NATIONAL MULTIFAMILY HOUSING COUNCIL NATIONAL APARTMENT ASSOCIATION

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Rohit Chopra Director Consumer Financial Protection Bureau 1700 G St NW Washington, DC 20552	April Tabor Federal Trade Commission Office of the Secretary 600 Pennsylvania Avenue NW Suite CC-5610 (Annex B) Washington, DC 20580

Dear Director Chopra and Secretary Tabor:

On behalf of the nearly 100,000 combined members of the National Multifamily Housing Council (NMHC)[1] and the National Apartment Association (NAA)[2], we submit these comments in response to the Federal Trade Commission's (FTC) and Consumer Financial Protection Bureau's (CFPB) request for information (FTC-2023-0024) on a number of questions pertaining to screening of rental housing applicants. Over one-third of American households rent, and over 20 million U.S. households live in apartment homes (buildings with five or more units). NMHC and NAA represent small, medium and large for-profit and non-profit owners, operators, developers, property managers, and service providers involved in the provision of rental housing, across all segments, including conventional, affordable, military, student and seniors.

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1 Based in Washington, D.C., NMHC is a national nonprofit association that represents the leadership of the apartment industry. Our members engage in all aspects of the apartment industry, including ownership, development, management and finance, who help create thriving communities by providing apartment homes for 40 million Americans, contributing $3.4 trillion annually to the economy. NMHC advocates on behalf of rental housing, conducts apartment-related research, encourages the exchange of strategic business information and promotes the desirability of apartment living.

2 The NAA serves as the leading voice and preeminent resource through advocacy, education, and collaboration on behalf of the rental housing industry. As a federation of 141 state and local affiliates, NAA encompasses over 93,000 members representing more than 11 million apartment homes globally. NAA believes that rental housing is a valuable partner in every community that emphasizes integrity, accountability, collaboration, community responsibility, inclusivity and innovation.

Executive Summary

NAA and NMHC members are committed to creating thriving communities for our residents, employees and guests. They strongly support efforts to improve housing access, affordability, and the experience of applicants' and residents.. Therefore, we appreciate the opportunity to share our perspective on the importance of resident screening in creating and maintaining successful communities for the nation's renters.

Resident screening serves as a critical part of property management and operations. It allows housing providers to evaluate whether or not a potential resident is capable of and likely to fully comply with the terms of their lease. These foundational measures include evaluation of an individual's ability to make timely and consistent rental payments, whether an applicant poses a foreseeable safety risk, and whether an applicant may infringe upon other residents' rights or interfere with property operations. Moreover, screening helps us identify and counter the increasing risk of rental fraud – including the evolving threat of synthetic fraud. Fundamentally, we rely on resident screening tools to establish sustainable relationships with our residents and ensure the financial viability of rental communities.

Screening is essential to resident-centered apartment management and effecting positive rental outcomes. The growth of tools within the screening landscape can benefit housing providers and residents alike, allowing apartment owners and operators to access additional tools that can further effective, reliable, and transparent practices. As our members strive to make better informed housing decisions, this can include the use of new methods and technologies.

As such, NMHC and NAA were two of the first to accept the White House Resident-Centered Housing Challenge - the Administration's call to action to housing providers and other stakeholders to strengthen practices and make their own independent commitments that improve the quality of life for renters.

NMHC committed to working with our 2,000 members to identify business standards that align with principles of resident-centered management practices, such as helping residents build credit, providing resource information to residents in financial distress, and communicating these practices through a new resource hub on its website. NMHC formed a task force on Multifamily Business Principles and is working to fulfill this commitment by June 30.

As part of its commitments, NAA is showcasing industry professionals' resident programming and practices, particularly those that assist economically disadvantaged residents to avoid being displaced by eviction and that help renters build and improve credit through reporting of positive rent payments to credit bureaus. These case studies will be featured through NAA's website, industry events and other content channels that reach a network of more over 95,000 members owning and operating more than 11.6 million apartment homes globally.

As CFPB and FTC evaluate resident screening experiences, we urge you to recognize the value of screening and to avoid measures that unreasonably disrupt necessary operational and property management practices. The federal government should ensure continued access to the screening tools and accurate consumer data necessary to make informed business decisions and focus its efforts and funding priorities on ensuring the enforcement of consumer protection laws on perpetrators of identity theft, fraud, and other unlawful behavior. All of the foregoing demonstrably improve outcomes for residents and housing providers alike.

