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We Need A New Way Of Thinking About Security Deposits



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For millions of Americans whose credit scores fall below the threshold set by property companies, qualifying for an apartment lease can be a challenging experience. These prospective renters fall into an "Approved with

Conditions" category where higher security deposits are expected before a lease is signed and keys are provided.

Determining lease-worthiness is a science rooted in the [Fair Housing Act of 1968](#), which was designed to protect renters against discrimination. Fair housing laws require that lease conditions be applied uniformly for all applicants regardless of race, color, national origin, religion, sex, financial status or disability. To comply with regulations, and protect their interests, property managers' use of applicant screening has grown substantially in the past 20 years through a handful of enterprise management systems (RealPage, MRI, Entrata, Yardi) and a slew of independent screening services. Applicant screening accesses multiple local and national databases, including the three national credit bureaus (Equifax, TransUnion and Experian) to determine if renters qualify for an apartment lease.

In addition to credit scores, screening looks to rental and criminal history. A negative screen in either category may preclude a lease offer, yet credit scores that fall just below set requirements are usually overcome with inducements in the form of security deposits or deposit alternatives at lease signing.

Many prospects who qualify with conditions based on credit come prepared to overcome their risk shortfall with a co-signer willing to serve as a guarantor for rent payments. Recent college graduates just entering the job market often fall into this category. A percentage of otherwise financially stable individuals often think that paying for everything with cash will make them more creditworthy, though without a decent credit score that's not the case. The last group of lower credit renters are those whose spending may have exceeded their means, which often occurs when living paycheck-to-paycheck doesn't sync with the timing of when bills are due. Regardless of individual circumstances, renters approved with conditions based on credit will be charged more by landlords in upfront security deposits to

offset the potential payment risk associated with past payment practices that damaged their creditworthiness.

Upfront security deposits usually total one-half to two months' rent, which can easily drain personal savings when added to moving costs and the first month's rent due at lease signing. Ironically, with [69% of Americans](#) not having \$1,000 in savings, heavy upfront costs tend to set many renters up to fail at paying rent reliably at some point in a lease when unexpected expenses like a flat tire or a cracked tooth compete for limited dollars. Renters who wipe out savings to pay upfront deposits are often also hit with late-payment penalties at some point in a lease, which adds to their cost burden and creates tension with landlords.

While recognizing that property companies need some level of protection, efforts are underway to address renter obstacles in overcoming credit challenges. The tables are turning in many municipalities where consumer advocates and a handful of insurance-backed services are pushing for greater flexibility in renter options. Although these options may provide varying degrees of risk reduction for landlords, the momentum toward change is clear.

[House Bill 2427](#) in the Pennsylvania General Assembly, for example, restricts the amount that property companies are allowed to charge for security deposits. Lawmakers in [Cincinnati, Ohio](#) are going further by passing an ordinance requiring options to reduce renter deposits that include lease insurance, extended installment plans and steep security deposit discounts.

Lease insurance allows renters to pay a monthly contribution toward the total owed, though charges continue throughout the duration of a lease that can exceed the lump sum asked to move in. For landlords, lease insurance can provide loss mitigation after a renter moves out of a unit and damages are assessed, or after an eviction ruling has a renter removed from premises. Extended installment plans assist renters with cash flow but still

depend on individuals to make monthly payments. Landlords can easily manage installment payments with additional accounting and pursuit of larger payments when renters are late; several automated installment payment plans assist with this process.

Deep security deposit discounts are popular with renters, but don't always sit well with landlords who believe they should set their own risk mitigation terms; compromises are often bridged with automated rent budgeting programs and security deposit addendums that protect landlords in the event of renter default.

Similar security deposit rulings are being discussed from coast to coast, particularly as legislators look to create relief for renters affected financially by the explosion in unemployment caused by Covid-19. Yet while added deposit choices appear helpful to renters, they aren't universally valued by property operators. Many C-suite professionals are more comforted by upfront cash combined with a tangible commitment to prioritize rent as the first and most important monthly expense to be paid. Once I realized how this demonstrates renters' genuine intent in paying rent in a timely manner as a condition of lease signing, I cofounded a company that allows these commitments to take the form of automated deposits from payroll (or another primary income source, e.g., Social Security or other government special benefits).

The year ahead will be telling for the rental housing industry amid a backdrop of consumer protections and landlord financial stresses brought on by state and federal eviction moratoriums. In these tenuous times, providing operators with some assurance of payment performance is as essential as consumer protections now being debated. Fewer, not more, restrictions on agreements between rental housing operators and rental prospects will demonstrate trust in the companies that work diligently to provide safe and affordable housing options for millions of Americans. A middle-ground should be found between the need for a large upfront cash

security deposit to compensate for future payment risk assumed by operators and the financial realities of renters entering into a lease. The security that security deposits bring, on their own, is fleeting. The commitment of both parties to act responsibly is what's really at stake.

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