants' growing expectations for 24/7 service accessibility.

For more information on how to solve your online payment concerns, contact Propertyware and ask about Propertyware Payments.

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