# Targeting the High Costs of Apartment Application Fraud

2022 SNAPPT STATE OF APARTMENT TENANT SCREENING SURVEY

SNAPPT

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# Ellie Norton knows the staggering costs of apartment application fraud.

As Area Vice President for Pegasus Residential, she's responsible for supporting nearly 10,000 units, including the application vetting process. Since the advent of COVID-19, that part of team's job has become significantly more challenging.

> "There's a lot of fraudulent documentation out there. It has been on a significant rise in our industry in the last three years," Norton says.

Most come in the form of altered bank statements and bogus pay stubs. These documents are easily obtained online today but are hard to spot with the naked eye.

"The challenge with the eviction process is that it takes even longer, post-COVID," Norton says. "When someone moves in based on fraudulent income and then can't pay rent it takes significantly longer to have them evicted. We've had some places where it's taken over a year for them to be removed."

If fraudulent applications get through, the cost can be $20,000 or more, per door, in bad debt and avoidable eviction expenses.

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**applications are fraudulently altered today.**

Those numbers haven't gone unnoticed in the industry. Like Vasquez, apartment managers are increasingly aware of the problem:

**85% now report being targeted by application fraudsters, compared to 66% pre-pandemic.**

Nationally, the typical eviction costs $7,685 after unpaid rent, legal fees and other charges are taken into account. With 1 out of every 8 applications – 12.5% – fraudulently altered today, that translates into an avoidable expense of $2.8 million per year for a 3,000 unit portfolio.

Those numbers haven't gone unnoticed in the industry. Like Norton, apartment managers are increasingly aware of the problem: 85% now report being targeted by application fraudsters, compared to 66% pre-pandemic.

At Tampa, Florida based American Landmark Apartments, which counts 35,000 units in its portfolio, Chief Administrative Officer Rachel Palmer says bogus documentation submitted with applications is now commonplace.

> “A lot of them are fake paystubs,” says Palmer. “You can google ‘fake pay stubs’ and for $10, create your own.”

She estimates that in some markets, up to 40% of the applications she receives include some type of altered documentation. With an average rent of $1,500 a month across the units she manages, that translates into $21 million in revenue that’s at risk every 30 days if she doesn’t stop those applicants from becoming renters. “It’s not pocket change,” Palmer says.

But due to concerns over running afoul of fair housing and fair credit requirements, these same managers often feel powerless to confront the issue head on.

For example, a manager at a firm that counts approximately 50 communities in its portfolio says one of her biggest challenges is bridging the gap between suspecting an application has been fraudulently altered, and providing evidence to that effect.

“If they can’t provide a valid paystub, we require either a tax return or bank statements that show they have substantial income,” this manager told us. “But anything outside of that, you open yourself up for some kind of discrimination lawsuit these days.”

**$21 million in revenue potentially at risk every 30 days.**

Those numbers haven’t gone unnoticed in the industry. Like Norton, apartment managers are increasingly aware of the problem:

**It’s estimated that 40% of the applications received include some type of altered documentation.**

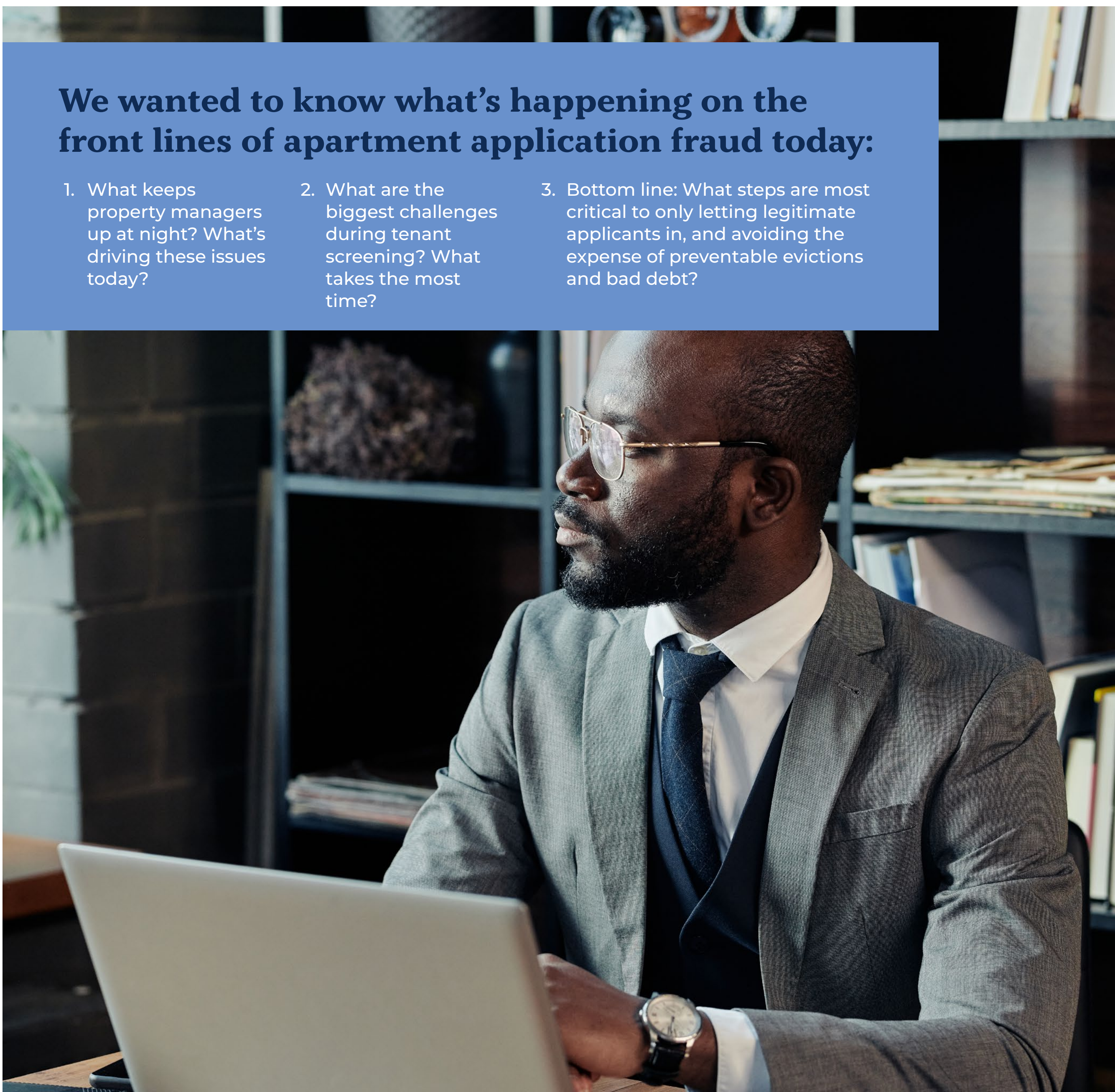
# Tracking application fraud

To gain insight into how managers are tackling these application screening challenges today, and get a handle on their biggest pain points along the way, Snappt commissioned a survey of 230 institutional property managers nationally. Dallas-based Eleven Market Research talked with some of the largest apartment operators in the US; 40% of respondents manage more than 10,000 units. All of them focus on the application screening process in their jobs, with most (84%) leading teams of professionals who qualify rental applications themselves.

The **2022 Snappt State of Apartment Application Screening Survey** shines a light on exactly how big the problem is, what property managers can do to combat it, and the tools and tactics they've enlisted to fight this ever-escalating war.

## We wanted to know what's happening on the front lines of apartment application fraud today:

1. What keeps property managers up at night? What's driving these issues today?
2. What are the biggest challenges during tenant screening? What takes the most time?
3. Bottom line: What steps are most critical to only letting legitimate applicants in, and avoiding the expense of preventable evictions and bad debt?



# A crisis within a crisis

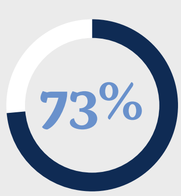
When it comes to managing apartments in the current environment, MDU property professionals have had their hands full. During the COVID-19 crisis, fraud has risen, government-mandated eviction moratoriums have squeezed landlords, and now – as we exit the pandemic – rents are rising.

