



AUTOMATING PAYMENTS, PROMOTING PARTNERSHIPS

Leader Bank offers Community Banks an Innovative Opportunity Servicing Landlords

By Michael Scheibach

When it comes to creating a product that generates revenue, fosters the acquisition of new customers, strengthens the bank's brand and, perhaps most important, opens new markets with unlimited potential, Leader Bank in Arlington, Mass., has definitely taken a leadership position.

Four years ago, Jay Tuli, senior vice president of retail banking, gathered together the bank's software developer, operations analyst, customer-service expert and product manager for the purpose of creating an online portal allowing landlords to receive tenant payments automatically utilizing ACH.

After nine months of development and a short beta test period, Leader Bank launched the portal, called ZRent (www.zrent.net), in February 2015, and is now a Massachusetts Bankers Association Preferred Vendor. To ensure its operational integrity, Leader Bank made ZRent an independent group, with its own phone

line, email server and web server. In this way, ZRent's activities and data are truly separate from the bank. Now, two years later, the bank has introduced a partnership program with other community banks interested in offering ZRent to their customers. (Related, see our Q3 2016 cover story in this magazine: Collaborative Sharing.)

"The trust that our partner banks place with us is of the utmost importance," said Tuli, "so we cannot risk any misconceived perception that Leader Bank might benefit from other partner banks' customers. This is our top most priority. The ZRent team has grown over the last two years, and now has seven dedicated people handling development, operations and client service.

STREAMLINED PROCESS

ZRent automatically deducts rental payments from a tenant's bank account, and deposits the payments directly into the landlord's account. Tenants no longer have to worry

about writing a check and mailing it on time, which is significant for Millennials, the digital-first generation who, in many cases, don't even possess checks. Plus, the service is free for tenants, as well as free for landlords who have an account with Leader Bank; otherwise, they pay a small fee.

"Leader Bank is proud to offer this new technology as a solution for small landlords in our communities," said Tuli. "Currently, there are no cost-effective electronic rent collection services for the small landlord other than ZRent, and we have worked hard to create a product that makes rent day a little easier for them."

For a landlord with several properties, for example, collecting rental payments can be extremely cumbersome. If there are 10 properties, with each being a three-family dwelling, and each dwelling made up of three bedrooms, you could have hundreds of tenants living in your properties. To deposit 100 checks a month by mobile deposit is cumbersome. To

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deposit 100 checks a month with a remote scanner can be done, but can be quite time-consuming. Someone has to run it through the scanner. Then, even when you run checks through the scanner, the deposits are lumped into one big payment. Someone then has to check off against the tenant roster as to who has paid. If you rely on mail, you are at the mercy of the U.S. Postal Service. And if you're on vacation, the rent sits in your mailbox. It's not ideal.

"If the landlord is traveling to Jamaica," said Tuli, "the rent is still hitting their bank account via ZRent. It's not sitting in their mailbox. The tenant is doing most of the work. They're signing up, they're putting their bank account information, and their bank account information is not shared. ZRent holds it, but the landlord can't see it, so the tenants prefer that."

Another feature is aimed at multiple roommates. Tuli points out that ZRent can accommodate individual rent shares. If there's a three-bedroom apartment, the individual rent share from each person is received, batched and then sent as one consolidated ACH payment for that unit to the landlord.

Very simply, ZRent is a tool a sales force, commercial lenders, business bankers and branch staff can use when talking with property managers and landlords. The difference is that this tool is not only customized for specific landlords; it is ideal for tenants who increasingly want to pay online because they don't want to write a check, put it in an envelope, get a stamp and send it. "Several Millennial tenants have actually requested that their

MANY LANDLORDS MUST DEAL ON OCCASION WITH TENANT CHECKS WITH INSUFFICIENT FUNDS. IF THE MONEY IS NOT IN THE BANK THE DAY A TENANT'S CHECK IS PROCESSED, IN OTHER WORDS, THE CHECK IS GOING TO BOUNCE.

landlords use a service like ZRent because they do not even have checks," said Tuli.