Housing Supply and Affordability are the Key Issues That Must Be Addressed

Pre-pandemic, it was often estimated that only 1 in 4 families who needed decent, safe, and sanitary affordable housing had access to it. Since then, this number has grown. There is a direct correlation between federal policies that support increases to housing supply and affordability and the willingness of developers and others to create that affordable supply. Many housing providers operate on narrow margins, with the majority of rental payments going to pay actual expenses related to maintenance and other property upkeep, property taxes, debt, and similar operating expenses.[3]

The nation faces a housing affordability crisis and it is essential that we build housing at all price points to address critical housing needs. According to recent research commissioned by NMHC and NAA, the U.S. needs to build 4.3 million new apartment homes by 2035 to meet the demand for rental housing.[4] This includes an existing shortage of 600,000 apartments stemming from underbuilding due in large part to the 2008 financial crisis. Further, underproduction of housing has translated to higher housing costs – resulting in a consequential loss of affordable housing units (those with rents less than $1,000 per month), with a decline of 4.7 million affordable apartments from 2015-2020.

In fact, the total share of cost-burdened apartment households (those paying more than 30% of their income on housing) has increased steadily over several decades and reached 57.6% in 2021.[5] During this same period, the total share of severely cost-burdened apartment households (those paying more than half their income on housing) increased from 20.9 to 31.0%.[6]

We are therefore concerned that, amidst an industry already closely regulated at all levels of government, additional federal screening regulations may have a chilling effect on housing providers interested in developing or operating new housing. The impact of new federal requirements will impact investment into and development of housing stock if there is a discernible impact to the already-limited return on investment and the long-term viability of property. Investment and development may significantly be diminished when property damage, criminal

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3 *See e.g.,* NAA's Breaking Down One Dollar of Rent, available at https://www.naahq.org/sites/default/files/naa-documents/dollar_of_rent_2022.pdf.

4 Hoyt Advisory Services, "Estimating the Total U.S. Demand for Rental Housing by 2035." (2022), https://www.weareapartments.org/.

5 American Housing Survey, U.S. Census Bureau, "NMHC tabulations of 1985 American Housing Survey microdata." (2021).

6 *Id.*

activity, significant arrearages, and increased eviction costs are weighed against narrow operating margins.

Simply put, we are very concerned that additional regulation by FTC or CFPB will hurt, not help, the affordable housing crisis in this country.

Resident Screening Is Important for Residents, Housing Providers, and Residential Communities

Resident screening serves multiple purposes for our members' residential communities. It is a risk management tool that assists with the identification and mitigation of foreseeable risks[7] to residents, employees, and the residential community, thus furthers a positive residential experience for all involved in a community.

Screening helps our members make informed decisions about whether an applicant would be a successful resident. To make such a decision, it is important for housing providers to obtain accurate information with respect to relevant criminal history that may impact an applicant's ability to be a responsible resident and neighbor as well as a reliable rent payer. Rental history and credit history also assist with determining whether a resident is likely to pay rent or face a heightened risk of eviction. Identity and income verification (which may include vouchers or other subsidies) confirms that an applicant is presenting truthful and valid information and has sufficient income to pay the rental amount. Verifying income through nondiscriminatory, transparent, and uniform practices allows for better resident outcomes. Importantly, these practices were developed in response to fair housing and other law and regulation at the local, state, and federal levels. Considerations of new regulatory requirements should recognize that current screening tools and practices allow for good faith compliance efforts justified by business needs and policymakers should avoid further regulation that would conflict with existing compliance responsibilities. All of the foregoing are in service of successful rental outcomes for all parties.

These integral screening components help reduce risks associated with rental fraud – particularly synthetic fraud, which involves the fabrication of information such as Social Security Numbers, names, dates of birth, pay stubs, and other documentation. In many instances, real information is combined with fake information to create an entirely new false identity. As new technology tools develop, synthetic fraud has become more sophisticated, which makes it much harder and more costly to detect. Synthetic fraud is one of the fastest-growing forms of identity fraud in the country,

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[7] Courts have found that housing providers have a duty to minimize foreseeable risks at their properties. *See, e.g., Cure v. Pedcor Mgmt. Corp.* 265 F.Supp.3d 984, 988–989 (D. Neb. 2016). In that case, a child residing in an apartment property was kidnapped and raped by a fellow resident who had been allowed to move in without first passing a background check. The court found that "defendants had a duty to protect their residents against foreseeable risks of harm within the apartment complex. Plaintiffs amended complaint contains sufficient facts to make a plausible case for holding Defendants liable for negligently failing to prevent the kidnapping and rape of Plaintiffs minor child by another resident."

directly results in uncollectable debt and greatly increases the risk of crime occurring on the property.