While higher rents may seem like a positive, it also means operators are taking on more risk with every lease they approve. If they get it wrong and let fraudsters through the door, more money is on the line when they can't collect, driving the cost of preventable evictions even higher.

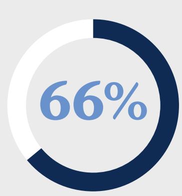
Against that backdrop, survey respondents ranked their biggest challenges running properties today. Perhaps unsurprisingly, the roots of all of them could be traced back to issues that should have been flagged during the application screening process.

At the top of their list were tenants who pay rent late. Nearly three-quarters (73%) of respondents said getting the rent late was somewhat to extremely common, while another two-thirds (66%) said discovering damage to units after tenants left fell into the same category.

## Common problems in today's market




say getting the rent late is somewhat to extremely common




say discovering damage to units is also common

Tenants who stopped paying rent, or paid less than their full rent, was somewhat to extremely common for **61%** of managers

more than half **(56%)** ranked having to evict tenants or tenants skipping out on their lease under the same umbrella

**52%** said disruptive tenants were now somewhat to extremely common

**49%** putting tenants who engage in criminal activity in the same bucket

## What keeps you up at night?

1.


Rent-related issues

2.

Damaged properties

3.


Evictions

4.

Tenants skipping out

5.

Disruptive tenants / Criminal activity

# Why this is happening now?

Since property managers see this behavior on a daily basis, we wanted to ask them what is driving these trends.

Five out of six of them **(85%)** said it was due to the increasing prevalence of fraud in our society.

**85%** said the ease with which false documents can be obtained online by apartment applicants today.

**78%** cited the rise in rents – and the pressure it puts on prospects to "stretch" on their applications.

Three fourths **(75%)** pointed to eviction moratoriums being somewhat or extremely significant as contributing factors.

**70%** said the COVID-19 pandemic was a significant driver.

Two thirds **(66%)** ranked less in-person contact with applicants – the growing sense of anonymity in society – in the same way.

# The rise of the fraud economy

While those numbers may seem shocking at face value, they're actually in line with broader fraud and document manipulation trends in the culture today.

Fraud was already burgeoning pre-COVID-19. But since the pandemic, it has mushroomed, costing businesses 5.4 trillion globally,[1] more than twice the gross domestic product of the UK. Global consultancy Crowe has called fraud "the last great unreduced business cost."

In the U.S., reports of fraud, identity theft and other deceptions spiked by 67%[2] between 2019 and 2021, according to the Federal Trade Commission. The grifts range from cyber and payment fraud to lying on bank loan applications, and more recently, supply chain and ESG reporting fraud, according to PwC[3].

For example, Lexis Nexis found over 30,000 fraud rings[4] engaged in forgery, filing false claims, identity theft, identity manipulation and fake bank checks. Many groups comprised family members or circles of friends who collaborated to improve their collective fraud success rates.

**While many of these schemes are orchestrated by professional criminals, evidence suggests an increasing number of these perpetrators are casual practitioners of deception.**


At the same time, a cottage industry has sprung up online to help consumers buy fabricated documents, including bogus paystubs and bank statements, to fraudulently qualify for loans, mortgages, car purchases and apartment leases, among other transactions.

1 https://f.datasrvr.com/fr1/521/90994/0031_Financial_Cost_of_Fraud_2021_v5.pdf
2 https://www.ftc.gov/system/files/ftc_gov/pdf/CSN%20Annual%20Data%20Book%202021%20Final%20PDF.pdf
3 https://www.pwc.com/gx/en/forensics/gecsm-2022/pdf/PwC%E2%80%99s-Global-Economic-Crime-and-Fraud-Survey-2022.pdf
4 https://risk.lexisnexis.com/insights-resources/article/identity-fraud-rings

# The rise of fraud meets rising rents

In the apartment industry, these developments have coincided with record rent increases. For some tenants who need housing, the increased prevalence and acceptance of engaging in fraudulent behavior may be all the justification they need to submit a falsified application. This is the double-edged sword of rising rents for property managers, where communities can net more income, but only at the price of having to police more applications for fraud.


