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RENT IN THE 21ST CENTURY



How Utilizing Electronic Payments Will Make
Your Company More Profitable.



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RENT IN THE 21ST CENTURY:

How Utilizing Electronic Payments Will Make Your Company More Profitable



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INTRODUCTION



It is essential to evaluate traditional methods of operation in order to determine whether those methods are the best and most efficient ways of doing business. As we enter the second decade of the 21st century, evaluating our use (or lack thereof) of technology has become crucial in answering the million dollar question: Is there a simple way to increase our profit margin?

The answer to that question is contingent on whether or not your company has reached maximum efficiency. In the property management industry, inefficiency can largely be attributed to the pitfalls associated with traditional payment methods. The costs associated with the traditional receivables process are largely accepted as static or fixed in nature, but this is not the case. Comparing the traditional process to one that incorporates cutting edge electronic payments sheds light on the inefficiencies and the opportunities that lie before us.

So, is there a simple way to increase our profit margin? The answer is yes – by increasing efficiency and streamlining the receivables process, implementing an electronic payment solution will maximize your return on operating costs, thus increasing your profit margin.

This paper will provide a foundation of the Multifamily industry as it stands today and discuss the benefits and opportunities ePayment options provide to increase efficiency and streamline the receivables process – and ultimately make your company more profitable.

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OUR INDUSTRY TODAY:

Traditional Payment Methods



PERSONAL CHECK

The most common payment method used for rent payments, personal checks allow for residents to pay by merely writing a check and delivering it (either by person or by mail) to their property manager.

Funds availability with personal checks is not verified real-time, so there is the possibility that the payment can come back with a Non-Sufficient Funds (NSF) status, which consumes significant administrative time in the collections process. The biggest drawback to personal checks is the time associated with receiving and processing (i.e. sorting and photocopying checks, making bank runs, etc.), which can divert the attention of staff members away from job functions crucial to property management such as leasing and customer service. This makes personal checks a much more costly payment method than simply the bank fees associated with check processing.

CASHIER'S CHECK/MONEY ORDER

Either the issuing bank (cashier's check) or a third party such as a convenience store (money order) verifies the availability of the amount of payment, so there is no risk of the payment being assigned a non-sufficient funds (NSF) status. Although cash, money order and cashier's check payments are all verified funds, cashier's check and money orders are preferred over cash because they are less susceptible to theft or loss.

So why aren't all rent payments made by either cashier's check or money order? Although they are convenient for property management purposes, the main drawback of these payment methods is that they are not the most convenient method for residents. Rather than going to the bank to get a cashier's check or to a convenience store to purchase a money order, most residents would prefer to simply write a personal check.

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OUR INDUSTRY TODAY:

Traditional Payment Methods



CURRENT STATE

According to the 2009 National Multi Housing Council (NMHC) Study:



- 76% pay their rent with a check delivered to the office
- 12% pay via credit card
- 10% pay via eCheck (ACH)
- 2% pay via other methods (money orders, cash, etc.)

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UNDERSTANDING COSTS ASSOCIATED WITH PROPERTY MANAGEMENT



HARD COSTS

There are certain operating costs that are, by nature, unavoidable. These are commonly referred to as “hard costs.” Hard costs can be associated specifically to an activity or purchase. In the property management industry, these hard costs include those associated with maintenance, employee salaries, property upkeep, etc. These costs are difficult to reduce and impossible to eliminate altogether, and therefore have to be factored into your business model as overhead.

SOFT COSTS

Soft costs are those that cannot be assigned to a specific, tangible activity or purchase. There are a number of soft costs involved with property management that can be mitigated by implementing an ePayment solution. These costs are reduced by streamlining the receivables process and reducing administrative time, which equates to increased profit margin. When considering how electronic payments will make management operations smoother and more efficient, the following activities can be greatly impacted:

- | | |
|---|--|
| ▶ Collecting rent checks | ▶ Recording rent payments into the A/R ledger |
| ▶ Filing and shredding checks after holding period (specified by NACHA) | ▶ Making “bank runs” (Expenses associated with in person bank deposits: Insurance, mileage, bank fees and excessive time “off property”) |
| ▶ Researching lost/stolen checks | ▶ Endorsing rent checks |

After taking into account all of the hard and soft costs mentioned above, it is clear that it would be more efficient for your employees to focus on:

MANAGING FOR OCCUPANCY

- Showing apartments
- Securing leases
- Marketing efforts

RESIDENT RETENTION

- Customer service
- Prompt response time

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MOVING FORWARD: Profile of a 21st Century Renter



According to Harvard University's Joint Center for Housing Studies, over 80 percent of all households aged 25 or under are renters, along with two-thirds of those aged 25 to 29. The personal computer, the internet, and cell phones are no longer considered luxuries; they are a vital part of everyday life for a generation that came of age during a period of widespread technological innovation. In other words, the 21st century renter is one that not only appreciates technology, but expects to utilize technology for everything from social networking to paying rent. Soon, the rental market will primarily consist of these "Generation Y" renters, and it is crucial to integrate technology into your business model to stay competitive and attract this new market of renters.