The FTC's Consumer Sentinel Network reported a significant spike between 2019 and 2021 in reports of fraud, identity theft, and other deceptions: while such reports were already at a high of 3.43 million in 2019, they jumped to 5.74 million in 2021.[8] Housing providers have been hit hard by this increase in fraud. A 2022 SNAPPT survey of 230 property managers reported startling results. One out of 8 applications for housing include some type of fraud today.[9] 85% of apartment managers report being targeted with fraudulent applications – a stark increase from the 66% of managers who reported the same pre-pandemic.[10]

Clear and consistently applied screening policies and practices are critical to property management and operations. They reduce the risk of unconscious bias or discriminatory intent in decision-making. Research shows that policies designed to restrict or obscure objective, consumer history data during the rental application process can actually negatively impact minority applicants and cause greater adverse results within this group.[11]

Finally, modern screening policies and practices allow for consistent evaluations and treatment of applicants across properties in a portfolio. Housing providers frequently use screening programs and software to facilitate these evaluations, some of which use artificial intelligence or algorithms to enhance screening capabilities. Housing providers continue to balance the use of screening resources that are available to them with their ever-evolving legal responsibilities, which can create confusion and limit housing providers' ability to maintain objective practices. For example, U.S. Department of Housing and Urban Development's 2016 guidance for individualized assessments with respect to criminal background findings can make decisions more subjective than objective. HUD has announced that new guidance is forthcoming. It is thus unknown at this point whether the guidance will create even more inconsistent decisionmaking requirements. We urge CFPB and FTC to avoid similar guidance that can decrease objectivity.

Simply put, reducing, eliminating, or imposing new burdens on a housing provider's ability to fairly, transparently, and consistently screen applicants is more likely to result in increased fraud, evictions, and other avoidable adverse activities or actions. Prohibiting housing providers from conducting certain integral screening such as criminal background checks, may also impede

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8 Federal Trade Commission, Consumer Sentinel Network, Data Book 2021, *available at* https://www.ftc.gov/system/files/ftc_gov/pdf/CSN%20Annual%20Data%20Book%202021%20Final%20PDF.pdf.

9 2022 SNAPPT State of Apartment Tenant Screening Survey.

10 *Id.*

11 "The Impact of Limiting Applicant Information on Rental Housing Discrimination," Fed. Res. Bank. Minn., Oppy. & Inclusive Growth Inst. Working Paper 61, Gorzig & Rho, (Sept. 21, 2022), *available at* https://www.minneapolisfed.org/research/institute-working-papers/the-impact-of-limiting-applicant-information-on-rental-housing-discrimination.

landlords' First Amendment and other rights.[12] This is counter to the objective of screening to produce positive rental outcomes for all.

Housing Providers Strive for Successful Relationships with Residents, Not Eviction

We must emphasize that our members are not in the business of evicting their residents. Eviction is often used as a last resort. Our members are housers whose businesses always do better when units are occupied and when they can fully meet their obligations to their residents, employees, creditors and the communities that they serve. A successful tenancy is always the goal of our members. Housing providers routinely work with residents at risk of eviction and try to mitigate against displacement at all stages of the eviction process despite operating under thin margins. Examples of provider efforts include: resident education; waiving late fees; agreeing to payment arrangements; connecting residents with local resources for payment assistance and, as relevant, to assist with underlying issues that may have contributed to the potential eviction; and allowing residents to pay outstanding amounts and remain in their home, avoiding an eviction from moving forward. In short, our members make significant efforts to reduce their residents' risk of eviction and ensure positive housing outcomes.

Screening is a key element of this. Housing providers try to ensure that residents undertake realistic rental commitments and are capable and likely to pay rent in a timely and consistent manner. It is integral to ensuring that housing providers have reliable rental income to pay expenses and maintain housing quality for their residents. Moreover, it is essential for predicting whether an applicant is likely to engage in other actions or inactions that could lead to eviction. Placing an applicant into a situation where there is a significant chance they will not be successful or where they could negatively impact the community for other residents and staff is bad for all parties involved.

Screening and Housing Operations Are Closely Regulated Already at All Levels of Government

Housing and its operation are already closely regulated by myriad authorities:

- Federal fair housing laws and regulations, including the Fair Housing Act, Americans with Disabilities Act, Section 504 of the Rehabilitation Act of 1973 (for federal funding recipients), and Title VI of the Civil Rights Act (also for federal funding recipients). These existing protections broadly mandate that, among other requirements, approaches to admissions and occupancy are not discriminatory to protected classes and that reasonable accommodations are provided for persons with disabilities.

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12 *See., e.g., Chong Yim v. City of Seattle*, No. 21-35567 (9th Cir. Mar. 21, 2023).

- Federal credit and debt collection requirements. The Fair Credit Reporting Act includes required disclosures for applicants. The Fair Debt Collection Practices Act applies to housing providers as well.

- State and local laws traditionally govern the landlord-tenant relationship, including the application process, rent payment and nonpayment, the end of tenancies and evictions, and everything in between. They often include additional fair housing protections.

