



DEPOSIT INSURANCE WHAT YOU NEED TO KNOW NOW

Navigating a Tumultuous Marketplace, Emerging Regulations and an Unforeseen Pandemic.

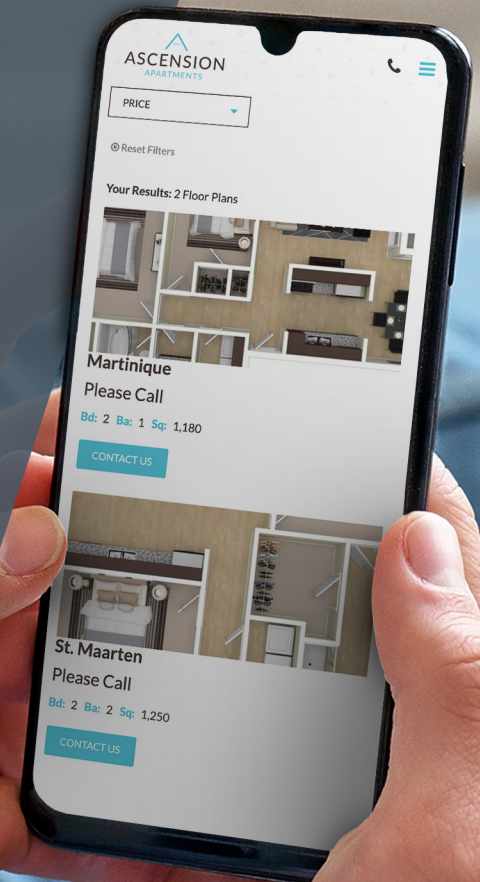
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INTRODUCTION

Change often brings about opportunity. And the rental housing industry is no exception. Case in point, as overall rental demand begins to flatten, we are still seeing more and more individuals and families across America choosing to rent rather than buy—more than at any point since 1965¹. And while average rents hold steady in many markets, the traditional security deposit has created an additional element of stress for renters and landlords alike.

Here we'll discuss how some operators are addressing these marketplace pressures, current and looming regulatory issues, and the unforeseen element of a once-in-a-generation global pandemic. We'll also look into how the confluence of these three forces could potentially result in the rarest of all opportunities: a true win-win for both residents and property managers alike.



THE EVOLUTION OF SECURITY DEPOSITS

The traditional security deposit has long been the bane of the resident application experience. Often seen as a barrier to many cash-strapped renters, the security deposit provides property managers much-needed recourse in the event of damages or missed rent payments.

Initially, the rental security deposit served as an ad hoc financial safety net for operators but has evolved into a better-regulated and more systematic resource for landlord protection against damages and missed payments.

For decades, the standard had been a cash-to-escrow system that provided little support for residents in general. But more recently, we're seeing a move away from the traditional cash deposit.

New options range from monthly installment plans to reduced deposits based on credit worthiness and past rental histories, the advent of surety bonds and, more recently, deposit insurance.

This new effort to replace or provide alternatives to the traditional cash deposit helps give access to properties that cash-constrained renters could not previously consider and marks a significant shift in the power dynamic between operators and potential residents.

But as the rental industry rethinks the security deposit, it's critical to understand the risks and exposure that new alternatives pose to both parties.

NEW REGULATIONS CHANGE THE GAME

Across the country there are number of legislative initiatives that are considering, or actually requiring, landlords to provide security deposit alternatives to applicants and residents.

The Cincinnati City Council recently passed an ordinance that requires landlords with 25 or more units under management to provide their residents with security deposit options other than cash. These options are: a form of security deposit insurance through the Ohio Department of Insurance, a security deposit paid in equal monthly installments, or a reduced security deposit tied to the monthly rental rate.

New York State recently passed legislation limiting the amount of the security deposit to no more than one month's rent. And in Virginia, a measure has been proposed that will provide renters with a number of options for paying their rental deposit.

Similar pieces of legislation are under consideration in Connecticut, Alabama and New Hampshire. A fairly robust movement is underway to provide more tenant-favorable options than the traditional security deposit—a movement that is gaining both traction and visibility.



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COVID-19 ACCELERATES THE GAME

The novel Coronavirus pandemic has more than taken the wind out of the sails of the rental housing industry. It has forced us to re-examine the way we've done business in the past and how we'll conduct business moving forward. Germane to that is the traditional security deposit and how operators can maintain needed coverage for financial exposure while at the same time providing access to properties for cash-constrained renters facing an uncertain future.