**rents have risen anywhere between 15% to 30% in the last year**

"Some of it can be attributed to the soaring costs of housing, especially in the last year, where rents have risen anywhere between 15% to 30%," one regional manager of more than 10,000 units told us. "We know people did not receive 15% to 30% increases in pay. So, to be able to still afford three times the monthly rent to qualify for an apartment is challenging."

Laine Gomez, Executive VP of Asset Management at Larkspur, Calif.-based Catalyst Housing Group says,

> "There is that high level of fraud out there, It's surprising that it's that much, but I think technology has just made it so much easier for these documents to get through."

Those factors have resulted in a 26% ratio of fraudulent applications for the 4,200 essential workforce housing units the firm operates.

# Application screening goals and challenges

Given this landscape, it's no wonder 89% of survey respondents said making sure applicants can afford the rent and avoiding future payment issues and evictions were somewhat or extremely important goals of their application screening process. Reducing criminal activity (86%) and avoiding disruptive tenants and property damage (85%) took similar priority for managers in the survey.

But the challenges of hitting those goals today are daunting, due to the ease with which bank statements and paystubs can be altered. Altered documentation was the biggest problem identified in the survey, with 84% of respondents saying it was a somewhat or extremely significant challenge.  But the next largest percentage – 79% – ranked running afoul of the Fair Housing Act in the same category. In tandem, these two largest challenges underline the Catch-22 managers find themselves in when fighting application fraud: choosing between a potential Fair Housing violation charge, or the risk of letting a fraudster in the door.

### Top challenges screening applicants

Altered financial documentation

Fair Housing Act violations

Screening process not spotting bad tenants

Too much staff time

> "It is incredibly important in our business to ensure that we're not in any way, shape or form violating Fair Housing," Pegasus's Norton told us. "But oftentimes, the fraudulent applicants are the ones that fight back the hardest."

Another 78% of respondents said the fact that their process wasn't spotting bad applicants was a somewhat or extremely significant challenge, while 75% put screening reports that contain faulty information in the same tranche. Meanwhile, 72% said potential Fair Credit violations, as well as erroneously denying good applicants, were similarly difficult hurdles. Finally, the staff time it takes to vet applicants was among the most significant challenges for 69% of respondents. (Previous surveys indicate property staff spend between four and 10 hours on the vetting process for each applicant.)

## Given these issues, property managers do what they can to stop fraud before it gets in the front door, including:

1.


Asking for financial statements such as pay stubs and bank statements

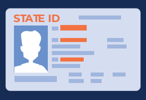
2.

Using tenant screening software

3.

Running credit checks

4.




Implementing ID verification

5.

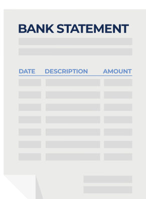
Using a solution to detect fraudulent docs

# Getting to the core of application screening

The length and complexity of this list speaks to the severity of the challenge property managers face. The good news is, just three of these items took the majority of time for property staff to complete, constituting the core of application screening. Those three areas were verifying bank statements (72%), verifying pay stubs (67%) and checking references (67%).

## Most time consuming tasks

1.




**Verifying bank statements**

2.


**Verifying pay stubs**

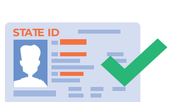
3.

**Checking references**

These three areas were also the most important steps of the entire process. For 90% of respondents, verifying the accuracy of a paystub was somewhat or extremely important, while nearly the same cohort, 89%, put authenticating an applicant's bank statement in the same tier. Indeed, only verifying an applicant's ID – i.e., confirming the person is who they say they are – was seen as more critical to the process, with 92% of respondents ranking it with the highest degree of urgency.

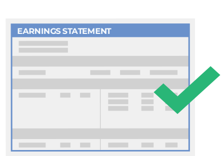
## Most crucial aspects of applicant screening

1.



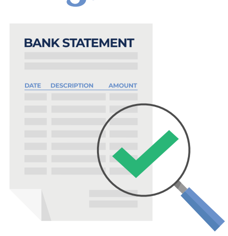

**Verifying ID**

2.