- Federally assisted housing like Section 8 and public housing are subject to specific regulations governing criminal background checks, notices of eviction, lease content, and other components of evictions and occupancy.

However, sometimes laws at all levels can have unintended consequences and result in negative rental housing and economic outcomes. For example, local nuisance abatement ordinances create significant burdens for property owners and punish residents for repeated calls for emergency services. They can often discourage victims from reporting domestic abuse and otherwise adversely impact victim needs. In contrast, voluntary owner/law enforcement programs such as Crime-Free Multi-housing can help apartment owners manage crime risk.

While we defer to screening service providers and the consumer reporting industry that provide resident screening reports to the housing industry as to the intricacies of their programs, we note that the use of consumer information in housing is also closely regulated. As of May 31, 2023, almost one fifth of the states had passed comprehensive data privacy laws in an effort to promote consumer protection. By the end of 2023, California[13], Colorado[14], Connecticut[15], Utah[16], and Virginia[17] will all have laws in effect. Additionally, Iowa[18], Indiana[19], Montana[20], and Tennessee[21] all passed new laws in 2023, which will be going into effect in the coming years. While only California and Colorado have promulgated implementing regulations, the Colorado rules provide

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13 Cal. Civ. Code § 1798.100 *et seq*.

14 Colo. Rev. Stat. § 6-1-1301 *et seq.* (“CPA”).

15 2022 Conn. Act 22-15 (Reg. Sess.) (“CTDPA”).

16 Utah Code Ann. § 13-61-101 *et seq.* (“UCPA”).

17 Va. Code Ann. § 59.1-575 *et seq.* (“VCDPA”).

18 2023 Iowa Sen. File 262 (Reg. Sess.) (“IDPA”).

19 2023 Ind. Sen. Bill 5 (Reg Sess.) (“ICDPA”).

20 2023 Mont. Sen. Bill 0384 (68th) (“MCDPA”).

21 2023 Tenn. Sen. Bill 0073 (Reg. Sess.) (“TIPA”).

interpretative insights into the non-California laws due to the general similarities between the statutes.

These laws cover states with a collective population of 78.7 million, or 23.7% of the United States population. In other words, nearly a quarter of the country will be living in states with comprehensive privacy laws with binding or instructive regulations.

Many of these laws expressly regulate "profiling," which is generally defined[22] to mean any form of automated processing of personal data to evaluate, analyze, or predict an individual's economic situation, interests, reliability, or behavior. Although the specifics of the laws vary, they generally require businesses to make disclosures, perform data protection assessments, and provide opt-out rights when a company profiles in furtherance of decisions that include provision of or denial of housing.[23] The Colorado rules, for example, like the privacy statutes themselves, treat automated decision-making relating to housing with an especially high level of scrutiny.

However, even with that increased level of scrutiny, these privacy laws still recognize that automated screening done for certain purposes—such as fraud and identity theft prevention—must be allowed. These laws recognize the perniciousness of fraud and identity theft in rental transactions today, and allow advancement in screening tools.

The federal, state and local regulations cited above already provide significant protections for applicants, residents and consumers in the housing sector and ensure access to housing and fairness in housing transactions. We respectfully urge FTC and CFPB to avoid creating additional rules or regulations that are not clearly authorized by Congress, that conflict with some of the above existing requirements, or that would undermine the Administration's efforts to address housing supply and affordability.

Like FTC and CFPB, we are committed to ensuring renters and their families have access to a quality, affordable place to call home. We support resident-centered management practices and screening that benefits housing providers and residents alike.

We look forward to continuing to work with policymakers on balanced and sustainable housing policies to resolve the nation's housing crisis, including supporting the creation of more housing and improving housing affordability and availability.

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22 State privacy laws can have differing definitions. However, the Colorado law is similar to most of the other states, and it has adopted implementing regulations. Accordingly, we cite to the Colorado law for the sake of consistency and clarity.

23 *See, e.g.* 4 Colo. Code Reg. 904-3, Rule 9.02(B).

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May 30, 2023

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Dear Director Chopra and Secretary Tabor:

The National Apartment Association (NAA) respectfully submits this addendum in supplement to the joint comments of NAA and the National Multifamily Housing Council on the request for information issued by the Federal Trade Commission and the Consumer Financial Protection Bureau on background screening issues affecting individuals who seek rental housing in the United States.

As a federation of 141 state and local affiliates, NAA encompasses over 95,000 members representing more than 11.6 million apartment homes globally. One-third of all Americans rent their housing, and our industry plays a critical role in meeting the nation's housing needs by providing apartment homes for nearly 39 million residents and contributing $3.4 trillion annually to the economy.