JPMorgan Chase Institute estimates that the typical middle-income household has only \$3,000 in liquid assets². And recent estimates suggest that as much as \$45 billion is currently locked up in residential security deposits³. This is money that's being removed from the marketplace when it's most in need.

Deposit alternatives are emerging as a way to provide critical asset protection while simultaneously taking billions of dollars sitting in escrow and putting it back into renters' pockets. Now, more than ever, that's an option millions of potential residents are actively seeking out.

EMERGING SECURITY DEPOSIT ALTERNATIVES

In an effort to help residents address the prohibitive nature of all-cash security deposits while also providing operators reasonable coverage without diminishing their renter pool, a number of legislative efforts are pushing forward the need for deposit alternatives. Among those, three have emerged as the most common.

The **first** is the most obvious: a basic installment plan that allows residents to pay their security deposit over a period of several months. However, it does obligate the resident to produce the full deposit amount and then negotiate return upon move-out.

The **second** emerging option is the surety bond. Surety bonds are a three-party system consisting of the resident, the property, and the bond guarantor. The renter pays only a portion—usually 17.5%—of the total deposit amount at move-in as a nonrefundable fee⁴.

A **third** option, growing in popularity, is deposit insurance. By charging the resident a small, non-refundable monthly fee, deposit insurance provides the owner adequate coverage against damages or lost rent while generating ancillary revenue (assuming limited property damage and no outstanding unit balance) and providing a more competitive move-in option.

INTRODUCING REALPAGE DEPOSIT INSURANCE

RealPage® Deposit Insurance is a security deposit replacement solution, fully integrated into OneSite® and compatible with any other third-party property management system, that allows properties to protect against lost rent and damages, advertise lower move-in costs and generate ancillary revenue without losing leases to high deposits—all at a fraction of the cost of standard refundable deposits.

RealPage Deposit Insurance is a true risk transfer deposit replacement program that doesn't require additional credit checks, thus providing a simple, seamless workflow experience.

Because it eliminates the need for residents to provide a large cash security deposit, operators can reduce move-in costs for residents by hundreds, if not thousands, of dollars. And starting as low as \$8/month, a unit with little to no damage or outstanding balance can generate average ancillary revenue of \$48 annually.

And RealPage Deposit Insurance reduces time spent collecting, managing and refunding security deposits for your on-site staff and eliminates resident worry about getting their deposit back upon move out.

While many other providers have suspended their deposit alternative programs for the foreseeable future, we remain fully committed to our customers and to writing deposit insurance business during this crisis. We have worked closely with our underwriters to build a program that will be sustainable both for today and for the long haul.

THE BIG WIN FOR OPERATORS

Imagine being able to reduce resident move-in costs by hundreds, if not thousands, of dollars and protect against damages and lost rent, all while generating average ancillary revenue of \$48/policy annually. That's what RealPage Deposit Insurance can do for you.

RealPage Deposit Insurance allows you to advertise lower move-in costs. This solution is the only deposit insurance product that is fully integrated with OneSite and works with all third-party property management software applications.

RealPage Deposit Insurance helps you sign leases faster with an alternative move-in option. Starting as low as \$8/month, it's low-priced, equivalent coverage at a cost your residents can afford.

But that's not all. RealPage Deposit Insurance can help decrease resident move-in cost by as much as 300% in the first lease year. It can also help you reduce the costs and liability of managing refundable deposits while remaining compliant with local and state requirements. Some of our customers have seen a reduction in deposit handling for over 70% of their residents.

This all-in-one solution reduces the hassle of additional screens and potentially damaging residents' credit scores. And once you submit a claim, you get paid within 48 business hours or less.

Last but not least, RealPage Deposit Insurance is a trusted and industry-recognized solution. Underwritten by Markel® (an A.M. Best "A"-rated insurance carrier), RealPage guarantees that all claims will be paid for loss of rent and damage up to the coverage amount—with no sub-limits.

THE BIG WIN FOR RESIDENTS

RealPage® Deposit Insurance can reduce resident move-in costs by hundreds—if not thousands—of dollars, depending on the cost of the apartment.

Instead of putting down a full security deposit, residents simply pay a modest monthly, non-refundable premium*. They keep the money they would've tied up in a security deposit and they don't have to worry about getting it back when they move out.