"We've opened about 100 new checking accounts from the program," continued Tuli, "totaling about \$2.2 million in core deposits among those 100 accounts. In addition, we have many customers whose accounts were dormant, but because they are now using ZRent, their accounts become active again. We've had a couple of commercial loans from ZRent users who wanted to refinance a property. It's been nice. It's really made us stand out to the landlord universe. I think all our partner banks are going to see similar results."

THE LANDLORDS

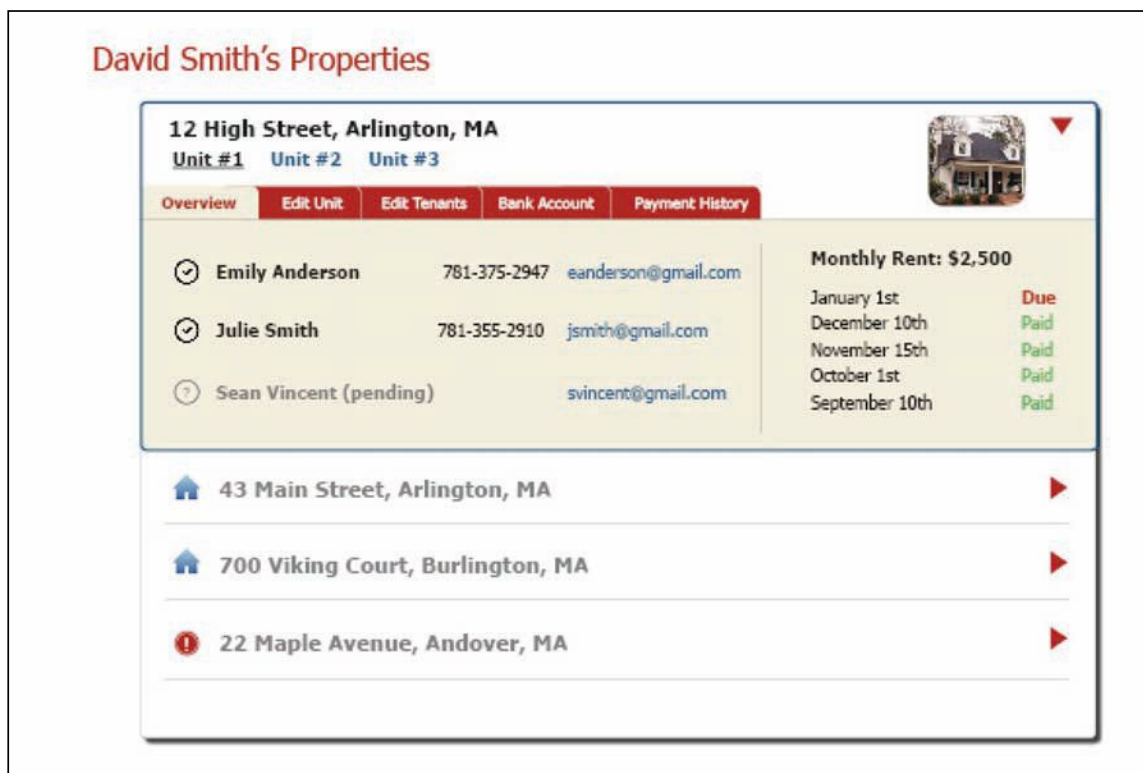
According to Tuli, landlords have responded very favorably, with some 70 percent now customers of the bank. And one of the most pleased is Michael Tack, owner of Nauset Group, a small real estate management company in Newton, Mass. Tack, who was one of the

first landlords to sign up for ZRent in early 2015, says ZRent is "terrific." But he doesn't stop there. He also says the ZRent team is "unmatched" in customer service, commenting that the group "couldn't be more attentive and helpful to whatever customer needs I have. I'm a small landlord. They're fantastic."

Tack has been quite successful in getting current tenants to use ZRent, although he acknowledges that one of the early challenges was convincing tenants, particularly commercial tenants, to pay their rent electronically.

"I have residential tenants who sign up with no objection — 100 percent acceptance," said Tack. "But I have commercial-industrial property, of which 75 to 80 percent of tenants at first willingly signed up. You always have some old-timers who resist going digital because they're just not as comfortable with the digital world."