Introduction:

We appreciate the considerable effort evident in the request for information and offer these stories[1] that we have collected from NAA's affiliates, members and their staff to illustrate the value of resident screening practices to both housing providers as well as residents in rental housing application settings. ***Note: Names, locations, and other identifying details have been changed or omitted to protect the privacy and identity of all parties to these stories.***

Story 1

Like many property management companies, our company provides applicants opportunities to apply online for leases. Applicants are able to conveniently upload identification documents, paystubs and other required records using our online application portal. Our online portal is powered by a third-party vendor, called [VENDOR 1], to process and verify their credit history and background.

It's rare, but some people apply for leases without established credit. [VENDOR 1] can approve them with a "NO CREDIT" status. We've identified two primary reasons for applicants' lack of established credit. Some have recently arrived in the United States. Others are very young and new to the workforce. Either

[1] Stories have been lightly edited for clarity.

way, there isn't sufficient information available to assess NO CREDIT applicants' financial dependability. As such, the risk of nonpayment and property damage increases when renting to NO CREDIT applicants. Therefore, we reduce that risk by asking NO CREDIT applicants to secure their leases by submitting a security deposit for higher amounts than we would ask of applicants with established and reasonable credit histories.

Again, NO CREDIT status is rare. Receiving three separate applications from NO CREDIT applicants in a single month is rarer still. They had uploaded their ID's, paystubs and completed the application correctly. But something was off. While all of them were US citizens, they were in their late- to mid-20s, somewhat older than what one would expect for a NO CREDIT applicant with US citizenship. On top of that, not one had toured the property before applying.

At that time, we did not verify the authenticity of the documents our applicants uploaded into the [VENDOR 1]'s portal. We simply examined applicants' identification documents in person when they toured and/or moved into facilities.

One afternoon, [NAME][2] (one of the three applicants recently approved with NO CREDIT status) came to see the model unit. We asked to examine his ID. He offered to show us a picture of it but claimed he had not yet received his physical ID from the DMV. That raised questions. How could he have a picture to upload with his application if the DMV had yet to send him one?

Later that week, he called our office asking about when he could move in. Then the other line rang. The second caller also claimed to be [NAME] and was asking about when he could move in.

To be clear, there were two callers named [NAME] - on two separate calls - at the same time!

Coincidence? Impossible!

Fraud? No question!

We first enlisted help from local law enforcement. They verified that the ID [NAME] had uploaded was fake. Further investigation revealed that the IDs uploaded by the other two NO CREDIT approvals were also fake. They also looked into the authenticity of the pay stubs we'd been given. They confirmed the existence of the company the NO CREDIT applicants' claimed to work for, but it ended there. The company had no record of any employees under their names. The paystubs were forgeries.

By this time unfortunately, one of the three NO CREDIT applicants had already moved into an apartment. We issued a 30-day non-remedy for falsification of documents. He complied and vacated a few weeks later. Warrants were issued for his arrest and the other move-ins were cancelled.

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[2] We are using "[NAME]" in lieu of a unique name that was provided in the story to protect the identity of this prospective resident from the greater Mid-Atlantic region.

We have since educated ourselves a great deal about synthetic fraud and what we can do to mitigate its negative impact on our leasing process. We recently started using [VENDOR 2], which requires that every tour and move-in is digitally verified. We also started using an enhanced [VENDOR 3] service, called [VENDOR 3 Service], to verify the credibility of other information we need from applicants to keep our buildings safe and reduce our financial risk.

Story 2

I worked on a Class A property in Tennessee. We had a sweet, mild-mannered, upper-middle class couple apply and get accepted. Throughout their short tenancy they had issues with checks returning, but they had great stories for why those checks returned. They put in their old banking information by mistake, or there was fraud on their account that was being investigated. It turned into an almost $10,000 eviction. As it turned out, they were being evicted from their previous apartments for a similar scheme and had moved into our community before the filing returned on their credit report. Our community may have fallen victim to their scheme but the next community would be spared by reporting of eviction proceedings.

Story 3

Screening prospects is an important aspect of any property looking to rent to someone. Knowing the history of an applicant plays a major role into the safety and turn cost of our property. Not allowing screening could cause potential risk to our staff and residents. We talk about being aware of your surroundings all the time, but to take that away and not know who we are allowing to live on property could be detrimental to any business. When leasing to a prospect, finding someone who will take care of their home can be a challenge.

The ability to investigate someone's history and know if they fall within the means of your rental criteria is helpful. Knowing if they owe outstanding rent on one or more properties, and the condition they were left in is crucial. Another major role is someone being qualified by their income. Leasing to someone without employment or any source of income can hurt a business as that will cause them to not receive payment for the rental and in turn lose out on additional money by having to file for evictions and never being reimbursed any of those funds. This is something that already happens more often than not. Allowing a property owner to screen, the security is important.

