

Mini-Storage Messenger

Twenty-Plus Ways to Improve your Collections

After a tenant has defaulted and been sold, many operators write off the debt that the tenant owes, deeming it too small to make it worth collecting. If you add up all of these small bad debts that accrue in a year, it may turn out to be a significant amount that would greatly improve your bottom line, if you could collect it.

At the beginning of every tenant relationship, there is what I call a “honeymoon” period - the time after you have convinced the tenant that your facility is the answer, and the execution of the lease – when a tenant is willing to provide you with certain information if it is “required”.

Below, I list some of the best collection secrets of my collective group of clients. All of them are not necessarily going to work or be realistic at each of your facilities, but adding several of these to your policies and procedures may put you in a better position to collect some of what you had formerly considered to be automatic bad debt.

I. **Know your tenant.** The tenant should be willing to provide you with almost as much information about themselves at the inception of the tenancy as you request, particularly if your rental documents have spaces to collect this information so that it appears that you will not be able to rent to the tenant unless or until you have all the information necessary to complete the “blanks” on the lease. Emphasize to your employees that no lease is complete until you have the information you require. Remember, when you order a product on the internet, the website requires you to provide certain information if the field has an asterisk next to it that says “required”, the web page will not let you proceed until you provide it. It will keep kicking it back to you until you give up and provide the information. The same can be said of a human relationship of a self-storage tenant. If you tell the tenant the information is required, they will provide it, however unwillingly.

There are other ways to make sure you know who your tenant is: (A) Make sure you have reviewed a piece of government-issued photographic identification. The name the tenant lists on the lease should match the name on the identification, and that person’s face standing in front of you should match the photo on the identification; (B) Do not hesitate to take a photocopy of the

driver's license. While kiosks do this all the time, except in rare instances, it is not illegal to take a photocopy of a driver's license and keep it with the file. Tenants, knowing that you have taken photocopies of this type of information are generally less likely to feel like they can slink out on a debt in the middle of the night because you actually retain the information about them; (C) Make sure the information on the identification matches (or is less current) than the information on the lease; (D) A certain percentage of your tenants are transient or between locations, ask for information about where a tenant is planning on moving to, or where the tenant will be during the storage relationship; (E) Try the phone number the tenant gives you in the back room while the tenant is still at the store, you can always leave a message thanking them for their business; (F) Do not be afraid to ask for a social security number. While you have to be careful handling these sorts of records, go ahead and get their social security number anyway. A social security number is about the only way to report the delinquent tenant to a credit reporting agency; (G) Ask to see another document with a social security number on it. While we certainly do not want to send a tenant home to get a document, many health insurance cards, pay stubs, tax forms, W-2's etc., still have social security numbers on them. You really do not want to take the word of the tenant that the social security number he or she provides you is accurate; (H) Although I always prefer only one tenant to a lease, if you are taking two tenants, get all of the information on both tenants. Do not allow a tenant to just "sign on along with the other tenant". If a second person is going to be a tenant, you need all of their data as well; (I) While some states require an alternative contact, whether or not your state requires it, make sure to get one or more, and explain to the tenant how important it is that the operator be able to reach the tenant, especially in the event of a default or other issue, rather than having the tenant lose their property, gather all of the names and numbers the tenant is willing to give you during the "honeymoon" phase.

II. **Know Where Your Tenant's Money Is.** (A) During your sales presentation, do not forget to offer to "help" the tenant if they need to get a money order or cash to make the first payment. Ask where the prospect banks to direct them to the closest fee-free ATM or bank that will issue a money order for less cost. Consider keeping a map of ATMs at the office. Make a note to the tenant file where the tenant told you he/she banked; (B) If you receive a check as a first payment, photocopy it and save the copy of the check in the tenant file before depositing the

check; (C) Do not forget to require or offer electronic fund transfers from bank accounts. You should explain to the tenant that you can hold an EFT, or (not as desirable) a credit card authorization in the file if the tenant forgets to pay rent before the late date, so rather than incurring the late fee, you could in that case automatically charge the rent against the account or credit card. This way, you have also obtained credit card information or bank account information and lower your bad debt risk at the same time. EFT is in the operator's best interests, but it is also a service for the tenant. Meanwhile, you are gathering great information for later collections in the event your tenant defaults; (D) Institute a policy that once every six months you photocopy and put in the file every rent payment made by any tenant who pays by check. Copying checks every six months will help you keep track of where your tenant's current address and where he/she is banking, especially if you are receiving out-of-state checks. Your statute or lease may say that a check or return address alone does not constitute notice of a new address, but you ought to be catching them for your records if it is this simple and inexpensive; (E) Continue to offer the EFT/credit card option. Sometimes tenants are not trusting of the process at the beginning because they do not understand self-storage, once they have been your tenant for three months, it is appropriate to offer EFT again, especially if your tenant has been late once during the time and paid a late fee, they may now think EFT is a great idea and may be grateful for it. Meanwhile, you are collecting good information.

