



## **Security deposit insurance: A better alternative for landlords - by Michael Capozzi**

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Recent changes in the legal requirement for tenant security deposits have forced more landlords to consider security deposit insurance to protect their assets.

In June 2019, with the enactment of the Housing Stability and Tenant Protection Act (HSTPA), landlords were met with strict requirements regarding collecting and using security deposits tendered by tenants.

Under the HSTPA, the New York General Obligations Law was amended with new provisions limiting the security deposit amount to only one month's rent.

The provisions also give landlords only 14 days after tenants vacate to provide them with an

itemized bill for any charges deducted. If the landlord fails to provide the itemized statement within 14 days of vacatur, they automatically forfeit the right to retain any portion of the deposit.

## Security Deposit Insurance Presents an Alternative

As a result, security deposit insurance has gained the attention of many landlords as an alternate way to cover the repair costs associated with damage to apartments or unpaid rent.

Security deposit insurance has been around for over 20 years, but the enactment of the HSTPA sparked new interest in the programs. The requirements of the New York General Obligations Law do not apply where there is no tender by tenants and acceptance by landlords of a traditional cash security deposit.

### What is Security Deposit Insurance?

Like a traditional deposit, security deposit insurance protects the landlord should there be apartment damage or rent default.

Instead of paying the landlord a deposit upfront, the tenant pays a small monthly fee to a third-party vendor. The fee is non-refundable and paid every month for the duration of their lease.

Apartment damages caused by the tenant will be covered by the policy and given to the landlord to repair the damage. Monthly premiums typically range between \$20 to \$50 and are often based on a percentage of the monthly rent.

### What are the Benefits?

Security deposit insurance provides multiple benefits for both landlords and tenants.

Landlords can avoid the rigid requirements of the newly enacted security deposit laws under the HSTPA. They do not have to collect a cash security deposit and hold it in a separate bank account. Further, landlords are not held to the post-vacatur 14-day timeframe within which they must send an itemization of damages and arrears to avoid forfeiture of the deposit.

For tenants, security deposit insurance reduces their move-in costs. They are not required to pay a security deposit on top of the first month's rent at lease signing. Additionally, the insurance premium is often less than the amount of any security deposit that tenants would be required to tender.

Especially after the financial hardships faced by many due to the COVID-19 pandemic, landlords who accept security deposit insurance instead of a traditional deposit gain an advantage with interested renters. With so many people fleeing New York City this past year, tenant-friendly programs improve a landlord's pool of potential applicants.

### How Does the Program Work?

There are a number of security deposit insurance programs available. Some apply a more traditional insurance model, while others take a non-traditional approach. Two of the more prominent companies demonstrating these differing approaches are Rhino and Obligo.

Rhino offers a security deposit alternative in the form of a monthly fee. Landlords need to be in the Rhino network in order for tenants to use the service. If the landlord is not currently a participant in the Rhino network, prospective tenants can request that Rhino reach out to them to see if they would like to join.

Tenants pay a monthly fee, and Rhino insures the apartment. For example, a tenant would pay approximately \$19 for a \$2,500 per month apartment. For a year-long lease, the tenant's cost is only \$228 rather than a \$2500 up-front deposit.

If the landlord makes a claim for damages, Rhino reviews the case and only bills the tenant if the tenant is at fault. Rhino offers discounts for return customers who utilize the service on lease renewals or for another apartment.

Under Obligo's model, tenants pay a monthly fee to grant landlords billing authorization up to a specific amount to cover incidents should they happen.

To qualify, tenants must provide a U.S. bank account and credit card. The billing authorization amount can be whatever is agreed upon by the landlord and tenant. It is usually one month's rent or the same as what would have been the deposit amount.

Landlords may only charge up to the authorized amount. Any claims made by a landlord may be disputed, just like with a traditional deposit. If the landlord makes a claim, Obligo pays the claim in full, but allows tenants to repay Obligo in installments.

Like Rhino, Obligo works with a network of landlords. Landlords send prospective tenants a link to an enrollment page where they can choose to tender a traditional security deposit in cash or use Obligo's service.

The monthly fee for tenants is approximately \$15 per month for a \$2,500 per month apartment. Billing authorizations are valid for 60 days after the end of the lease term. However, if satisfied with the condition of the rental property, landlords can release the authorization any time after the lease has expired.

## Security Deposit Insurance Can Simplify the Process

A deposit-free alternative simplifies life for all parties involved. Leasing agents can go paperless and close deals on the spot without the hassle of sending valuable prospective tenants to the bank for a cashier's checks. Landlords dispense with administrative headaches. They can avoid processing checks, making bank runs, opening and closing escrow accounts, requiring W-9 forms, or filling out

1099 forms.

Most importantly, with security deposit insurance, landlords do not have to rush to return security deposits. Cushioned by a third-party service, they no longer have to address angry emails, phone calls, and online reviews from former tenants demanding the return of their security deposits.

Security deposit insurance lowers tenants' costs and eases a landlord's burden. In light of the new legal requirements, they fill a growing need in the marketplace.

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