

# Tenant Referencing - Questions & Answers



## Q - Why are references so important?

A – It is a condition of our Landlord Rent & Legal Protection Insurance and Landlord Legal Expenses Insurance that all tenants named on the tenancy agreement and their guarantors (if required) have been satisfactorily referenced. Insurers would expect a prudent landlord to have checked the tenant's background and ability to meet the monthly rent whether or not they intended to take the insurance.

## Q - What will the insurer accept as a suitable reference?

A – The insurer requires a minimum of TWO references to be obtained for each tenant. One of these must be a financial reference. The other can be a personal reference from a previous landlord or a friend/associate. However, for a guarantor a financial reference only will be sufficient.

The following are examples of the type of references which the insurers will accept for the purpose of a financial reference:

1. **A satisfactory comprehensive assessment** that has been carried out by one of the following referencing companies:
  - Tenant Letting Check
  - Homelet
  - Letsure
  - Maras
  - Experian
  - Equifax

### Note:

A satisfactory **comprehensive assessment** will satisfy **all** referencing criteria

If you obtain a **standard reference** (credit score only) it can only be treated as a financial reference. You will also need to obtain a further (non-financial) reference.

If the credit referencing company confirms that the applicant is acceptable but subject to obtaining proof of address, copies of any documents obtained to evidence proof of address must be retained as they will be required in the event of a claim.

2. **A detailed employer's reference**

An employer's reference will be accepted as the main financial reference provided the tenant/guarantor has been employed with the same employer for a minimum of 6 months.

The employer's reference must confirm the following:

- Annual gross salary (*50% of any guaranteed commissions, bonuses or overtime will be taken into account*)
- Confirmation of the position held within the organisation
- Confirmation of type of employment, i.e. whether full time, temporary, long/short term contract (*The contractual period must last beyond the end date of the tenancy agreement to be deemed acceptable*)

The reference must be produced on formal business letterhead and be signed by the HR department, finance director, managing director or equivalent.

3. **For self employed tenants/guarantors**

A positive accountant's/solicitor's reference which confirms income and suitability to meet financial commitments for the tenancy period will be accepted. The accountant must have worked for the tenant for over a year and submitted at least one tax return for the tenant.

The monthly rent should be no more than 40% of the tenant or 30% of the guarantor's gross monthly income.

## Q - Is it necessary to re-reference existing tenants to meet the referencing criteria for the insurance?

A – It is not necessary to re-reference existing tenants to benefit from the insurance. However all tenants, whether existing or new, must have been suitably referenced at the start of the tenancy. Copies of the references must be made available in the event that a claim becomes necessary.

**Q - How do I know that the tenant is able to pay the rent? Is there any guidance?**

A – As a guide, a tenant’s rental commitment should be no more than 40% of their gross income. A guarantor’s rental commitment should be no more than 30% of their gross income.

**Q - If my tenant’s reference was taken a while ago- it is now over 2 months old. Will I need to obtain a new reference?**

A – References must be no more than 60 days old as at the start of the tenancy as their circumstances may have changed in the intervening period, for instance they could have been made redundant or become unemployed.

**Q - My potential tenant has a small outstanding county court judgement (CCJ). Will the insurer accept this?**

A – It is important to ensure that your prospective tenant is suitable not only from the insurer’s perspective but also your own. If there is an outstanding CCJ this should put you on warning that the individual may not be appropriate to have as a tenant. It may suggest they are financially weak or do not take their financial commitments seriously. Ask them why they have not cleared the judgement.

Such tenants may be acceptable if:

- there is one county court judgement below £500; if the references obtained (apart from the CCJ) are satisfactory and their is sufficient income to meet the rental commitment
- you have obtained a comprehensive assessment from a referencing company which has concluded that the tenant is acceptable.

**Q - Can we take out the insurance if our tenant is a student?**

A – Yes you can, however the student must have a guarantor who has been satisfactorily financially referenced and signed a guarantors covenant to making them liable for the rent in the event of default by the tenant.

**Q - Can we take out the insurance if the tenant is in receipt of Local Authority Allowance/Housing Benefit/ Income Support?**

A – Yes you can but the tenant must have a guarantor who has been suitably financially referenced and signed a guarantors covenant making them liable for the rent in the event of default by the tenant.

**Q- My tenants are through a special scheme with a university or a local authority. Can I take out insurance?**

A – Such cases can be considered upon specific referral to Home & Legacy. We will need to see a copy of the proposed agreement between you and the university/local authority. Terms may be applied to the cover.

**Q - Does a spouse/partner need to be referenced when they are not contributing towards the rent?**

A – Spouses and Partners who are not contributing to the rent but who are a ‘named tenant’ on the tenancy agreement must have at least ONE satisfactory reference. You should ensure that the main earning tenant is capable of covering the full rental commitment – meet the required referencing criteria.

Where the spouse/partner is noted as a ‘named occupier’ as opposed to a ‘named tenant’ they will not need to be referenced for the purposes of the insurance. However, the insurance will only respond to claims arising from default by the tenant and not by the ‘named occupier’.

**Q - I have a reference from my tenant’s previous landlord can this be accepted as the financial reference?**

A – No, a previous landlord’s reference can only be considered as a personal reference and not a financial one. To be accepted as a personal reference the previous landlord must provide confirmation of the tenancy address and a positive response to the following questions

- Was the rent paid on time and in full each month?
- Did the tenant leave owing any money?
- Was the property returned in satisfactory condition?
- Would the landlord re-let to the tenant?
- Was the deposit returned in full?