

## **GUIDANCE TO TENANTS OF LETTING AGENTS**

Tower Hamlets Trading Standards has recently undertaken a review of complaints received about Letting Agents in our area. This review and a subsequent survey of a sample of local agents highlighted the following areas of concern:-

- **Failure to register tenants' deposits under an approved scheme as required by Law.**
- **Illegal deductions from deposits.**
- **Failure to return holding deposits.**
- **Lack of Information and clarity on Fees and Charges to tenants.**

We believe that all letting agents in the borough are subject to the following relevant legal requirements. We also wish to highlight those practices which we believe contravene the requirements of "professional diligence" contained in the Consumer Protection from Unfair Trading Regulations 2008.

**"PROFESSIONAL DILIGENCE" means the standard of special skill and care which a trader is reasonably expected to exercise towards consumers, that is:**

- (a) Honest market practice in the trader's field of activity, or
- (b) The general principle of good faith in the trader's field of activity.

It is our interpretation that in the case of Letting Agents, this means compliance with all relevant legislation, the "Guidance on Unfair Terms in Tenancy Agreements" Office of Fair Trading September 2005, and the Codes of Practice of the relevant professional associations.

## **HOLDING DEPOSIT**

It is perfectly acceptable for the Letting Agent to take such a payment from an applicant / prospect tenant.

However before doing so they must:

- Make it clear to prospective Tenants that taking an offer does not guarantee that the tenancy will go ahead.
- Use the words "Subject to Contract" in all documentation or correspondence with the applicant.
- Ensure that - All documentation including standard terms ( see below) between an applicant and the agent should be fair , clearly presented , and written in plain and intelligible language in order comply with The Unfair Terms in Consumer Contracts Regulations 1999
- Provide prospective Tenants with a reasonable opportunity to see and study specimen tenancy agreement before an applicant becomes liable for fees or charges associated with the rental of the property. The same applies to any Guarantor should one be required.
- Provide the prospective Tenant with a written receipt.

What happens to the Holding Deposit if the Tenancy does not proceed?

- If the Landlord has accepted an offer from the prospective Tenant, but later declines the tenancy for a reason other than because the Tenant fails the referencing, the Landlord should be advised that the Letting Agent must return the Holding Deposit to the prospective Tenant in

full, and that the Landlord will be liable for the costs incurred by the Letting Agent in obtaining the references. **The Letting Agent cannot penalise the prospective Tenant, who is not liable for any expenses.**

To protect you as Agents from becoming liable for the Tenants' expenses should the Landlord withdraw the Letting Agent must highlight the potential liability in their Terms & Conditions for Landlords.

- If the Tenant later withdraws from the proposed tenancy, the Letting Agent may make such reasonable deductions necessary to cover any expenses. **However, such deductions must reflect the actual value of such expenses.** Any deductions must also take into account the circumstances of the situation; for example where the Tenant decides not to proceed and notifies the Letting Agent promptly after paying the holding deposit, expenses incurred are going to be less than if there was a delay.

## **NON REGISTRATION OF A TENANT'S DEPOSIT - TENANCY DEPOSIT SCHEMES**

All deposits must be registered under one of the 3 approved schemes, these are: The Tenancy Deposit Scheme, The Deposit Protection Service, and My Deposits. The legislation allows either the Landlord or the Letting Agent to register the deposit. However The Landlord or Letting Agent must abide by the rules of the scheme to which they subscribe.

- The deposit must be registered within 30 days from the date when it was received from the Tenant.
- Failure to comply with the 30 day rule will mean no section 21 notice can be served until either the deposit has been returned to the tenant or, if court proceedings have been taken against the landlord, proceedings have concluded. **The penalty which a court can award is between one and three times the amount of the deposit.**
- A Letting Agent who holds the Deposit must hold the Deposit as **Stakeholder** as determined under the Code of Practice of all professional associations, e.g. ARLA, Ombudsman for Lettings, NALS.

### **Inventories**

Under the same Code of Practice, unless the Agent has instructions to the contrary they must ensure at the start of the tenancy that an inventory and or/schedule of condition is prepared for the client by them, or an appointed sub – contractor.

### **Agents must ensure that all deposits are legally protected**

**Tower Hamlets Trading Standards believe that Letting Agents who fail to ensure the Landlord registers the deposit claiming that it is not their responsibility are failing the requirement for “professional diligence”, and their common law “duty of care.”**

## **ILLEGAL DEDUCTIONS FROM DEPOSITS**

Cases have arisen where Letting Agents have deducted their Letting Fees and associated charges from the deposit before passing it on to a Landlord. This is illegal.