Being able to verify one’s employment minimizes the chances for fraud. I recently had an applicant come in to apply. For example, I recently had an applicant whose voucher for rental assistance, stated she was working. Upon reviewing the information and being able to contact the employer we found that the check stubs she provided were fraud and had not in fact been working for that company in over a year. Had we moved this resident in without that knowledge we would have had an eviction take place due to not being able to pay her portion of rent. Additionally, we have had an applicant state they had no prior evictions. Upon completing a rental verification, we found that that she was in eviction proceedings for the last two rentals she listed. The balance that was left behind was a substantial amount and it also stated that there were damages to the property. Taking away the ability to screen all potential residents would result in similar situations.

Story 4

The White House Blueprint for a Renters Bill of Rights in regards to screening practices raises several areas of concern for housing providers. I thought it would be important for me to share my story on resident screening. My name is [NAME] and I work for a real estate company operating in the greater Mid-Atlantic region. I want to share with you several challenges I have seen recently as it pertains to resident application fraud, identification fraud, and employment verification fraud. ***Editor's Note: In the interest of brevity and clarity, we have edited this story to focus on synthetic identity fraud in rental applications to reinforce its impact on the rental housing industry and its residents.***

In March 2022 it was brought to our attention in an Instagram post that advertised our company and guaranteed approvals for an apartment if you used this service. Upon investigating the Instagram account, we found an approval services screenshot that advertised the following:

Ty's Approval Services

Please read ALL information before sending payments

Having trouble moving into an apartment/town home due to bad credit/etc? Look no further! I am proud to offer an amazing service to get you approved.

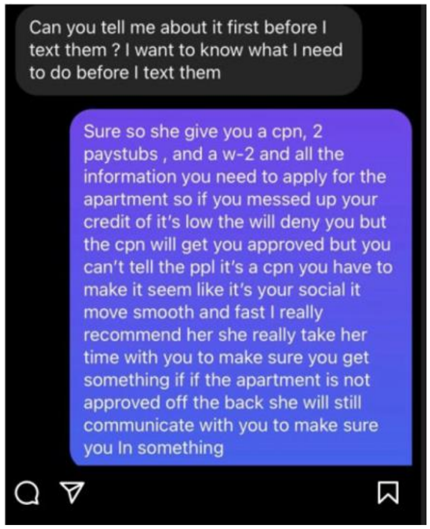
CPN, A Credit Profile Number, is a nine-digit identifying number similar to a Social Security number. It is marketed to consumers with bad credit as a path to a fresh credit history. CPNs can be used instead of Social Security number on applications for credit. CPN is solely used for **MOST apartment/town homes, NO PRIVATE LANDLORDS!! (Considering ALL PLACES WILL NOT ACCEPT CPN!!!!!)** Turn around time for all information will be THREE DAYS after payment is sent and being added to roster (ex: if you pay Monday all information will be available Thursday) Utilize CPN within 2 month time-frame, use CPN AS IF ITS YOUR ACTUAL SOCIAL to prevent debt on CPN.

Deluxe Package: **$500 (Non refundable)**
CPN (A credit profile number is 100% legal and used to apply)
(1) W-2 form (Another form of social)
(2) Most recent paystubs

Individual Services:
Paystub **$30**
Social Security Card **$200**

The screenshot also included a list of properties that are "CPN friendly" and acceptable payment methods like Cash App & Apple Pay. It states to choose two apartments, call to assure that they accept W-2 for social confirmation and once payment is made to provide state ID/license information, and payments are due in full, no refunds and no exceptions. These services prey on the most vulnerable people in the community. Often times this type of scam has two victims. The applicant for the apartment is scammed out of $500 plus for the fraudulent services. The second victim is the owner of the social security number. It is believed the social security number that is sold is often a minor and this may not be recognized for many years.

We also found an Instagram post from February 2022 that explains how the CPN is used in place of a social security number.



Since this has been brought to our attention, we have reviewed our screening requirements periodically throughout the year and made revisions to our Qualification Standards to state that we do not accept CPN's in lieu of a social security or individual tax identification number. We have also reviewed our Identity Verification process, which is done when an applicant applies prior to screening and made necessary revisions to our internal procedures.

The Federal Reserve Toolkit has the best overview on how to verify applicants' information before also adding in Identity Verification software. Synthetic Identity Fraud Mitigation Toolkit.

