Article Side

Trust Funds and Trust Fund Maintenance

by Ashoka Lion

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When tenants rent units from you they are placing not only their financial investment in the landlordâ€™s hand, but also their trust that you, as the property manager, have their best interests at heart. When a security deposit or rent is paid, the tenant is communicating their confidence that their needs will be met and their money is in good hands. That is where the concept of a real estate/broker trust fund comes into play. Trust funds are separate bank accounts in which only a certain type of money is deposited. This money is designed to protect the tenantâ€™s investment and ensure that money is available for property expenses and deposit reimbursements. The Federal Deposit Insurance Corporation (FDIC) insures up to $250,000 for each individual who has monies deposited into a trust account. The most common deposits into trust funds come from, including:

1. Money deposits

2. Down payments

3. Rental security deposits

4. Association dues

Property manager such as our firm who operate in Houston and Dallas, you are required by the new Texas property code, to employ a licensed real estate broker to handle your tenantâ€™s monies. It is important for ownerâ€™s to find qualified licensed people to help provide oversight on their property management activities.

Trust Fund Maintenance

The new Texas bill 747 requires rent collection to be the duty of a broker. Investors and property managers in the Dallas or Houston areas are strongly advised to hire an accredited broker immediately and to require a trust fund be established for all rental-related monies. In creating this fund, always keep in mind that the monies deposited are there for a reason. The rent, security deposits and any other monies associated with your rental properties need to be managed responsibly so there is enough money for property maintenance, refunds, and emergencies. When discussing the creation of a trust fund with your broker, make certain that the following guidelines are in place.

1. The account is clearly labeled and understood by the bank to be a â€˜Trust Fundâ€™ or â€˜Trust Accou

2. All monies collected should be deposited into the trust fund immediately with proof of deposit.

3. Maintain complete and accurate records of all deposits and withdrawals. Document the reasoning for the withdrawal or deposit.

4. Copies of leases or agreements must be in correspondence with this account.

5. In the event of an audit, the records will have sufficient evidence of all transactions, including: deposits, cancelled checks, check receipts, etc.

6. Funds in the trust account will be available for property expenses under certain circumstances:

a. Written agreement that the broker has authority to use rent monies for property expenses

b. Sufficient funds are available to fulfill expenses for both the tenants and the property expenses.

Current or prospective investors in Texas (like our owners in the Houston and Dallas markets) should rely on a property management firm having a licensed broker who can provide them with and maintain a trust account. Especially for first time investors who do not know a great deal about property management, they will now be protected that their monies are protected by licensed and qualified firms who under the oversight of TREC. Investors will soon sit down with property management firm overtime so that they can understand what the property management firmâ€™s policies and procedures are concerning rent collection and trust account accounting. Trust accounts are, simply put, an accredited way to avoid mismanaging clientâ€™s monies in a segregated an clearly labeled bank account.

Prepare your property management firmâ€™s around Texas to learn that the days of unregulated property management activities seems to be drawing to a close. TREC supervision will provide a framework to protect consumers from property managers or real estate that are ill advised and educated about the industry providing services and harming public trust for the entire industry.

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