III. **Know Your Forms Protect You.** (A) Make certain that your lease gives you permission to contact your tenant via phone, facsimile and e-mail. There are currently Federal and State laws regarding phone calls and the now-on-hold "do not fax" regulations. Make sure you have obtained waivers to continue to treat the tenancy as a business relationship, even after default, and in the case of faxes you must have specific language allowing you to fax. At some point, if you have a fax number (and you should), you should fax a letter so that the tenant knows that you still know where they are. Even if a home address has changed, sometimes a home or work fax number does not. The contact via fax may catch the tenant off guard and they may pay you to avoid your pursuing a claim against their wages; (B) Make sure your forms allow you to communicate directly with the alternate contact people named in your lease; (C) Make sure your EFT and credit card forms permit you to continue to try to put through charges that are owed,

even if a check bounces, a credit card transaction is refused because of over-limit situations or otherwise during and after the tenancy has ended up until you are paid in full, you can sometimes pay yourself. Of course, this does not work all the time, but even if it only works 10% of the time, it is so easy to collect.

IV. Join the Club. (A) If possible, join a credit bureau that allows you to report the small debts on the credit reports of your tenants. Normally, this can be accomplished at little or no cost to you. In order to report a tenant to the credit bureau, you must have a date of birth and social security number. That is why this information is so critical at the front end of this transaction. During the honeymoon period, it is likely you can get a social security number, especially if it is company “policy”; (B) If you belong to a credit bureau and report to the credit bureau, one of the most powerful things you can do is have a sign in your office that notifies your tenants of your membership in a credit bureau and that you report all delinquent accounts to the credit bureau. I do not advise that you have a sign like this as a bluff. That is, if you are not actually reporting to a credit bureau, do not say it in a sign. (C) Also, there is a segment of your tenants who do not want their credit damaged, and a letter stating that tenant will be reported to the credit bureau in thirty days does, in a statistically-significant number of situations, result in a payment to avoid being reported to a credit bureau; (D) Do not be afraid to enter into an agreement with your local attorney or credit bureau to send a form letter in compliance with the Fair Debt Collection Practices Act warning the tenant that collection action has been started.

Almost everything that predicts the success of your collections occurs in the up-front end of the transaction. Proper education of the tenant of the importance of paying on time is certainly one thing; proper education of the tenant that small debts are collected aggressively is another. Gathering the information you need to make yourself an effective collector on the back end, i.e., noting checking accounts, where tenants bank, getting the credit card or the EFT form signed, letting a tenant know that you report to the credit bureau, understanding emergency contacts and where people might be living or residing or heading during their tenancy period is all information that you can get and education you can provide only one time at the inception of the tenancy. Do not be so quick to move from the sales presentation to the signing and execution of the lease. Take the extra five minutes, gather the information, verify the identity of the tenant, make sure to

take good notes about any information that you could possibly gather from the tenant by asking leading questions about financial institutions, credit card companies, etc., in the tenant file, so that when it comes time to collect, you have a genuine head start on your competition.

Jeffrey Greenberger is a partner with the law firm of Katz Greenberger & Norton LLP in Cincinnati, Ohio and is licensed to practice in the states of Ohio and Kentucky. This column is for the purpose of providing general legal insight into the Self-Storage field and should not be substituted for the advice of your own attorney.

Mr. Greenberger's practice focuses primarily on representing the owners and operators of commercial real estate including self-storage owners and operators.

Mr. Greenberger is the legal counsel for the Ohio Self-Storage Owners Society, Inc., and the Kentucky Self-Storage Association, Inc. You can send your questions or comments to Jeffrey Greenberger at jjg@kgnlaw.com, or mail them to Jeffrey Greenberger c/o Katz Greenberger & Norton LLP, 105 E. Fourth Street, Suite 400, Cincinnati, Ohio 45202 or you can reach Mr. Greenberger at (513) 721-5151. You can also visit his website, www.selfstoragelegal.com.