THE LETTINGS HUB
the home for lettings

Why Regularly Reviewing Your Tenant Referencing Process is Essential for Every Letting Agent

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Introduction

When was the last time you evaluated your referencing provider, to see what could be improved?

The lettings industry has been changing steadily over the past decade and is set for further significant changes in the future.

The Renters Reform Bill white paper outlined proposals, from which the industry has been able to gain some idea of the potential legislative changes that might come our way in the near future. Renters Reform could take us into a new era of no end date leases. 12-month contracts may become a thing of the past, and Landlords may no longer be able to rely on Section 21 to regain their properties without proper cause.

These matters are causing great feelings of uncertainty to the landlords who may feel like their hands will be tied, and their assets at the mercy of the tenants living in their properties.

With these legislative changes coming up, the reality becomes that it's the tenants who are being referenced now, who might be in your landlords' properties when Renters Reform becomes law.

The overall purpose of Rental Reform is that the balance of power will be with the tenant. Therefore, it's more essential than ever to be getting referencing right - ensuring that the tenants being placed in homes are verified, of high-quality and can be recommended with the highest confidence due to an effective and up-to-date referencing process.

The simple solution is for agencies to audit their referencing process now, before the legislation comes into effect. To be prepared ahead of time for the greater pressures of referencing in a market where good tenants are more valuable than ever before, and save pain down the line.

Here are the three key areas to consider when evaluating your referencing procedures;

1

Do your referencing checks match your own brand standards?

Many agencies are working with a referencing provider that may not offer the flexibility to cater to their actual needs. Each agency will have unique requirements based on their location, clientele, risk appetite, and size. So it's important that a referencing provider can offer a flexible range of tenant referencing solutions to suit those requirements. On top of that, a combination of speed, accuracy and smart features are needed to provide robust referencing checks that offer an increased guarantee of a successful tenancy. The coming changes are going to place new pressures on letting agencies to perform more precise referencing checks. The agencies who are going to successfully provide fast referencing will be those who have evaluated their processes and have chosen to be backed by a powerful and efficient referencing provider that is right for them. It's also important to think about the standards being offered by your referencing provider to protect your landlords. Every tenancy is different, and your referencing needs to reflect this.

2

What validation checks are being undertaken behind the scenes, and are you satisfied with them?

Asking for a set list of documents to give a picture of a prospective tenant is not enough. How does your current referencing provider verify that the documents received are original and not doctored? Evaluate the way that your current referencing product checks boxes to say that the tenant provided verified documentation. Agencies need to opt for a referencing service that places importance on additional data validation checks. Going further to look for a verified reference from income referees including confirmation of continuation of contract, or a verified reference from previous landlord, will provide a better value and more comprehensive check. Proof of address matching and a digital footprint check are added measures that will give weight to your confidence in the tenants ID and the accuracy of the information given about them. A guarantee of legitimacy for referencing is going to be highly valuable when the stakes are higher, regarding reformed tenancy proceedings.

3

Think about everything that has changed in recent times...

We are not living in the same world now that we were ten, or even three years ago. For example, more people are now working from home – a change that happened almost overnight as a result of the pandemic in 2020. Many people who have found confidence in working from a remote setup have been inspired to go freelance, and some have even made the leap of working remotely for international companies. As a result, it has become much harder to track down public employment details (for example, a company landline rather than a personal mobile phone number) to obtain valid employment references, which are vital for confirming employment and financial security. It is extremely important that a referencing product can tackle issues such as this, where new obstacles arise from the changes in society. A smart referencing option is one that is backed by innovative technology, able to keep up with modern living and constantly find ways to still obtain the relevant referencing information in a changing world.

Let’s consider how tenants have changed over the last ten years.

We are without question living in a digital age. Technology is so at the forefront of our daily lives that we perhaps don’t even notice how much of a part it plays in every aspect of our activities, and the Covid effect only accelerated this.

Almost every person now walks around daily with a smart device in their pocket. Tenants are getting younger, technology is literally at people's fingertips, and it would be remiss not to point out that many people are adept at using apps designed to alter everything from selfies to official documents.

Unfortunately, this is reflected in the current rising trend of altered payslips, bank statements and the doctored employment details being used for tenancy applications. It is easier than ever to set up fake email addresses, fake websites, and register a business online within minutes. All of these circumstances have direct implications on how we can reference tenants who are making applications for residency in a private rental home.

Businesses need to consider that we live in a world of filters, edits, deep fakes, and digital communication – you cannot always trust what you see anymore. Document fraud has never been easier or more accessible to the public, and the temptation has never been greater – considering some of the wider problems with tenants' finances, which we will discuss further in the next chapter.

