

NMHC

Electronic Payments Accelerate Cash Flow

Menu of options helps apartment owners boost the bottom line. **By David Cardwell**

Just as in other real estate sectors and competitive industries, apartment firms employ new technologies with the goal of saving money, increasing cash flow, and improving customer service. Allowing apartment residents to pay rent electronically fits all of the above criteria.

One common misconception is that electronic payments only mean accepting credit or debit cards. In fact, the technology runs the gamut. For example, electronic check processing uses a check image rather than the actual paper check to speed processing.

A lockbox system collects payments from a mailbox and funnels them into one location for processing. An automated clearinghouse (ACH) payment uses the Federal Reserve banking system to electronically transfer funds without requiring a paper check. And Internet payment processors, such as PayPal and Verisign, allow residents to transfer funds via the Web in addition to processing bank and credit card transactions.

Aligning everyone's interests

The best electronic payment systems offer a menu of payment options that align with the various stages of the resident's payment cycle — from signing the lease to paying the rent to settling final accounts at the move-out. Offering a range of options increases the number of residents who will pay electronically, which, in turn, yields greater cash flow, more timely payments and fewer delinquencies.

Consider the lease-signing process. This occurs in a retail-like environment where speed and convenience are the most important considerations. The ability to accept a credit card or a debit card for security deposits or application fees enables the sale to be closed immediately.

Then, when it comes to monthly rent,

convenience is again the goal. This can be achieved by allowing residents to set up their rent payments as a recurring credit or debit card transaction. Residents who are uncomfortable charging their rent can set up a monthly ACH payment that will automatically debit their bank account without requiring them to write a check each month. Finally, when a resident terminates his or her lease, credit cards offer a reliable collections alternative, allowing real-time settlement of final accounts.

Costs vs. benefits

One of the key advantages of automated electronic payments beyond the transaction processing is the business process changes they create. With a lockbox, for example, activities that were dispersed in back offices of many sites can be consolidated in one central office. Payments can hit the bank earlier and on a more routine basis.

Of course, there are costs associated with electronic payments. Costs vary based on the types and the volume of transactions, but generally range from 10 cents to 80 cents per transaction. Credit card transactions include a larger fee, so many owners use them only for application, deposit and late payments and fees, not for ongoing monthly charges.

Some firms are passing these costs on to residents in the form of "convenience fees," but more and more firms are paying these fees themselves. They report that the cost savings and cash-flow advantages exceed the transaction fees and make it worthwhile for them to accept credit cards. According to PropertyBridge Inc., an online payment systems provider, apartment owners can save up to \$42 per unit annually at properties with at least 150 units by automating rent payment.

Several top apartment executives are

WEB-SAVVY CUSTOMERS GROW IN NUMBER

* More than two-thirds of the 80 million online households in the U.S. pay at least one bill online, up from 56% in March 2005.

* Web payments could surpass checks in the U.S. over the next year. In 2005, 46% of bills were paid by check, and 25% online.

Sources: Harris Interactive & Checkfree poll (May 2006)

still reluctant to move to credit cards because of the transaction fees. To overcome this resistance, the credit card associations, such as Visa and MasterCard, are finally considering changes to their processes to create a workable model for most multifamily owners.

More credit card associations, banks and service providers recognize the opportunity in this emerging market. For good reason: Visa reported a 158% increase in its use card for rent payments over the previous year, according to Jim Eitler, Visa's vice president for client services.

Security leads to success

Strong security policies are particularly important in the apartment sector, where managers and staff have access to applicants' and residents' personal financial information. Fortunately, electronic payments can help by virtually eliminating the risk of office fraud and theft.

Firms should also be sure that the payment service provider they select complies with the accepted industry security model: the Payment Card Industry Data Security Standard. They should also seek a provider that has achieved the highest level of security, known as PCI Level 1 compliance.

Adept property managers are encouraging the use of electronic payments and customizing options meets residents' needs. Electronic payments help close new business faster, accelerate the availability of funds, reduce delinquencies, and enhance security. In short, electronic payments really do pay. ■



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