And qualifying for RealPage Deposit Insurance requires no additional credit check beyond their initial application.

In a marketplace of uncertainty, RealPage Deposit Insurance helps cash-constrained residents hold on to more of their money while, at the same time, providing a much-needed safety net against unforeseen damages or missed payments.

BUILDING A BETTER SECURITY DEPOSIT STRATEGY

Security deposits are no longer seen as a necessary evil but rather a bona fide attraction, retention and revenue strategy. It's becoming a tremendous opportunity for both landlords and residents to improve their financial positions.

STAY AHEAD OF REGULATIONS

Deposit Insurance helps easily clear legislative hurdles whether they exist in your geography or just over the horizon. Not only does it provide a simple deposit alternative to your residents, it's a true risk transfer and a zero-contact source of ancillary revenue.

MEET CURRENT MARKETPLACE DEMANDS

As more and more prospective residents hit the market, more and more are looking to move quickly. Deposit Insurance provides an option that avoids the need to acquire, or part ways with, cash for a security deposit. Rest assured with all the factors at play in these tumultuous times, residents will be looking for properties who can help them navigate this dilemma.

BE COVID-RESPONSIVE

Never before have property management companies seen such trying financial times—both for themselves and prospective tenants. A proactive deposit insurance strategy, particularly in light of the COVID-19 pandemic, allows residents to hold onto much-needed cash reserves and can position your property as an empathetic and financially preferred location.

BUILDING A BETTER SECURITY DEPOSIT STRATEGY *CONTINUED*

REAL COMPETITIVE ADVANTAGE

When prospective residents are weighing properties, the opportunity to lower move-in costs and keep cash in hand can be the make-or-break. Couple that with increased ancillary revenue and decreased admin time tied to collecting, managing and refunding security deposits, and you're positioned to better serve (and retain) current residents and provide a better overall community experience.

But as the rental industry rethinks the security deposit, it's critical to understand the risks and exposure these new alternatives pose to both parties.

CONCLUSION

As the residential rental landscape evolves—from the influence of a global pandemic to state and local regulatory measures designed to protect renters to emerging marketplace pressures—the traditional security deposit has become a new opportunity area for operators across the country.

We're now seeing a number of security deposit alternatives coming to the fore—the most promising of which is the advent of Deposit Insurance.

Within this emerging segment, RealPage Deposit Insurance is a true risk transfer deposit replacement delivering essential asset protection, ancillary annual revenue and the ability to drive down resident move-in costs, helping residents keep more cash in their pockets at a time when they need it most.

It's the rarest of all outcomes: the true win-win.

To find out more about RealPage Deposit Insurance visit:
RealPage.com/deposit-alternatives/

SOURCES

- ¹ <https://www.nytimes.com/2019/06/21/nyregion/rent-laws-new-york.html?auth=login-facebook>
- ² <https://www.wsj.com/articles/security-deposits-are-the-bane-of-many-renters-lawmakers-want-to-change-that-11579348800?mod=searchresults&page=1&pos=3>
- ³ <https://www.fastcompany.com/90410998/this-startup-wants-to-help-renters-avoid-massive-security-deposits>
- ⁴ Multifamily Executive, Jan. 23, 2020, “Eliminating Security Deposits Increases Renter Leads for Detroit-Area Owner-Operator”

ADDITIONAL RESOURCES

<https://www.usatoday.com/story/news/nation/2020/01/26/cincinnati-renters-wont-need-cash-security-deposit-anymore/4581205002/>
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Multifamily Executive, Jul. 31, 2019, “Leveraging Specialty Rental Insurance to Compete in a Tight Market”
Multifamily Executive, Jan. 14, 2019, “Obligo Puts a New Twist on the Deposit-Free Model”
<https://www.abodo.com/blog/2019-annual-rent-report/>

DISCLOSURES

Deposit Insurance is offered by LeasingDesk Insurance Services, a licensed insurance agency operated by Multifamily Internet Ventures, LLC, CA. Agency License: #OD12126.

This brochure is only a general description of policy coverage and not a statement of contract. Coverage is subject to the terms, provisions, exclusions, and conditions in the policy itself, and in any endorsements.

Disclaimer: Deposit Insurance policies are only available to new residents. Properties cannot add Deposit Insurance for existing residents. Other restrictions may apply.

