



White Paper

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The True Cost of Processing Resident Payments Using Traditional Methodologies

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The Goal of this Key Issues Guide

What is the actual cost of processing payments from residents?

For most property managers this is the right time for an analysis of this key subject. The adoption of new Internet-based technologies and the redefinition of business processes have elevated payment processing alternatives to a position of strategic importance for multifamily executives. Property management firms that have embraced the latest generation of payment solutions have benefited from streamlined processes, productivity gains, and swifter access to funds. Ancillary benefits have also extended to key areas including compliance, data security and fraud reduction.

Of note, the multifamily organizations that have led the way with advanced payment solutions are now able to quantify their results and react to feedback from the field. The numbers are proving compelling, but need to be analyzed and considered carefully and objectively.

The goal of this guide is to leverage the successes of these multifamily payment pioneers and provide the reader with the tools and methodologies to understand the real costs of traditional payment processing and the opportunity presented by automated and centralized initiatives.

Instead of relying on complex formulas this Guide offers pragmatic insight and advice. This allows for the fact that each firm has its own unique characteristics that should determine the right mix of payment types.

By using this assessment methodology, a multifamily executive can clarify the hard and soft costs of traditional payment alternatives. Armed with this information it will be easier to prioritize the payment types offered, and the resources allocated.

How Can Property Managers Accept Payments?

Payment types have proliferated in recent years. Residents have typically not been shy about requesting more choice in how they pay rent and other lease-related items. This has presented property managers with challenges in incorporating payment types such as credit cards, online bank bill payment or Check 21 into systems built around the acceptance of paper checks in community management offices.

Beyond the business process pressures, property managers have also found it difficult to quantify the actual value or cost of particular payment types. This is a challenge when on-time payments are the lifeblood of all firms, large and small. As a result, many property managers persist with traditional payment techniques based on community managers collecting, recording and depositing paper checks. The familiarity with this form of payment collection obscures some very real issues that need to be addressed by any property management firm that is focused on the bottom line.

Traditional Payment Types

Each payment type has strengths and weaknesses that are impacted by a wide range of factors. These can include the demographics and financial profile of your resident base, and the flexibility of your team when incorporating new processes and systems. The following sections will help you build a knowledge base of the issues and the parameters that need to be considered for each payment type.

Traditional Payment Types

The term 'traditional' when applied to payment types encompasses the following established transaction types and processes:

- Paper checks being deposited at the local bank branch by a community manager
- Limited card present (on-site swipe terminal) credit card systems used as a payment of last resort
- Check-scanning or lockbox systems that are not fully integrated with accounting software
- Acceptance of Money Orders for physical bank deposit

The most significant characteristics of traditional payment types are often:

- Lack of backend transaction data integration with key business management and accounting systems
- Reliance on multiple levels of manual entry to capture payment acceptance and reconcile transaction data
- Flawed compliance or security practices
- Reliance on community managers to execute key financial and administrative processes
- Limited payment options and functionality for residents

The Complete Picture: Defining the Actual Cost of a Traditional Payments Solution

What does it cost to process payments using traditional methodologies?

There are a number of parameters that are often overlooked when considering the cost of traditional payment alternatives. The following table analyzes the approximate cost of collecting and processing payments manually, mostly in the form of paper checks, based on example data:

Process	Cost factors	Example
Community manager collects paper check and deposits manually	1. Time spent on collecting check, entering into ledger, producing reconciliation reports	Community with 250 units paying community managers and admin staff approximately \$38,760 (\$50,000 including benefits) and collecting an average rent of \$625 per month
	2. Travel time to bank for deposit of checks	1. Administrative time associated with receiving check, generating payment receipt, recording payment in accounting system and preparing corporate reporting. Average 11.4 minutes = \$4.75 per item
	3. Bank service fee and fee for bounced checks	2. Daily trip to bank and manual deposit. Average 3.6 minutes per item + mileage = \$1.68 per item
	4. Collection efforts, including lost or stolen checks	3. Bank fees, including service and returned check fees = \$0.91 per item
	5. Losses due to missed lease opportunities	4. Collection efforts, associated with late payments or lost checks = \$1.07 per item
		5. Loss due to missed lease opportunity = \$2.50 per item
		Total cost: \$10.91

Extending beyond the dollars that are being dedicated to processing payments within a traditional infrastructure, there are a number of related issues that also impact your bottom line:

1. What is human error costing you? This can include lost checks, and incorrect paperwork
2. Is there potential for fraudulent processes within your community offices? If so, what does this cost you each year?
3. Are your community managers' productivity in key areas such as marketing, resident relations and community improvements being compromised by their involvement in administrative processes that they are poorly equipped to handle?

What does your community managers' involvement with the in-person paper-check payment process cost your organization?

To assess this cost using a systematic and analytical approach, PropertyBridge offers a detailed working calculator to help property management companies gain valuable insight into their own key cost drivers – per payment, per community and portfolio-wide. Please contact your PropertyBridge representative to obtain this tool or to receive a customized audit of your firm's existing expenditure on traditional payment processing.