Today, however, all of his new leases, both residential and commercial, require tenants to use ZRent. And



This is a screenshot of a mock-up (found on zrent.net) of how easy a landlord's property accounts can be managed through Zrent, an online payment service that allows rent to be automatically transferred from each tenant's account directly into the landlord's bank account.

he is proud to point out that no one has rejected this requirement. "If you want to rent from me," says Tack, "ZRent is the only way."

Many landlords must deal on occasion with tenant checks with insufficient funds. If the money is not in the bank the day a tenant's check is processed, in other words, the check is going to bounce. Even if the tenant uses their bank's bill pay feature, the system often still sends a paper check that goes to the landlord's mailbox. And if the landlord is traveling or is not in town, it's an added burden. With ZRent, however, this scenario changes dramatically.

"With ZRent," said Tack, "tenants don't have to remember to send you a check or even a bill pay. You get paid. For example, the rent's due on the first. The money is funded to my account on the fourth or the fifth. That's no different than

a tenant mailing you a rent check and waiting to deposit it. The good news here is that all the rents, full monthly rents, are in your account on the same day. So it improves your cash-flow management and makes your bookkeepers and accounting office much happier."

The payments process is the most important aspect of ZRent, but not the only feature. Tack also likes the landlord dashboard, which allows him to click on any tenant and obtain a full payment history. Adds Tack: "This is an additional real estate management tool that I wasn't even expecting as part of the package."

EXPANDING SERVICES

ZRent is not remaining static. Recently, a condo version of ZRent was developed to enable condo associations to collect dues automatically from condo owners. Additionally, the ZRent team is working on another

product that will automate the opening of security deposit accounts online. All of these products are considered add-on modules, with partner banks able to implement them as part of ZRent for an additional fee. According to Tuli, however, the fee is to support the development and maintenance of the products, and will be reasonable.

"I envision this suite of products evolving and having more functionality to really help banks provide tools to property owners," said Tuli. "The reason we like that market is because, one, we understand it; and, two, we feel that property owners are really like the bread and butter of community banks. A lot of the small apartment buildings or multi-family homes in communities are not banked by the likes of Bank of America. They're banked by the local bank. So it's a natural fit from a customer segment perspective."

The security deposit is especially applicable to Massachusetts. Tuli points out that opening a security deposit account from a tenant renting an apartment is a very manual, paper-based process. In Massachusetts, moreover, the process is more complicated because laws are very beneficial for the tenant and potentially harmful to the landlord if he or she does not open the account properly. For example, in *Castenholz v. Caira* (1986), the court held that a landlord who accepts a security deposit and fails to comply with the deposit requirements of G. L. c. 186, Section 15B (3) (a) is liable to the tenant “for the return of the security deposit pursuant to G. L. c. 186, Section 15B (3) (a).” The court went on to declare, “If the landlord refuses to acknowledge his error and return the deposit, thus forcing the tenant to employ legal process to vindicate his rights, the landlord will be liable for treble damages, interest, costs, and attorney’s fees.”

“Our product automates the security deposit process, makes it seamless and, more important, makes sure the process is fully compliant for landlords,” said Tuli. “The idea is that when banks use this product, they will actually attract landlords to open up all their security deposit accounts at their bank, thereby increasing their deposit base.”

The timing for ZRent could not have been better. According to the National Multifamily Housing Council, 35 percent of Americans — some 110 million — rent apartments. Of this number, 51 percent are below the age of 30, which represents the Millennial generation — a generation that would rather

rent than own. Another 23 percent are between the ages of 30 and 44, encompassing the high end of Millennials. Boston, for example, has 91,000 apartments, or 35 percent of all dwellings, making it among the leading cities in terms of number of renters. New York City is No. 1, followed by Los Angeles, Washington, D.C., and Seattle.

**THE PROCESS
FOR PARTNER BANKS
TO IMPLEMENT
ZRENT IS VERY
STRAIGHTFORWARD
AND SIMPLE.**

PARTNERING FOR GROWTH

Although Leader Bank sees growth among landlords in its market area, the real potential is its new partnership program with other community banks. In January 2017, Leader Bank, with more than \$1 billion in assets, announced its first bank partner, \$600 million-asset StonehamBank.