"30.9% of current Private Renters are aged 25-34"

English Housing Survey data on social and private renters - GOV.UK (www.gov.uk)

An effective referencing product should be equipped for today's increased risk of document fraud.

It is important that referencing is able provide a significantly reduced fraud risk. With tenancy fraud rising exponentially, it has never been more important to have a full 360-view of your applicants.

A referencing product that is powered by Open Banking allows applicants to securely share financial records from their online bank account(s). From this data, your agency can easily identify income from employment, self-employment, pension, and other sources to confirm their ability to afford the rent.

The strongest argument for using Open Banking is that the information cannot be falsified, altered, or exaggerated - so it is a completely secure option for both your business and the tenant. Keeping their financial information safe, while keeping your peace of mind that affordability has been verified accurately. The risk of document fraud is reduced to nil when using Open Banking as opposed to collecting paper statements from tenants that can be altered.

As well as being more accurate, Open Banking is also faster. In some cases, referencing powered by Open Banking can return a referencing recommendation in as little as three hours, significantly improving efficiency for the letting agency and its capabilities of progressing from listed to let.

Making the addition of an Enhanced ID check would be even more beneficial. An effective Enhanced Identity Verification solution will perform fast ID checks as well as being able to detect deep fakes and false accounts.

Some tenants have been known to create fake email addresses for employers, fake social media profiles, register bogus businesses and more, in order to sway their referencing decision. Enhanced ID checks have the capabilities of identifying these and other fraudulent methods often used by tenants who wish to exaggerate their employment status or identity.

"Private rental prices paid by tenants in the UK rose by 4.4% in the 12 months to January 2023, up from 4.2% in the 12 months to December 2022. "

Index of Private Housing Rental Prices, UK: January 2023
- Office for National Statistics (ons.gov.uk)

Is your referencing reflecting modern times?

We are currently living through a Cost-of-living crisis, an energy price increase, and the highest Bank of England interest rate the UK has seen in 15 years.

Landlords have had to increase rents to reflect their mortgage repayments, and increased costs associated with owning a property. Meaning that tenants disposable incomes are suffering after the increased cost of food and bills have placed a noticeable strain on their monthly budgets. A large amount of them are living alone, meaning that there is not another tenant to help contribute to the high cost of bills, or to share the burden of financial strain with.

Salaries are not increasing in line with the rising costs, so tenants are feeling an uncomfortable pressure as their affordability brackets are shrinking.

Your referencing should be reflective of the circumstances that landlords and tenants are currently facing. Being market-conscious is the way to ensure that your landlords are being looked after in the best possible manner. It will put you on the right path to contribute to their needs in a practical and meaningful way, proving that you have their best interests in mind and maintaining the working relationship to the highest degree.

With finances being the subject likely to be at the forefront of landlords minds, let's talk about how your referencing can lessen the worry.

"The majority of current Private Renters are single people living alone (37.6%)"

English Housing Survey data on social and private renters - GOV.UK (www.gov.uk)

A market-conscious referencing product should conduct thorough background checks on affordability.

Referencing that is suitable for modern circumstances should tick all of the necessary boxes for affordability and credit checks. It's necessary to look at a tenants' address history, check their average income and their rent payments over the last 12 months. A thorough reference should also review any missed or late payments, to give a good idea of the history of behaviour for the individual(s) being referenced.

There is a greater risk of rent arrears in a financial climate such as this, and having a strong referencing strategy in place to make the necessary assessments on affordability will be an effective solution.

Considering whether your referencing affordability parameters still hold up is worthwhile question. With disposable income becoming less disposable, it might be time to consider raising your income to rent ratio to 2.7 or 3 times the annual rent rather than the standard 2.5. Guarantors may also need to be used more frequently, with many agencies increasingly using guarantors as an insurance policy.

A referencing provider who is flexible to your agency's preferences will be able to make that change and ensure that all tenants vetted for you will be meeting the criteria for affordability that you think fits best.

The January '23 Housing Report from Propertymark reported an average of 11 tenant applications per property listing.

If time is money, then it is worth thinking about pre-qualification.

Pre-qualifying tenants can significantly save time lost on fall-throughs and unsuitable applicants. Tenant Passport Referencing is a referencing service that is a great time and cost saver for agents, and a more transparent, easy to understand process for tenants. The tenants can simply access an online portal where they submit all of their relevant details for a reference check.

Agents then have - without the needing to chase it - the relevant information to check key suitability indicators including credit history and affordability. This creates a bank of pre-qualified tenants sitting in the portal, ready to refer to when a suitable property becomes available, without any delay. It decreases the amount of time spent or wasted on viewings, and will serve as a useful tool amidst the supply and demand imbalance as tenants can make their applications online instead of further burdening the workload in the office.

