



Collecting and Recovering Rent

Strategies to Consider

Canada 


CMHC  SCHL

Some Basic Concepts



- **Rent:** The amount required to achieve financial viability
- **Collection:** The rents paid to you by tenants
- **Rental arrears recovery:** Rents not collected when due

A Three Step Process



1. Calculating rental charges
2. Rent collection
3. Rental arrears recovery

Step One: Calculating Rent

Striking a Balance between Sustainability and Affordability



Striking the Right Balance



- You must balance:
 - Revenues
 - Expenses
- Budgeting formula
 - $\text{Revenues} - \text{Expenses} = \text{Surplus}/(\text{Deficit})$
 - When revenues equal expenses, the budget is said to be a *balanced budget*, which is a major goal of housing.

Revenues



- Revenue sources include:
 - Rental revenue and/or maintenance fees;
 - Shelter component of social assistance;
 - Section 95 subsidies; and
 - Other band revenues.

Expenses



Eligible Expenses include:

- Loan payment, including principal and interest;
- Repairs & maintenance;
- Fire insurance;
- Utilities (water, sewer);
- Administration;
- Replacement reserve;
- Snow removal;
- Garbage collection; and
- Professional fees (audit and legal).

Expenses vs. revenues—an example



Expenses		Revenue sources	
Monthly payment	20,000	CMHC subsidy	10,000
Replacement reserve	5,000	Equity from the FN	5,000
Insurance	1,500	Tenants' rents	20,000
Maintenance and repairs	1,000	Miscellaneous service charges	1,000
Utilities	750	Administrative penalty	1,500
Administration	2,500	Expected loss provision	(5,000)
Total	37,500	Total	32,500



Calculating any anticipated losses



- Calculate your overall revenue times your collection rate minus your overall revenue.
- Example: If you collect 80% of the rents, then:
- $((\$20,000 \times 80\%) - \$20,000) = \$16,000 - \$20,000 = - \$4,000$

To clear up your deficits, you may have to make a choice between evicting delinquent payers or spreading the shortfall among all of the other occupants and housing units.

Factoring anticipated losses into prices



- If you redistribute the shortfall, you will continue to operate at a deficit.
- Example: If you redistribute the \$4,000 shortfall at an 80% collection rate, you will only collect \$3,200
- *How much should you charge if you want to recoup \$20,000 at a collection rate of 80%? - $\$20,000/80\% = \$25,000$*

You must therefore charge \$25,000
to recoup \$20,000.

Accounting deficits vs. cash deficits



- Revenue is recognized on the Statement of Revenues and Expenses the moment it is earned, regardless of whether it was received in cash payment.
- Non-payment of rent is debited to accounts receivable (“A/R”).
 - ↑ A/R from year to year = increase in “Rental Arrears”
 - ↓ A/R from year to year = decrease in “Rental Arrears” (either through cash collection or write-off)
- Payment of rent is debited to the cash account.

Step Two: Collecting Rent

Reinforcing the behaviour



Issues with Charging and Collecting Rent



Late Rental Payment: Possible Causes

Collection process takes too much time

Lack of communication between departments (ex: Housing, Finance)

Payment options not convenient or secure

Leadership may be unaware of problem

Challenges to Rental Collection

Garnishing wages or evicting tenants is stressful

Personal relationships with tenants can make enforcement more difficult

Administrative process takes too much time

Arrears collection takes too much time

Collection policy: key components



- In concrete terms, a collection policy must include some key components:
 - Payment method
 - Payment deadline
 - Consequences for the tenant for non-payment and late payments
 - Arrears recovery procedure
 - Process to track/measure progress (ex. quarterly)

Key questions for a community payment policy



- How many, if any, notice letters are sent?
- How many days from the 1st of the month are the first non-payment letters sent?
- How many days from the 1st of the month is the eviction notice served?
- How many days after the eviction notice is served is an eviction carried out?

Step Three: Rental Arrears Recovery

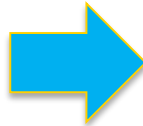


Communicating with tenants who fall into arrears



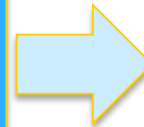
Identify Causes

- Dissatisfied with home?
- Deficiencies in home?
- Other financial priorities?
- Tenants do not understand their responsibilities?
- They see others not paying without any consequences?



Review Income

- Confirm source & amount of income
- Review income and all housing-related expenses
- Help tenants develop a budget / spending plan



Plan for Repayment

- Agree on repayment option
- Write action plan with tenant
- Reinforce repayment as per lease
- Recommend financial counseling if needed
- Explain consequences of non-payment



After communicating with tenants....



- Add copy of action plan to file and send to tenant
- Establish a follow-up routine and include professional counselling services, if applicable
- If a tenant fails to honour the repayment agreement:
 - contact them immediately to identify reason(s)
 - review recovery plan with them and amend if required
 - inform them of consequences of not honouring repayment agreement

Success factors for an effective recovery process



- Consistently adhere to established procedures
- Document your interactions with your tenants
- Have the required documents at your disposal
- Hold an awareness campaign to support your process
- Obtain support from chief and council
- Obtain the support of community membership

Thank You



*To be filled in by CMHC
staff – contact info, etc.*