The student-housing segment of the renter population is also booming more than ever before. The influx of the children of baby boomers has boosted the growth of college enrollment and according to the U.S. Census Bureau, the number of Americans in college grew from 9.3 million in 1998 to 11.5 million in 2008. The U.S. Department of Education estimates that the number of high school seniors this year is at a record 3.2 million and expects that college enrollments will continue to set records until at least 2015.

Change can often bring uncertainty, which can be problematic. However, it is important to realize that traditional payment methods are slowly dying out. The only check that most 21st century renters write is for their rent. Providing an ePayment alternative will go a long way in attracting this new renter.

The 21st century renter is one that not only appreciates technology,
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ELECTRONIC PAYMENT METHODS

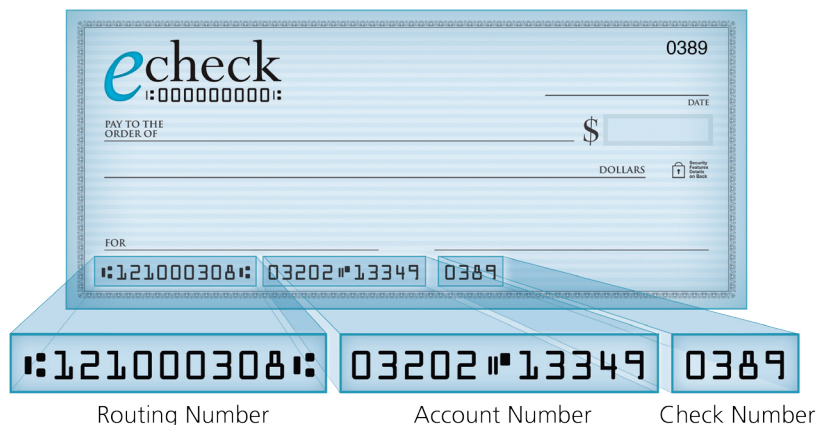


CREDIT CARDS

Offering credit card payments as a payment option to your residents allows them to accrue rewards (flight miles, cash back rewards, etc.) and pay rent as they would any other bill, increasing resident satisfaction. This added amenity can be promoted via marketing to attract and retain residents. Another benefit to accepting credit card payments is that funds are verified instantaneously, so there is no risk of a payment bouncing back with a NSF status. Accepting credit cards also allows residents to make payments when they do not have the necessary funds available in their bank account, which reduces delinquencies and the need for evictions.

eCHECKS (ACH)

An Automated Clearing House (ACH) payment, commonly referred to as an eCheck, is an electronic transfer of funds from a checking or savings account. Residents provide their bank routing and account numbers and the payment is electronically made from their account to the designated corporate or property depository account.



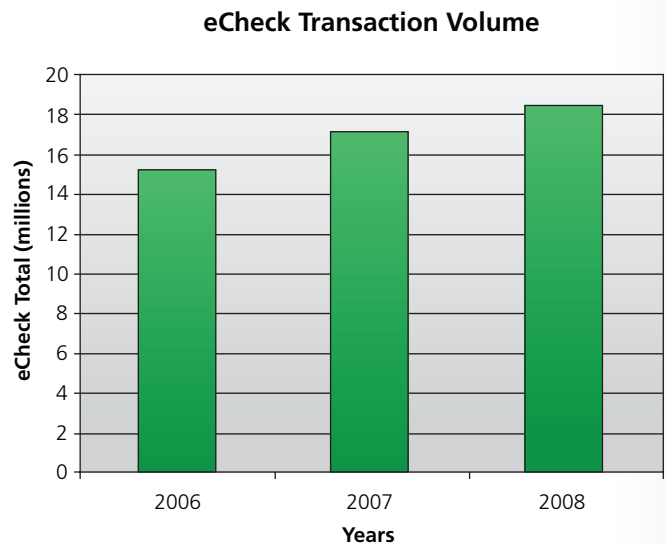
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ELECTRONIC PAYMENT METHODS



With an eCheck, property managers have a great alternative to collecting and posting traditional check payments. Accepting eCheck payments increases your cash flow with 1-2 business day funding in contrast to up to 7-10 days to clear paper checks.

eCheck payments have consistently increased in volume in recent years. To the right is a chart showing the growth of electronic check payments made directly from bank accounts. This data accounts for ALL eCheck payments (not just those for rent payments), but demonstrates today's society's desire to move away from cash and paper checks towards electronic payment options. As you can see, from 2006 to 2008, transaction volume has increased about 20% in total volume. Source: NACHA.org



CHECK SCANNING (REMOTE DEPOSIT CAPTURE):

While Credit Card and ACH payments require a resident to initiate the transaction electronically, check scanning allows management to convert paper checks (money orders, cashier's checks and personal checks) into electronic payments. Check scanning combined with credit card and eCheck acceptance allows for 100% automation of your account receivable process. A check scanning solution allows residents to continue using traditional payment methods while still reducing the amount of administrative time necessary to process payments.

