

MEMORANDUM

Date: February 24, 2020
To: Housing Advisory Commission (HAC)
From: Ad-Hoc Subcommittee of the HAC
Re: Security Deposit Insurance Proposal

BACKGROUND

On January 14, the Board of Supervisors directed the HAC to consider and make a recommendation to the Board regarding a proposal related to insurance in lieu of security deposits, described below. At the January HAC meeting, Chair Geisreiter appointed an ad-hoc subcommittee consisting of Commissioners Carney, Chambers, and Washburn to consider this proposal, conduct initial research and community outreach, and report back to the HAC on their findings. The subcommittee's report and recommendation to the HAC on this proposal is provided herein.

PROPOSAL

Consider a potential Renter's Choice policy that would lower the financial barriers for renting an apartment by requiring landlords to accept security deposits in the form of insurance; work with landlords and tenant-rights groups; and make a recommendation to the Board of Supervisors, as recommended by Supervisor Coonerty.¹

In researching this proposal, the HAC ad-hoc subcommittee decided to focus its research on whether landlords and property managers of multi-family rental properties (apartment complexes of five or more units) should be required and/or encouraged to accept insurance policies or surety bonds rather than a traditional security deposit.

Current Laws Regarding Security Deposits

California Civil Code Section 1950.5, as amended January 1, 2020 by the State Legislature (see link in References section below) defines the meaning of a security deposit and limits the amount that landlords can charge for a security deposit to no more than two month's rent for the unit in question. For prospective tenants who are active duty military personnel, landlords may not charge more than one month's rent for a security deposit.

Security Deposit Options and How It Works

Currently, State and local law allows landlords to accept insurance policies and/or bonds in lieu of insurance if they wish, if both parties agree to using one of these options, as long as the amount of coverage required does not exceed the limits on the amount of security deposit noted in the CA Civil Code, above. For example, if a landlord required a security deposit of \$4,000, a tenant could purchase an insurance policy or bond to cover the \$4,000 amount. The landlord

¹ [January 14, 2020 Board Memorandum](#)

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would have to sign contract(s) with one or more insurance or surety companies, then notify prospective tenants that they can buy a policy from those entities rather than providing a check for the deposit when they move in. Tenants would then contact the company(s) to apply for an insurance policy or bond for the deposit for a specific rental unit. The insurer would do a “soft” check of the tenant’s credit and then provide a quote for the policy, similar to the process of purchasing other types of insurance, such as auto or property insurance. The insurance companies do not provide any credit check or background check to the landlord as part of their screening of the tenant. The tenant could pay for the policy in monthly increments, or in advance for a 6- or 12-month policy, similar to how car insurance is billed. Monthly fees could be \$20 or more, depending on the amount of the deposit required, and possibly other factors used by the insurer to set rates, and would be due for as long as the policy remained active, even if the total monthly fees at a certain point exceed the amount of the deposit that was due initially.

Once a policy is in place and the tenant has moved in, a landlord can file a claim with the insurer for damages to the unit (beyond normal wear and tear), or unpaid rent. According to some of the insurance representatives the sub-committee contacted, the insurer would pay the claim, up to the policy amount (in the example above, \$4,000) promptly, possibly within twenty four hours of receiving the claim. Following the tenant’s move out, the landlord would have to submit proof of damages, if any, and a repair cost analysis to the tenant and insurer in order to file a claim for payment under the policy. The landlord would have to provide photos of damage (or documentation of unpaid rents, if applicable) to make a claim against the tenant’s policy. Then the insurer would wire money to the landlord’s account within hours or a business day, according to one of the insurance providers.

From tenants’ perspective, it has been noted that tenants do not get any of the monthly insurance fees back upon move out, the way a traditional deposit would be refunded after moving out. In addition, when landlords file a claim for damages caused by the tenant, if the insurer pays any amount to the landlord for the claim, under the policy language, the tenant is then responsible for reimbursing the insurer for that amount. If the landlord’s claim exceeds the amount of the policy, the landlord could also attempt to collect that excess damage cost from the tenant, as is done with traditional security deposits. Any disputes about the amount of damage and/or costs to repair continue to be between the landlord and tenant, and not the insurance provider. However, the insurance agency may go after the tenant to collect for damages, up to the entire amount of the claim paid out by the insurer.