**IMPORTANT:** Should the amount of advanced rent paid to the Agent by the Tenant before they move in be insufficient to cover the cost of all fees and charges to be levied on the Landlord, Letting Agents

cannot deduct monies from the deposit. The deposit must remain untouched, and the Landlord should pay any shortfall personally.

Deductions from the deposit at the end of the tenancy

- **No deductions whatsoever can be made from a deposit without the mutual agreement of the Tenant and Landlord.**
- Any proposed deductions must allow for “normal wear and tear”.
- The cost of any proposed deductions must be supported by documentary evidence.
- If both parties cannot agree on some or all of the proposed deductions, the Tenant, Landlord or Agent must refer the dispute to the Deposit Scheme protecting the Deposit, as all the deposit registration schemes offer dispute resolution, which either party can use.
- Any part of the deposit which is not disputed must be returned to the Tenant in accordance with timescales detailed in the Tenancy Agreement. E.g. The deposit is £1000, the Landlord seeks £500 for cleaning/ missing items, the Tenant does not agree, the remaining balance of the deposit (£500) must be returned to the Tenant.

## **STANDARD TERMS**

(Details of Fees and Charges) must:

- Clearly detail all charges and / or fees the applicant is liable to pay .e.g. administration, referencing, inventory / check in costs prior to moving in.
- Clearly set out the agreed calendar monthly rent, the amount of rent in advance, and the amount of deposit required prior to move in.
- Clearly set out the details of the applicants offer including any extra requirements, proposed move in date etc.
- Clearly detail any future fees or charges, e.g. to extend, renew or terminate the proposed tenancy including, inventory check- out charges.
- Set out any significant pre-conditions for the letting. Including the circumstances in which the applicant may incur penalties. For example the withdrawal at any stage of their application for the Tenancy or the Landlords rejection of it.
- The amount paid as holding deposit – Must be deducted from the monies required prior to move in (including rent in advance, deposit, reference and other detailed charges).

## **FEES**

Letting Agents charge a range of fees and charges to both Landlord & Tenant. In all cases they must be clearly stated in the terms and conditions, and the client or Tenant must be given sufficient time to read the contract and terms of business before signing.

Details of fees should also be given on the Letting Agents' web sites.

## **PROFESSIONAL ASSOCIATIONS**

We recommend that Letting Agents belong to a recognised professional association, such as ARLA, The Property Ombudsman for Lettings or the National Approved Lettings Scheme (NALS). This will ensure that proprietors and staff remain well informed of changes in regulations and practices within the

industry, and are therefore able to protect their client ( the Landlord) and the consumer ( the Tenant). Membership of these associations should be publicised on their literature and web site, and the relevant Codes of Practice made available to clients.

NB .It is a criminal offence for a Letting Agent to falsely claim to be members of a deposit scheme or professional association.

## THE LAW

Legislation that governs the topics featured in the guidance includes:

Sections 212-215 of The Housing Act 2004 makes it clear that the deposit remains the property of the tenant throughout the tenancy and must be registered under one of the three approved protection schemes which are My Deposits (MD), Tenancy Protection Scheme (TPS) and Tenancy Deposit Scheme (TDS) and the tenant must be informed of the details of this.

Clause (i) Schedule 2 of The Unfair Terms in Consumer Contracts Regulations 1999 provides that a contract term shall be deemed to be unfair where it binds the consumer to terms with which they had no way of knowing about before the conclusion of the contract

Regulation 3 of The Consumer Protection from Unfair Trading Regulations 2008 requires traders to exercise “professional diligence”. It also prohibits other unfair commercial practices such as misleading actions, misleading omissions, aggressive practices and those which are specifically listed in Schedule 1 of the Regulations.

Regulations 5 The Consumer Protection from Unfair Trading Regulations 2008 defines misleading actions such as the making of false statements and the provision of factually incorrect information.

Regulations 6 The Consumer Protection from Unfair Trading Regulations 2008 defines misleading omissions e.g. the failure to give any consumer all relevant material information to enable them to make an informed choice.

Schedule 1 (6) (1) The Consumer Protection from Unfair Trading Regulations 2008 makes it a criminal offence to falsely claim to be a member of a professional or trade association.

Section 1 of The Fraud Act 2006 makes it a criminal offence to dishonestly make a false representation (S.2), dishonestly fail to disclose information which he has a legal duty to disclose (S.3) or occupies a position where he has a legal duty to safeguard the financial interests of another person and dishonestly abuses that position(S.4), with a view to gain for themselves or to cause loss to another.

The Provision of Services Regulations 2009, states that price information must be provided and it must be provided before the service is provided. Reg 11 (b).

Copies of the above legislation can be viewed at the following website: <http://www.legislation.gov.uk/>