



California Apartment Association

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February 25, 2020

Housing Advisory Commission
County of Santa Cruz
701 Ocean Street,
4th Floor
Santa Cruz, CA 95060

Dear Chair Geisreiter,

The California Apartment Association (CAA), who represents the owners and property managers of multi-family properties, would like to express our concern over the proposal to accept insurance in lieu of security deposits. Recently the Board of Supervisors tasked your commission to establish an ad-hoc subcommittee to develop a proposal that would require landlords to accept insurance in lieu of security deposits. At the root of our concern is the ability of an insurance product to successfully perform the same way a security deposit would function.

Security deposits provide immediate relief for damages caused by the tenant, unpaid fees or missed rent payments. The deposits are required to be paid upfront so that upon the end of a lease, a property owner has the necessary funds to remedy any damages or fulfill any financial obligations due by the tenant. Any funds that are not used towards these purposes are required, by law, to be returned to the tenant within 21 days of the termination of the lease.

In evaluating this issue and the limited data from Cincinnati, since they only approved this policy in January of this year, CAA would like to point out several areas where questions about this proposal remain unanswered. The Commission should strive to answering them before forming a recommendation:

Claims Process:

- Can an insurance provider process a claim for damages or missed rent payments? If so, how quickly are they able to process the claim?
- What level of proof would the insurance companies require to pay the claim? And could they deny a claim which would further delay the turnover of a unit?
- What happens if the tenant ceases their policy payments, would the company cancel the policy?

Provider Stability

- How stable are the insurance companies that provide this niche product? And why aren't the more established insurance companies providing this product?
- How would the County evaluate a company who offers this type of insurance product? And if they don't meet some basic level of stability, could they refuse to let that company operate within Santa Cruz County?

- What happens if the company ceases operations? Who would be responsible for the insurance policy?

Exemptions

- Should an exemption be created for properties that offer a reduced security deposit since that would lower the barrier to entry for potential tenants?
- Should an exemption be created for property owners who lease to someone with a credit below what they would accept?
- Should an exemption be created for properties below a certain unit threshold as smaller properties carry greater risk due to fewer unit?

As you can see, there are many more questions than answers on the impact of this proposal. Recommending this policy move forward would place the County in uncharted waters without the benefit of another jurisdiction to learn from as Cincinnati does not have enough of a history with this issue to assist the County from avoiding potential pitfalls.

While CAA has yet to form an official position on this nascent issue, we would strongly urge the commission to consider these questions prior to forming a recommendation.

Sincerely,

A handwritten signature in black ink, appearing to read 'ABabbar'.

Anil Babbar
Vice President of Public Affairs