The partnership might be called fortuitous or even serendipitous. According to Ed Doherty, executive vice president of StonehamBank, they heard about ZRent during a radio broadcast with Jay Tuli. And what they heard was compelling enough to contact Leader Bank because the vast majority of Stoneham’s commercial loans involve commercial real estate.

“Deposit generation for commercial real estate clients is a very

difficult process when you’re dealing with geographical loans that are out of our assessment area,” said Doherty. “It’s hard for us to do if we don’t have a branch on that corner. We reached out to Jay and Leader Bank and they answered all our questions. The due diligence process from our end was fairly quick and efficient, and Leader Bank did a great job providing marketing material. It was, from our perspective, a no-brainer.”

Michael Rossetti, vice president and director of cash management at Stoneham, pointed out that ZRent worked exactly as they had anticipated during a beta test. “The landlords love it,” said Rossetti, pointing out that the ZRent dashboard gives the landlord cash-flow management capabilities by providing a history of tenant payments. “And the tenants are going to like it, too,” he added. “So it’s a win for everybody across the board. It’s a wonderful product.”

“Anything you can do to get a competitive edge is something that the rest of the industry can’t offer, and this is distinct,” added Doherty. “When we look at something, obviously we look at it and say, ‘How can we make money from this?’ But we truly envision this as a very worthwhile product because it solves so many issues for the landlord.”

The process for partner banks to implement ZRent is very straightforward and simple. No additional staff or internal resources are required. The ZRent team handles all transaction processing, reporting and customer service for landlords or tenants that may contact the call center. The partner bank’s primary responsibility is simply to inform its landlord and property

management customers that they can now enable automated online rent collection. To make this step easier, the ZRent team provides the partner bank with a turnkey “marketing roll-out plan” to spread the word to their landlord customers. The team even provides a training session for the bank’s staff to ensure they understand not only how the program works, but how to use ZRent to increase revenue for the bank.

As a partner bank, Stoneham’s ZRent is completely free for its landlord or property management customers. With ZRent, they [landlords] receive their rent payments in two business days from the due date, as opposed to four business days if they bank with a

non-partner bank. Stoneham pays ZRent a monthly “network fee.” But the potential for new customers and revenue more than offsets the cost side of the equation.

Stoneham does have objectives for return on investment. According to Rossetti, the bank has a dollar figure goal with a two-year capture. “Obviously, there’s a monthly bill for the product, so we could almost say like, in round numbers, \$1 million would be a great amount of deposits in probably a year and a half.”

Leader Bank is pleased to be working with StonehamBank, but it is not limiting itself to Massachusetts. It is also talking with banks across the country. And Tuli hopes to have 15 to 20 partnerships in place by the end of this year.

“I had first thought only banks in urban areas with lots of multi-family property would be interested,” said Tuli. “But I’ve had a lot of banks call me from remote places in Maine, Nebraska and Montana. Their needs are different, but ZRent solves the same problem. These banks may have properties 50 miles from the closest branch, and they need a tool that connects these customers to the bank. I had never thought of that as an application. Each bank will figure out how this may help them.” ■

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PARTNER BENEFITS

Leader Bank’s Jay Tuli sees five primary benefits for a partner bank:

1. Differentiation – The bank will have a truly unique product that creates efficiency in the lives of landlords.
2. Account Acquisition – ZRent is an effective tool to drive accounts and deposits to partner banks because A) all fees are waived to landlords and B) rent is deposited two business days faster than if they banked with a non-partner bank.
3. Stickiness – ZRent creates a greater level of stickiness with property owners because the product enhances a core function of the landlord’s business: rent collection.
4. Penetration of Relationship Lending Clients – Community banks sometimes struggle to convince commercial borrowers to bank with them because



5. Exposure to Tenants – ZRent partner banks have the option to market to the tenants of their landlord via the monthly email notifications and push cross-sell bank specials that may be pertinent to them. ■