

R3REFERENCING EXPLAINED



What is referencing?

It is a way for landlords to find out information about a prospective tenant before the tenancy agreement is signed. It involves a number of **checks** and **verifications** to help landlords decide whether a tenant is suitable for their property.

Some landlords carry out these checks themselves, others use a

letting agent or professional tenant referencing company. **Are there additional charges for referencing?**

Relevance to the transaction

Referencing is a key step for landlords to enable them to know who is going to be living in their property – it is there to gain better visibility on tenants' renting history, financial records, affordability and background.

How long does it normally take?

Typically, referencing agencies have a turnaround time of 2-3 days from receiving the appropriate permissions and documentation.

Estate agents normally engage these companies, and they will contact tenants directly to seek various documents and information. As most of these checks are automated, it is often a frustrating step for prospective tenants in the context of finalising a tenancy agreement.

The Tenant Fees Bill 2019 protects tenants' right in this area. Landlords in England can no longer charge tenants for reference checks. The cost must be covered by the landlord or letting agency. This applies even if the prospective tenant fails the reference check; charges still can't be applied.

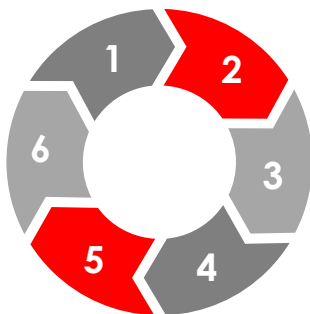
Best practice vs mandatory

Referencing falls broadly into two categories: best practice checks and those that are mandatory for Landlords. The visual below provides an overview of these steps.

Ultimately, aside mandatory checks, landlords get to decide who can and cannot live in their properties – irrespective of what the references might say.

USUAL REFERENCING CHECKS

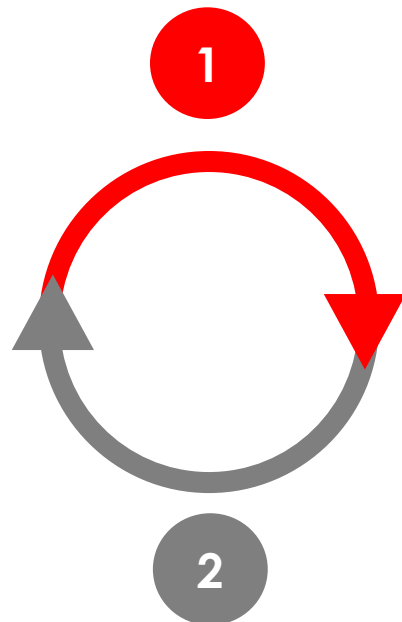
Not all of these might necessarily take place – it will depend on the Landlord and their Agents, but normally, the following checks would be undertaken:



1. Credit Checks
2. Employer Reference
3. Previous Landlord Reference
4. Proof of address
5. Proof of identity
6. Bank Statements

MANDATORY REFERENCING

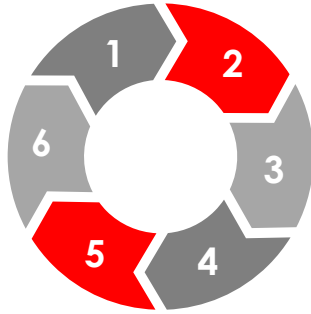
Right to rent checks



Anti-Money laundering

USUAL REFERENCING CHECKS

Not all of these might necessarily take place – it will depend on the Landlord and their Agents, but normally, the following checks would be undertaken:



1. Credit Checks

Confirm whether the tenant pays on time and if they have any County Court Judgements against them

2. Employer Reference

Status and check if income will cover rent (annual income should cover at least 2.5 to 3 times the annual rent)

3. Previous Landlord Reference

Character ref: will a tenant behave in a good tenant like manner

4. Proof of address

To check the current and previous addresses. Also see box on the left

5. Proof of identity

Generally linked to Anti-Money Laundering. Photo ID such as a passport or driving license.

6. Bank Statements

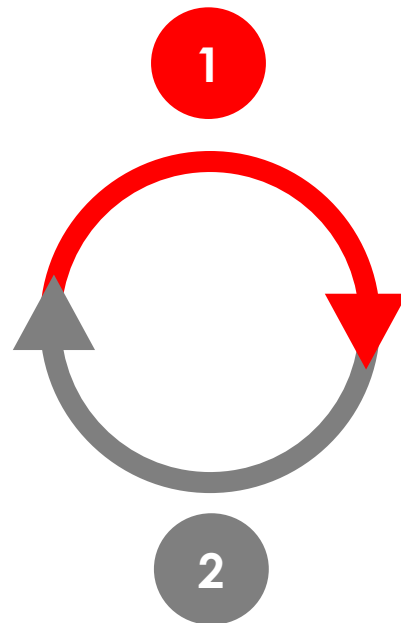
Required (usually the previous three months) to gain better visibility of the applicant's financial situation

MANDATORY REFERENCING

Landlords must check that a tenant can legally rent their residential property. All tenants must be checked by law. This can be done by checking a tenant's original documents in person, or accessing a 'share code'. The latter is a new initiative enabling tenants to register with the UK Government and get a code – [CLICK HERE](#) to access service. In order to use this service, tenants will need to provide their date of birth and details of one of the following:

- biometric residence permit
- biometric residence card
- passport or national identity card

RIGHT TO RENT



ANTI-MONEY LAUNDERING

Letting agents must comply with Money Laundering guidelines and undertake additional checks (called Customer Due Diligence) on both the tenant and landlord for any agency agreement with a monthly rent of 10,000 Euros (or equivalent amount) or more.

This means identifying and verifying the tenant's identity, generally by requesting copies of passport and proof of address.

Some estate agents can apply stricter standards and have lower rent threshold or a more strict approach as to the nature of documentation provided. Some may even ask for copies to certified by a solicitor or a notary.