Pre-qualification makes a great proposition for landlords, too. Landlords need to be reassured that their properties are being managed by an agency that is keeping up to date with modern practices and supplying only the best tenants to sign agreements to their properties.

A timesaving referencing product such as this, that doesn't compromise accuracy, is going to both impress an increase the confidence of Landlords - helping agencies win and retain their custom. Having a bank of pre-qualified tenants helps landlords greatly, because in this economic climate they do not want properties void. That rent is their livelihood, and a quick pace for providing excellent quality tenants can only be a bonus for them.

Technology has revolutionised the way we reference, and the amount of time it takes to do it.

Referencing that comes packaged with an efficient tenancy management platform can significantly cut down the amount of time it takes for a property to go from listed to let. Fast technology can get a tenancy recommendation down to just three hours in cases where referencing is powered by Open Banking, and where information can be collected from the tenant using real time notifications on a smart platform.

Time-saving measures are essential in a market where supply and demand are mismatched. Each new listing is going to attract a high volume of tenants, workloads will be stretched, and Letting Agencies will be inundated with applications and queries.

It would be a costly mistake for an agency to continue to use slow processes that may have worked for them in the past, without thinking about whether they are still working efficiently for them today. The 'traditional' methods, on average, take around 17 man hours or more to process a let, which is valuable time that could be better spent chasing new business and increasing revenue - so reduce it down.

A referencing service with a smile.

The Lettings Hub are proud to be at the forefront of our industry in terms of property technology, but arguably our most valuable asset is our expert team. Referencing that comes with a friendly service at the other end of the telephone can make all the difference to a busy agency that needs assistance when a challenge arises. We offer a reliable service that ensures agents can talk to a real person about their referencing via phone, email or online chat. We also work behind the scenes from 5am to 9pm. We're here for our customers when it counts.

A tick-list for better referencing:

Referencing with too many oversights can lead to the failure of a tenancy. Whether it be because of an issue with affordability, or something else that could have been uncovered and properly vetted at the pre-tenancy stage, bad referencing means more cost and less gain overall for agents. Here's a ticklist of the key features an agency should consider when choosing a referencing product or service:

Consider cost vs quality.

A highly priced referencing service does not automatically guarantee the best results. But cheap referencing can also not deliver the desired outcomes. It is important when choosing a referencing service to make an informed choice and to understand the product. Read the small print, discuss your needs in a consultation, and make sure you are paying the right price for the service that your business promises to its landlord clients.

Do not opt for a product with a lack of verification technology.

In a perfect world, we could just hope and trust that all tenants are legitimate with their applications and have nothing to hide. But the reality is that deeper checks do uncover concerns. Being able to trust technology that expertly verifies documents and can put a 100% green marker on references is the key to solid tenancies.

Make tenants affordability checks a priority.

Referencing should hold the appropriate capabilities for in-depth affordability background checks as well as a flexible option for setting income parameters. The inclusion of a smooth process for utilising Guarantors and Open Banking should be essential. What disposable income amount for a tenant is acceptable to you?

Look for an option that can keep up with changing legislation.

Legislation is always changing. The laws around tenancy can be strict, and enforcement can be harsh on those who did not check that all their documents and practices were compliant. Right to Rent is a legislative scheme that landlords must comply with, failing to do so is a criminal offense. Even if a landlord or agent simply makes a mistake, there is little leniency with fines. It can be a huge undertaking to manually check a property portfolio and assess it for compliancy, so look for a referencing service that can provide a Right to Rent solution to assist in completing the necessary checks. Some can even provide an eligibility report.

Opt for tech, but tech with human input is prime.

There's no denying that technology has super-powers that surpass human error. But, relying on it solely takes away the important element of common-sense decisions and contextual thinking. You should aim to look for a referencing option that gives you the intelligence of tech, but also an overall recommendation from a real-person input. Reality is often more complex than the black-and-white processes of technology, so having additional advice from a referencing expert can make all the difference. A supportive team behind the scenes, available on the other end of the telephone can save a lot of time and avoid issues that may arise in complex referencing cases. Not all referencing products provide that human safety net. Your referencing team are an extension of your business, so it's essential to choose one you have the highest confidence in.

Known as the referencing business that got good at tech.

Contact Us

Make a step towards smarter referencing now, and receive a no obligation, free consultation to evaluate your current referencing process.

Book a 15 minute referencing review with one of our experts today.

We can offer

- End-to-end tenancy management software
- Open Banking affordability checks
- Choice of 12 referencing options
- Enhanced ID checks
- Pre-qualification

and much more...

To find out how The Lettings Hub can help improve your referencing process, chat with one of our experts today.

Book a time that suits you today!

www.lettingshub.co.uk

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