



## SIGNING ON AS A GUARANTOR? PROTECT YOURSELF!

by Mayra David | 3/17/14 - 8:59 AM

It's almost spring, and in a city of renters, that means scrambling to line up apartments and sign leases. New York City landlords generally want tenants to earn a salary of 40 to 50 times the monthly rent; renters who don't meet that requirement often turn to guarantors.

But the role of guarantor is not for everyone: typically, they need to earn 70 to 85 times the monthly rent, and they're legally obligated to pay the rent if the tenant defaults. Not surprisingly, financially stable parents or close relatives are usually the only people willing to sign on as guarantors. (More on guarantors-for-hire below.)



If you're considering signing on as a guarantor, here are the things to keep in mind:

### **1. You're responsible for the entire rent**

"You can't just guarantee your kid's portion of the rent," says Gus Waite, a broker at AC Lawrence. "You are guaranteeing the rent for the entire apartment."

Unfortunately, many landlords allow only one guarantor per lease. That leaves you with two options: Get comfortable with the risk, or shift it to an institutional guarantor. For a fee of about 85 percent of a month's rent for U.S. citizens and 110 percent for foreign nationals, Insurent Lease Guaranty can act as a guarantor. (Note: the company won't back renters with bad credit.)

**"At least 30% of our applications relate to co-tenants, be they students, unmarried partners, friends, etc.," says Jeffrey Geller, COO of Insurent, noting--in no surprise to anyone familiar with the trajectory of NYC rents--that the number of applicants who have roommates has risen steadily over the past five years.**

If, on the other hand, the landlord accepts multiple guarantors, you're still not quite home free.

"Have a lawyer draw up a contract amongst the guarantors so that each party is protected," says Waite. "That way not one person is ever left alone should any or all of the renters default on the rent."

Takk Yamaguchi, a real estate agent at Urban Compass, also advocates a separate agreement between guarantors.

"The agreement should identify what steps are needed to be taken in the event one roommate, two roommates, etc. defaults on the lease," he says. Scenarios include "failure to pay rent, give possession upon lease expiration, breaking of house rules, etc. If the matter is taken to housing court, it can go on the guarantor's housing record, and if assigned to collections then the file will be recorded on their credit report."

### **2. Don't guarantee just anyone**

One big risk, says Cecil Weeks of Miron Properties, comes from guaranteeing the lease for somebody you don't know as well as you should.

"Do not guarantee leases for mere acquaintances or co-workers," says Weeks. "Only guarantee leases for responsible family members and very close friends," he says. "Find out if the landlord will be using your supporting documents to verify income qualification or to prop up an applicant with very poor credit. Avoid guaranteeing applicants with very poor credit unless you're aware of unfortunate/unavoidable circumstances."

### **3. An open dialogue with the landlord is a must**

Most guarantors find out too late when tenants don't pay rent on time, especially in a roommate situation, says Adjina Dekidjiev of Bond New York. Sometimes a guarantor only learns of a bad situation once it becomes irreparable.

"Guarantees usually stipulate that the guarantor waives notices of default," she says. In order to stay on top of things, "the guarantor should insist that the landlord notifies him or her if rent payments are late."

It's not likely you will be able to change the terms, but Dekidjiev says if you approach the landlord and personally ask, he may send you notices as a matter of courtesy.

This could allow you as a guarantor the opportunity to find out if the lease holder is in financial trouble and will continue to miss payments, or if it was a one-time occurrence. It could mean the difference between helping out with the monthly rent or facing a mountain of missed payments.

"In the case of roommates, if roommates are not paying, the guarantor can call the other tenant's parents--or guarantors--to remind them of their obligations," Dekidjiev says.

### **4. Set clear time limits**

All lease guarantees have clauses that address lease renewals, extensions and modification. Some clauses may be more "guarantor friendly" than others.

Do your research about whether or not you can renegotiate the lease to get out of the guarantee if the leaseholder's financial situation improves or you come up against your own financial hardships. Again, you will probably not be able to change the guaranty agreement, so make sure you're comfortable with what the lease says.