Since 2021 we've used [VENDOR's] Identity Verification process before screening applicants. Identity Verification which runs prior to screening an applicant, is a knowledge-based system and most of our applicant's pass on the first stage, if they don't pass, it goes onto a One-Time Passcode that is sent via text message or onto Document Validation where an applicant has to snap a picture of their government issued ID. Metrics for this process are set forth below:

Year	Identity Verification Passed	One-Time Passcode Triggered	One-Time Passcode Passed	One-Time Passcode Pending	One-Time Passcode Failed	Document Validation Triggered	Document Validation Passed	Document Validation Pending	Document Validation Failed	Pending Status	Failed
2021	82%	37%	93%	6%	2%	30%	55%	6%	39%	4%	12%
2022	80%	34%	94%	6%	2%	32%	52%	9%	39%	5%	14%
2023	83%	34%	91%	8%	4%	34%	69%	1%	30%	3%	11%

Year	Applications Approved	Applications Approved with Conditions	Applications Denied
2021	40%	38%	42%
2022	37%	31%	45%
2023	36%	34%	42%

Unfortunately, our leasing team is unable to always catch these fraudulent applications, but things that they look for:

1. Identity Verification Status, did the applicant fail at any stage?
2. Does the applicant have a social security number that was issued after June 2011?
3. What about their credit history? Do they have recent credit inquiries?
4. Did they provide verifiable proof of income? Do the paystubs match the income entered on the application?

It is difficult to estimate the true impact that this has had on our business. The industry needs to increase training on what to look out for fraud. As a company we have been compiling a list of fraudulent move-ins and applicants, submitting the necessary information to local authorities, reviewing our internal policies, reviewing companies that can assist us in verifying an applicant's identity, utilizing the Rental History Exclusion List for those applicants that were found to have submitted fraudulent information. We are also impacted by those that move in and are found out later to have submitted fraudulent information. It is difficult to pursue a breach of lease case for misrepresentation and it leads to evictions for failure to pay rent. As we are unable to determine where the fraudulent information is coming from, as there are quite a few CPN related hashtags on Instagram & Facebook, it can be challenging to pursue a case, which could lead to even more trouble when the actual victim of the social security number comes forward.

Screening is important for all industries from banking to housing and we are not the only industry that has experienced an increase in fraudulent applications. We need to prioritize education on how to identify fraudulent applications and provide a reporting method when a fraudulent application and/or social media page is found. As I mentioned earlier, the cost can be unknown for some time, but I can assure you that rents will rise as housing providers need to recover lost rents due to fraudulent residents that increase bad debt and turnover costs. There are estimates that over $200,000 in uncollected rent was written off in the past 6 months due to fraud. Continuing with the appropriate screening methods not only protects the housing provider, but protects the unknown victims of identity theft and the housing applicant.

Story 5

We have managed our properties for the last 30 years. For the first 17 years we asked prospective tenants to fill out a standard application form and did not check their credit and only asked about their employment without verification. During that period, I can remember many tenants that did not pay their rents and we had to eventually evict them.

Many times, these same tenants that did not pay rent were also bringing in extra people and caused disturbances with loud noise that disturbed their neighbors. Usually, when they finally moved out, the apartment was left with trash and damage to the property.
Finally, around 13 years ago, we decided we needed to screen the tenants better, not only for our rent collection but also to protect the majority of good tenants who lived in the building. My experience has

been that evictions reduced in frequency and the building was easier to maintain, clean and there were fewer complaints from other tenants about noise and illegal activities.

I believe in the last 13 or so years, we only had two evictions where we actually had the sheriff assist in lock out. The reason for the two evictions were the same. I decided to believe the tenant's stories when they first applied for the apartment, even though their credit score told a different story and did not meet our minimum requirement.

One tenant started moving in three extra people than agreed on the lease almost immediately and often caused problems with neighbors due to their loud noise and trash problems.

The other evicted tenant stopped paying rent after awhile and refused to move out after service of the 3-day notice to pay or quit. Both of these tenants disregarded our lease agreements and were problems to the other tenants in the building. Both eviction cases ended with waiting until the last minute for the sheriff to lock them out.

I like to help people when they are down, but experience has shown that credit histories and employment verifications are the only way to protect both myself as owner as well as the majority of the great tenants in the building.

Nowadays, I definitely require a credit report. However, I will take into consideration the circumstance for their lower score, such as past due medical bills, if the rest of the credit history is clean. I believe I have been successful in accepting reliable and considerate tenants since I adopted the policy to insist on checking the credit history.

Story 6

In 2010, I worked in a South Carolinian city in transition. The once thriving manufacturing hub had been hit hard by the recession, and many of its residents were struggling to make ends meet. The owner-managed apartment community where I worked was no exception.

The building had seen better days, with peeling paint, cracked sidewalks and outdated amenities. The grounds were overgrown, and the parking lot was filled with potholes. Inside, the units needed repairs including leaky faucets, broken appliances, and outdated fixtures.

As we worked to overcome these challenges, we took pains to spread repairs and updates over time to keep costs down and rents affordable for the many hardworking families and individuals who were doing their best to make a life for themselves in Spartanburg.