**Verifying paystub is accurate**

3.




**Verifying bank statement is accurate**

# Most important solutions for applicant screening and verification

With an array of tools to vet applicants on the most critical criteria within the process, we asked respondents which tools they were currently using. Just one solution targets the hardest-to-spot components of application and document fraud: Snappt.

| Application Fraud Detection | ID verification | Tenant screening | Property management | Credit checks | Criminal checks | Bank account linking |
|---|---|---|---|---|---|---|
| SNAPPT | IDinsight | YARDI | YARDI | YARDI | YARDI | YARDI |
| | CHECKPOINT An MRI Software Company | mri REAL ESTATE SOFTWARE | mri REAL ESTATE SOFTWARE | entrata | mri REAL ESTATE SOFTWARE | mri REAL ESTATE SOFTWARE |
| | IDOLOGY a GBG company | REALPAGE | REALPAGE | mri REAL ESTATE SOFTWARE | entrata | entrata |
| | JUMIA | entrata | entrata | REALPAGE | REALPAGE | REALPAGE |
| | Trulioo | appfolio | appfolio | appfolio | appfolio | appfolio |
| | onfido | | | | | |

# Takeaways and solutions

There are steps owners can take to protect themselves, including Snappt's AI tools that scan the computer code inside PDF documents of paystubs and bank statements to see if they have been altered. Using this solution to target two of the three most critical aspects of application screening turns the hours staff spend screening documentation into minutes.

And because it can be applied consistently to all applicants, it provides an easily referenced audit trail to fend off Fair Housing and Fair Credit violation claims.

But revisiting the basics of good property management helps, too. Since Snappt targets application fraud exclusively, we've learned the low-tech steps managers can take to combat this burgeoning dilemma.

- **Set the bar higher for applicants by requiring two months of paystubs or bank statements with an application. Legitimate applicants will happily provide them, since they want to get in your building, while fraudsters will be forced to dig themselves a deeper hole in their attempted deception – and give your team more data points to make a decision.**
- **Look for variable dates for when a paystub was issued, and when the deposit hit the applicant's account. While weekends and holidays can shift deposits by one or two days, it's rare for this to happen in consecutive months. This is an area where fraudsters often get sloppy.**
- **Pick up the phone and call employers to confirm an applicant works where they claim. But don't just use the number submitted with the application – look up the company online, and call the number listed on their website. While many firms today won't release specific salaries, it's worth a shot to see if the applicant has a job where they say they do.**
- **Incentivize your team to prioritize legitimate applications, by tying future bonuses to a property's on-time rent payment score, and not just the number of new, approved leases.**

# Recommendations

Application fraud will get worse before it gets better. Higher interest rates mean less home buyers, which means MORE renters. But, inflation (and a possible recession) will lead to more bad debt.

1. **You have to aggressively screen your applicants. The challenge is that virtually all tenant checks look at the past:**
    - Has the applicant ever been evicted?
    - Do they have a criminal record?
    - Do they have bad things on their credit report?

2. **In a rapidly deteriorating environment, you need to look in the future. The only forward-looking tenant measure is to review their pay stubs and bank statement. But, as we've seen, it is easy to fraudulently alter these important financial documents.**

3. **Snappt can help. We are the only tool that can spot fake paystubs and bank statements. It is fast and simple to use. And, Snappt has an amazing 99.8% accuracy. Call today for a demo.**

With rents on the rise, it may look from the outside like landlords are living on easy street. But the increased risks of apartment application fraud, exacerbated by the lingering impacts of the pandemic, mean managers have to work harder than ever today to make sure they're not actually just accumulating record levels of bad debt, instead of higher rent rolls.

While there are multiple ID verification platforms available on the market today, only one solution targets the two other areas of greatest importance for apartment application screening: paystub and bank statement verification. By unmasking the digital DNA behind those documents to ensure they haven't been altered, Snappt is helping managers win the war against application fraud in minutes, instead of hours, while avoiding Fair Housing claims.

With an array of tools to vet applicants on the most critical criteria within the process, we asked respondents which tools they were currently using. Just one solution targets the hardest-to-spot components of application and document fraud: Snappt.

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