Subcommittee members attempted to get more detail from at least one of the insurers providing this type of policy, including detailed explanations of the procedures for landlords to file and collect a claim, as well as how the company pursues tenants to repay claims paid out by the insurer. Sample policy documents and contracts were requested, but the insurer they contacted (Rhino) was unable or unwilling to provide such sample documents to the subcommittee. However, a representative of the companies noted that even if a tenant stops paying their monthly insurance policy fee, their company would still honor the policy for the full security deposit amount insured, even if the tenant had only paid one month’s policy fee. He noted that

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their company would just attempt to recover the outstanding policy fees from tenant in such cases.

At the end of each term of the policy (typically six months or a year) the tenant would have the option to renew the policy, or to pay the landlord the full security deposit in cash at that time if they wished. The representative noted that their company would not notify landlords of unpaid policy fees by tenants, but would honor the policy, once issued, for its term, regardless of payment status. Both parties, landlord and tenant, would have to agree to renew the insurance policy for the subsequent terms. Landlords have 60 days to make a claim after the end of each term of a policy expired.

Surety Bond Options

Surety bonds are another alternative to traditional security deposits. Links to several articles on surety bonds for this purpose are provided in the references section at the end of this report.

Security Deposit Programs offered by Local Public Agencies

For many years, the County of Santa Cruz and several local cities as well as the Housing Authority have offered programs that provide funding for security deposits to lower-income households. Most of these programs are administered by the Housing Authority. They target primarily households transitioning from homelessness and other low-income households. In recent years, the County has been able to provide adequate funding to meet demand for these programs to meet the needs of this segment of the renter population. The groups not served by these programs, and possibly more interested in the insurance option, are renters who are not low income (i.e., moderate or above moderate income households).

Conclusion

In speaking with local stakeholders on this issue, predominantly landlords and property managers, subcommittee members found that many stakeholders had questions that were difficult to answer with the limited information that the insurance representatives contacted were able to provide. The subcommittee feels it would be risky for the County to require landlords to offer something that is new and hard to explain. In addition, landlords and property managers shared some concerns with the subcommittee (see comment letters attached to this item). There appears to be a lot of interest in this insurance option, with new start-ups jumping in to offer solutions to allow more tenants to get into expensive rentals by not tying up such large sums in deposits that neither they, nor the landlords or the local economies can benefit from. The subcommittee encourages stakeholders, particularly from the following types of involved parties, to attend the HAC meeting on March 4, 2020 and/or submit written comments on this item for the HAC's consideration:

1. Rental housing industry representatives: owners and property managers of multi-family rental properties, particularly those with 5 or more units per property, and/or apartment owners' associations;
2. Tenants' groups and/or housing advocates;
3. Financial literacy organizations;
4. Insurers providing this type of insurance;

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5. Tenants interested in the security deposit insurance option.

RECOMMENDATION TO THE HAC

1. Consider this report and public input received on this proposal at the March 4, HAC meeting;
2. Provide the Board with a copy of this report, the March 4 HAC Minutes, and copies of any comment letters received by the HAC on this item;
3. Recommend that the Board take no action at this time, as this niche of the insurance industry appears to be still evolving, and based on the subcommittee's research, it would be prudent for the County to wait for it to mature further before endorsing or requiring use of such policies among local landlords and/or tenants.

The Housing Advisory Commission will consider comments made at the meeting on March 4 and may modify the draft recommendations above before forwarding them to the Board.

References

- A. [California Civil Code Section 1950.5](#) (current California law regarding security deposits)
- B. [January 14, 2020 Board Direction](#)
- C. [Tips When Using Surety Bonds in Lieu of Traditional Security Deposits](#), Ted Kimball, Esq., February 2009
- D. [Surety Bonds: 7 reasons why they can make great alternatives to security deposits](#), Jason Van Steenwyk
- E. [This startup wants to help renters avoid massive security deposits](#), Adele Peters, Fast Company, October 2019