The Changing Face of Payments: Centralization Can Cut Costs, Add Consumer Choice, and Enhance Compliance and Security

In response to the well-documented frailties of traditional community-based payment systems, many prominent property management firms are embracing a centralized payments strategy. This typically involves moving key payment processes out of the community office to be handled by a qualified third party processor or financial services company.

The key factor enabling this move is the advent of comprehensive third party payment solutions designed specifically for property management firms. For the first time property managers can employ a strategic payments solution that provides multiple payment types that are integrated with existing business processes and systems.

Rather than piece together the various elements that comprise a payments program, property management firms can now look to integrated environments. Both business and technology leaders within all organizations are beginning to embrace this methodology to reduce time, cost and risk.

The benefits are well worth revisiting and comparing to traditional payment systems:

- **Focus:** Community managers should not be hassling with rent payments. By centralizing payments, community managers can be re-focused on areas like leasing and general management
- **Flexibility:** The right payment types can be applied at the right time to keep costs under control and help expedite key business processes. As an example, a property management executive may decide to offer credit cards as a payment type during the lease-up process while steering residents to ACH payments for rent and other recurring transactions
- **Choice:** Residents like choice in how they pay. The leading automated solutions allow property management firms to offer virtually all payment types

- **Compliance:** The large financial services firms and associations, along with most State Departments of Real Estate have strict mandates on real estate-related payments. These financial controls protect the integrity of each payment and act as a very real control on fraud and unscrupulous business practices. The regulations can be very difficult to adhere to when payments are scattered throughout individual community offices or through a number of service providers that may or may not be compliant
- **Insight:** New automated solutions, such as the PropertyBridge Payments Platform, provide multifamily executives with instant access to data on each payment made throughout their portfolio down to the community or resident level
- **Integration:** Smoothing out the flow of data between systems and software solutions means that you get paid faster and save costs by reducing manual entry of data. This can help reduce headcount and boost productivity from community managers through to corporate team members

Cost Considerations for Automated and Centralized Payment Solutions

Automated solutions can incorporate multiple payment types within a single framework. This includes payment cards (credit/debit), ACH/Electronic Check, Check scanning, Lockbox and Electronic Bill Payment and Presentation (EBPP). Typically, property management executives select a subset of payment types that are most cost-effective at key 'events' in a resident's history at the property. The ability to offer multiple payment types from within a standard interface is a significant advantage of automated over traditional payment processes.

When handled efficiently, automated payments eliminate levels of costly interaction and data entry. Multihousing firms can also take advantage of payments data and money moving in a more expeditious and manageable way. This opens up a host of additional operational benefits that cut down on expenses and free up team members for other areas of the business.

To achieve this requires a realistic assessment of goals, internal capabilities, and associated costs. The following questions provide a starting point in moving your organization from traditional payments practices to an automated and integrated approach:

- Are you looking to move payment processes out of your community offices?
- Have you identified areas where a better view of payments data within your organization will be helpful?
- How will you notify residents of any changes in the way that they pay rent?
- Based on the demographics of your residents, what payment types do you think will be most popular?
- Are you viewing payment cards as a mainstay of your payments program or just as a 'payment of last resort' for residents that are looking to avoid late fees?
- Would payment cards help in certain parts of your interactions with residents such as the lease-up process?
- How are your current payments being reconciled and integrated with your accounting system?
- How will an automated solution impact the levels of data entry between your accounting/business systems and payments?

- Who will manage your automated payments solution?

Automated payments service providers typically work collaboratively with their clients in tailoring a solution in response to these questions.

The Financial Rationale Behind Automated Payments

What has led to the industry-wide shift towards automated and centralized payments? There is a growing realization that electronic payments endeavors can eliminate many of the inefficiencies of traditional payment processes, when properly executed. On a tactical level, automated payments can eliminate the following scenarios:

- Community manager spends hours processing and depositing payments at the expense of other key areas such as lease-up activities and resident relations
- Payments data, including NSF reports, must be re-keyed several times because of a lack of integration with other business systems.
- Mistakes are common when those handling payments have multiple tasks that are rarely compatible with administrative requirements
- Checks are often lost in busy community offices
- Bounced checks are inefficiently handled
- It can take up to two weeks after a payment has been made for the payment to accurately reflect in your bank account and ledgers
- Different payment types require different systems and business relationships

By streamlining these processes property managers can realize an impressive number of strategic advantages and improve their ROI for each resident with automated payments. When combined with the probability of ancillary benefits such as enhanced resident retention and lease-up rates, it is becoming clear that the next generation of rent payment processing is here to stay.

About PropertyBridge, Inc

PropertyBridge (www.propertybridge.com), a MoneyGram Company, is a leading provider of automated payment processing services to real estate owners and managers. The PropertyBridge Payments Platform enables residents to pay rent and other lease-related transactions using an array of payment types, including credit and debit cards, Automated Clearing House (ACH), check scanning (Check 21), and cash payment services at 40,000 MoneyGram agent locations. PropertyBridge provides management firms with a previously unattainable level of integration and administrative efficiency in key areas of their business. The company collaborates extensively with financial services leaders including Visa USA, MasterCard, Discover Financial Services, American Express, Wells Fargo Bank and First National Bank of Omaha. MoneyGram Inc. acquired PropertyBridge in October 2007.



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