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BENEFITS OF ELECTRONIC PAYMENTS



100% AUTOMATION OF RECEIVABLES PROCESS

Property Management Accounting Software Integration:

One benefit of implementing an electronic payment solution is that, in most cases, ePayments will directly integrate with your property management accounting software. Credit card, ACH, and scanned check payments will automatically update your accounting ledger, eliminating the need to manually post payments.

Improved Reporting:

Most ePayment systems generate sophisticated reports based on payment data such as transaction activity and reconciliation reports to complement the integrated payment data. Administrative time would no longer have to be devoted to the generation of such reports.

IMPROVED CASH FLOW

Funds from electronic payments can hit your account as early as one business day from the time of payment, as opposed to up to 14 days with traditional payment methods. Notifications of NSF's would also come sooner and have less negative impact on cash flow.

LESS DELINQUENCIES AND EVICTIONS

24/7 availability of electronic payments will decrease delinquent payments caused by postal delays. Also, accepting credit card payments will allow residents that would otherwise be delinquent or in eviction status to make payments on-time and in full.

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BENEFITS OF ELECTRONIC PAYMENTS



INCREASED OCCUPANCY RATE

Increased Resident Retention

The costs involved with high turnover have a drastically negative effect on the bottom line. Allowing residents the convenience of making payments online, over the phone or through other channels (such as text message and email) will increase resident satisfaction. Additionally, a staff that is not bogged down with manually processing payments has more time to dedicate to customer service. As simple as it seems, having a high level of resident satisfaction can vastly improve your profitability. A satisfied resident is likely to renew at the end of their lease term, reducing operating costs associated with resident turnover. A satisfied resident is also more likely to recommend your property to potential renters, positively affecting your occupancy rate.

Differentiate from Competitors

One of the biggest challenges when managing for occupancy is differentiating your properties from those in the same area. Offering the added amenity of multiple payment options will assist in attracting residents to your property. In a recent survey by JP Morgan Chase, renters ranked an online payment option nearly as important as having a swimming pool. Offering more payment methods (credit/debit cards and eChecks) with more payment channels (online, payment by phone, in person and RentByTextTM) will distinguish your property from those of your competitors.

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BENEFITS OF ELECTRONIC PAYMENTS



ENHANCED SECURITY

Responsible ePayment processors go through third party audits (such as PCI and SAS-70) to ensure data security both in business practices and storage of confidential data. It is critical to ensure that your payment processor is PCI and SAS-70 certified to assure the highest levels of security.

OLD WAY (PAPER CHECKS)

- ☒ Renter drops off rent check
- ☒ Photo copy check for records
- ☒ Endorse check
- ☒ Post manually in accounting software
- ☒ Wait for other checks to come in
- ☒ Produce reconciliation reports
- ☒ Bank run to deposit checks
- ☒ Wait 3-5 days for checks to clear
- ☒ Rent money in bank account
- ☒ NSF's in 5-9 days

Entire process can take up to 14 days.

NEW WAY (ELECTRONIC PAYMENTS)

Credit Card:

- ☒ Funds are immediately verified
- ☒ 1-3 days to deposit after payment is authorized
- ☒ Commonly used by renters – easy, convenient and secure

eCheck:

- ☒ Next business day funding
- ☒ Flexibility – set for one time or recurring payments
- ☒ Eliminates burden of receiving & processing paper checks

Check Scanning:

- ☒ Receive checks in mail or in person
- ☒ Place checks in check scanner
- ☒ Automatically posts to accounting software
- ☒ Paper checks become electronic payments
- ☒ Rent money in bank account next day
- ☒ NSF's in 1-3 days

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EXECUTIVE SUMMARY



In the past, traditional payment methods have been effective enough, but technology has changed the game. eCommerce has evolved to the point that residents now pay the majority of their bills electronically, and yet they are still mailing in a check in order to pay their rent. Paying rent electronically is not only easier and more convenient for residents, it also requires less administrative time for the processing of payments for property management companies.

Electronic payments are preferred by residents and are a major competitive advantage for forward-thinking property management companies. By reducing the cost of labor involved with manually processing paper checks, an ePayment solution can significantly improve your bottom line and make your company more profitable.

FOR MORE INFORMATION, PLEASE CONTACT US:

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