But the city's tough economic reality prompted many people to leave town in search of more promising economic opportunities and jobs. That left the building with several vacant units that the owner wanted us to fill as quickly as possible. Due to the owner's pressure, we suspended thorough background screening procedures.

We ended up leasing an apartment to a resident, "Dave." He had a history of not paying rent on time and creating problems with previous landlords. He moved in and paid his rent for the first few months. Meanwhile, neighboring residents started to complain about his barking dogs, noisy parties, deafening music, and loud arguments.

Then he stopped paying his rent. We attempted to address his non-payment, but he made it very difficult by ignoring our calls and emails. When we finally reached him, he was defensive, uncooperative, and accused us of harassing him. He even threatened to file a complaint with the local housing authority.

The eviction process took four more months. By that time, he had amassed $2,200 in unpaid rent and caused extensive and costly damage to his unit. He'd broken several windows and caused significant water damage. The carpet was so burned and stained that it had to be replaced. Many large holes in the walls had to be patched. The appliances he'd damaged had to be repaired or replaced.

As the property owners, these losses threatened to turn the bottom line of our balance sheet from just barely black to crimson red. We did what any responsible property manager would do. We absorbed what losses we could, but it wasn't going to be enough. Maintaining the building to keep it safe and welcoming for our residents was our top priority. Still, we delayed doing any nonessential repairs. That meant some of the corresponding financial damage was passed onto local small-business contractors and their workers. We reduced hours for the building's staff. And lastly, we had to raise other residents' rent.

The whole experience taught me never to make the mistake of neglecting background checks again. Ever since, I have treated thorough resident screening as a top priority. This includes conducting background checks, checking credit scores, and verifying employment and rental history. Throughout the screening process, we work to gather additional information to turn what we see on paper into a three-dimensional picture of each applicant's unique background and circumstances. This ensures that our properties are diverse and filled with responsible and financially dependable residents who treat their units and their buildings for what they are – their homes and their communities.

Resident screening benefits everyone with one exception – people like Dave.

Doing our due diligence to ensure that applicants are financially literate and respectful benefits other residents from living in safe and affordable communities, allows property managers to manage costs, reduce unit turnover rates, retain professional staff, and yes – make modest profits. Some of that profit is then invested to develop new affordable housing units. Others benefit, too:

- Neighbors benefit from living in proximity to safe and affordable rental communities.
- Local businesses benefit from residents' patronage.
- Neighborhoods benefit from residents' community engagement and tax contributions that pay for schools, public works, first responders.
- Building staff benefit from steady wages and professional development opportunities.

Looking back, Dave opened my eyes to the importance of conducting proper resident screening. It's a critically important tool that allows property managers to maintain safe and affordable housing for people who live in our community.

A bad resident can create significant problems for property owners and residents alike.

Story 7

We work at a small management company, yet the government restrictions related to tenant screening have had a sizable impact on the properties we operate and the people who reside there.

For example, one resident moved into one of our properties during the COVID pandemic. Emergency regulations during the pandemic prevented us from requesting the resident's rental and eviction history. If their previous housing provider had been permitted to share with us the challenges they experienced when our resident lived in one of their properties, the applicant would not have been approved.

But they were approved and they moved in. They immediately defaulted on their rent. The long eviction process is ongoing. In the meantime, not only has this tenant created a $30,000 financial impact on our 84-unit property, neighbors are being impacted by their proximity to his unsanitary living conditions.

This is not the only company that he has not paid. For example, he failed to pay his power bill. Yet although the gas and electric company was allowed to shut off his power over the winter; similar measures are not available to the company to mitigate our financial losses and damages to the property. This Spring, we were able to inspect the unit. In addition to the absence of power, we found an animal abandoned in the apartment and feces covering the unit, among other damage and disturbing humane and health conditions. Accounting for the loss of at least $31,000 in past due rent and utilities and mounting attorney fees of several thousand dollars, we conservatively estimate losses in excess of $40,000.

This is only one of many examples of how limiting resident screening impacts housing providers and other residents. Resident screening is an important tool that property managers need to protect their investments and their residents alike.

Conclusion:

On behalf of NAA, its members and affiliates, we would like to express our gratitude at the opportunity to provide these supplementary stories that demonstrate the significant value to both housing providers and residents that screening practices offer in the rental housing setting. As these stories demonstrate, resident screening assists housing providers in their pursuit of successful rental outcomes by mitigating the risk attendant to human behavior before negative results are realized. Furthermore, these practices are undertaken in service of all residents, the communities in which they live, and comply with myriad state and local laws and regulations that would be greatly disturbed by intrusion of yet another regulatory burden. We urge both agencies to exercise restraint in considering additional regulatory action.