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GOTTA PAY THE RENT

Small Landlords A Niche Underserved By Technology

Responding To Renters' Market, Leader Bank And Deposify Step Up With Solutions

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As rental housing dominates cities across the country, at least one bank is thinking about how to best capitalize on that trend – and it's hoping its solution will work for other community banks, too.

Last year, Arlington-based Leader Bank ditched its lockbox service in favor of ZRent, a rental payment application that it developed in-house.

"We were looking for a product to attract new customers and accounts to us, and to also increase stickiness. Every bank's always looking for that," said Jay Tuli, senior vice president and head of retail banking and residential lending at Leader Bank. "Simultaneously we were seeing that landlords were still coming into the branch with stacks of checks for their buildings. It seemed for some reason that they're either still coming to the branch or the check scanner still has inefficiencies, and we thought, 'This should really be all automated and online.'"

Leader Bank has licensed ZRent to StonehamBank and is in talks to license the product to other community banks in strong rental markets, Tuli said.

U.S. homeownership hit a 50-year low this year, and whether it's fueled by pragmatism or by preference, Millennials' tendency for renting over homeownership is not likely to abate anytime soon. As the rental market expands, particularly in cities like Boston, might savvy banks and fintechs carve out a niche serving the needs of landlords and their tenants?

It certainly looks that way. Not long before Leader Bank's announcement that it had begun



to license ZRent to other community banks, the Irish fintech company Deposify established its U.S. headquarters in Boston. Deposify essentially automates escrow services, providing a mobile platform for managing rental deposits, resolving landlord-tenant disputes and returning deposits in a timely fashion.

In an interview with Banker & Tradesman, Deposify CEO Jon Bayle said that Boston's strong rental market and compliance requirements for landlords made the city an ideal spot to launch its U.S. presence.

The need is there, too. Skip Schloming, the policy advisor for the Cambridge-based Small Property Owners Association, said that while

he wasn't personally familiar with ZRent or Deposify, solutions that help small landlords navigate their myriad compliance requirements would be welcome.

He identified the timely return of security blocks as a particular stumbling block for small landlords, many of whom would be hurt by the three months' rent and attorneys' fees associated with a screwup.

"For small property owners in Massachusetts, the law has gotten terribly complicated," Schloming told Banker & Tradesman. "It's very difficult to follow and if owners had a way where they could trust some of their business activities to a financial institution and they

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would take care of the notices and responses and all of that. ... I think there would be a plenty big market for that.”

A New Competitive Edge

ZRent is always free for the tenant to use and it's free for landlords who have an account at Leader Bank, but landlords who don't have an account with the bank are assessed a small monthly fee, Tuli said. Leader Bank will also make money by licensing the product to other banks.

Meanwhile, Bayle said he sees banks not as competitors with fintechs in this space, but rather as partners. He said Deposify partners with banks to set up trust accounts to store those rental deposits until the time comes to release the funds back to the tenant, and the partner banks get a new source of low-cost deposits.

Beyond fee income and increased deposits, banks and fintechs might reap another

benefit from offering services specifically tailored toward landlords and tenants. David O'Connell, a senior analyst at Aite Group, suggested that mobile-enabled rent payment could also be a rich source of data for banks, who are now beginning to get a handle on better utilizing data.

“After all, most land lords are real estate owners who have either a personal mortgage or an SMB for a small real estate investment,” he said. “When landlords receive payments over mobile all that data means that, their cash flow, including its predictability and sustainability is more readily analyzed. I anticipate banks will tap into this data source heavily. The more data has on a borrower's rent rolls, the more they know and the more they can extend. The more landlords can convey to lenders their credit worthiness, the better their access to capital. Wins all around.”

Tuli said that ZRent serves another im-

portant function for Leader Bank: increasing customer retention and stickiness. For community banks that finance many of the multifamily homes that landlords rely on for rental income, a tool like ZRent could be an important competitive differentiator.

Edward Doherty Jr., executive vice president at StonehamBank, said that the bank was hoping to respond to the needs of many of its commercial real estate clients who rely on rental income and to increase its wallet share of commercial customers on the deposit side.

“This product really fills a perfect void and it fits perfectly for community banks,” Tuli said. “We view this as a product that adds a lot of value to us, but we can only go so far in growing it. If we can help other banks and have them offer it to their clients, we're all for it.” ■

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