



Chairman Korman, members of the Energy and Transportation Committee, LeaseLock appreciated the opportunity to submit testimony in support of House Bill 1108.

Providing an Alternative to the Traditional (and Expensive) Security Deposit

For many Marylanders, security deposits, which could be up to two months' rent, represent a significant barrier to rental housing. Security deposits are necessary to protect landlords from lost rent or damage to their property. As we all know, at the end of a lease, landlords can withhold a tenant's security deposit or charge the tenant for damages above the security deposit amount. If a landlord wrongly withholds a deposit or charges the tenant, it is up to the tenant to sue the landlord and prove that the landlord is in the wrong to get their money back.

There had to be a better alternative that mitigates barriers to housing and protects landlords.

LeaseLock provides a solution to the traditional security deposit that operates extremely well in 47 states. Under LeaseLock, a landlord provides a tenant the option to waive the security deposit and instead pay a monthly fee that averages \$39 dollars a month. The landlord will then purchase insurance from LeaseLock to pay a tenant's failure to pay rent or for damages to the unit, up to their coverage cap.

The deposit waiver fee works much like Primary Mortgage Insurance, which allows home buyers to pay for insurance that waives another significant housing barrier -- the 20% down payment. In both situations, neither the tenant nor the home buyer is insured, but they pay a fee that covers the other party's insurance because there is higher risk: for the bank there is risk because the home buyer has less equity, and for the landlord, there is risk by not requiring a security deposit.

LeaseLock Operates Effectively in 47 States

In 47 states, LeaseLock insures more than 1,000 properties, covering more than 100,000 units. To date, we are unaware of any issues with tenants paying deposit waiver fees. LeaseLock goes to great lengths to ensure that landlords present tenants with a very clear option and that they understand the value proposition: a large upfront security deposit, that may be refundable or a monthly fee to waive the security deposit. We operated in Maryland from 2016 to 2021 without any issues before agreeing to cease working with landlords to offer deposit waiver fees in the state.

Along with Massachusetts and Oregon, Maryland is one of only three states that do not allow landlords to offer tenants a deposit waiver fee option. These three states do not specifically restrict landlords from offering a deposit waiver fee. However, Maryland's Attorney General has interpreted the definition of a

security deposit to include a deposit waiver fee, which means the fees would have to be refundable and is incompatible with a fee.

Massachusetts and Oregon restrict the fees a landlord can charge to those specifically listed in the statute, laws that pre-date LeaseLock. However, the Massachusetts Joint Housing Committee recently passed [H 1316](#), legislation that allows deposit waiver fees, favorably out of committee.

Moreover, several states have passed laws expressly authorizing deposit waiver fees. In 2022, the Washington Legislature unanimously passed through both houses, and the governor signed [HB 2064](#), codifying landlords' ability to offer tenants a fee in lieu of a security deposit. The legislation was crafted with significant input from tenant rights organizations, including the Kings County Bar Association Housing Justice Project. HB 1108 is heavily based on the Washington law, with some additional projections.

Last year, Florida passed HB 133 out of both houses with a substantial, bi-partisan majority, and the law was signed by the governor. In 2021, with significant input from Texas Appleseed, a consumer advocacy organization, the Texas Legislature passed SB 1783 unanimously out of the Senate, and with an overwhelming, bi-partisan majority out of the House, the governor signed the bill.

HB 1108 Provides the Most Significant Tenant Protections in the Nation

We have worked tirelessly with the Office of the Attorney General and tenant advocates and have continuously added provisions to this bill over four years. House Bill 1108 provides more tenant protections than any other state. Maryland would be the only state to cap the total amount of waiver fees a tenant could pay over a tenancy to two months' rent and would be the only state that requires insurers like LeaseLock to be an admitted product instead of surplus lines. No other state has such requirements.

Additional tenant protections in the bill include:

- The landlord shall disclose in writing the fee amount and security deposit required, the frequency of payment, whether the fee is non-refundable, and that the tenant is still responsible for paying to repair damages and their rent.
- A tenant may opt out of the fee in lieu of a security deposit upon providing a landlord with the security deposit.
- A landlord must use the fee to purchase insurance to cover the tenant's failure to pay for damages or rent.
- The fee is capped to what it costs the landlord to obtain and administer the insurance, and a tenant cannot pay more than two month's rent in waiver fees over the course of a tenancy.
- A landlord shall not charge a tenant for normal wear and tear.
- A landlord shall not alter the fee amount during a lease term.

- The landlord must comply with all notice and inspection requirements per the security deposit law, including providing the tenant documentation of any damages and receipts for damages repaired.
- Provides for penalties if a landlord cancels a fee in lieu of a security deposit during a tenancy or fails to procure or maintain insurance.
- Restricts landlords from “double-dipping,” charging a tenant for damages an insurer covered in a claim.
- Provides for restitution to tenants if landlords or insurers violate the rules laid out in the bill.

Opposition Amendments Go Far Beyond the Scope of the Bill

We hoped that our additions would ease the Office of the Attorney General’s concerns, but despite the significant additions and that Maryland would have the most robust bill in the country, that is not the case. The opposition has insisted that any bill authorizing deposit waiver fees must also require landlords to accept security deposits in installment payments and that a deposit waiver fee shall not be considered rent. Both of these issues go well beyond the scope of our bill and are topics that this committee knows are controversial. We have encouraged the opposition to introduce their own legislation to achieve this goal. Yet, they have chosen not to do so and continue to try and use our bill as a vehicle for their ambitious policy agenda.

Similarly, a requested amendment that states “fee shall not be considered rent” creates a precedent far beyond HB 1108’s scope, as this would be the first time the Maryland statute attempts to define what is and is not rent. We understand the concerns that tenants should not be evicted for a failure to pay a \$39 fee and have offered to clarify that a failure to pay a deposit waiver fee would not be grounds for eviction under § 8–401 but would be allowed under § 8–402, which allows the court to determine if a failure to pay a fee rises to the level of a material breach that would warrant an eviction. Our offer was rebuffed.

Marylander Renters Deserve a Good Alternative to the Traditional Deposit

The bill before the committee represents a robust bill that provides tenants with an option that might make it easier for some to access rental housing. It is not the right choice for everyone or a cure for Maryland’s housing woes, but it is a good option that nearly 70% of Maryland voters would welcome.

We urge the Committee to consider passing the strongest bill in the country regulating deposit waiver fees and join the 47 states in which we currently operate.

Help Maryland Renters Access Better Housing Allow Alternative to Security Deposits

Waiving Security Deposits: A Renter's most significant housing barrier is the advance payment of first and last month's rent plus a security deposit. A "deposit waiver fee" offers tenants an option to pay a small monthly "fee" (avg \$35) instead of a large upfront security deposit. This option is a win-win for landlords and tenants. Landlords are still protected against a tenant's failure to pay for damages or rent by purchasing insurance, and tenants can waive the high upfront cost of a security deposit. The deposit waiver fee works much like Primary Mortgage Insurance, which allows home buyers to waive another significant housing barrier, the 20% down payment, by paying for the bank's insurance. In both situations, neither the tenant nor the home buyer is insured, but they pay a fee that covers the other party's insurance.

Unfortunately, Maryland is one of only four states that does not permit landlords to offer tenants this option. A 2023 poll of 400 Maryland voters who rent found:

- 69% would welcome the fee option.
- 45% would take advantage of the fee option with the understanding that it is not refundable and they are responsible for unrepaired damages at the end of the lease.

Legislative Proposal:

Maryland's current definition of a security deposit is extremely broad. LeaseLock proposes legislation to permit landlords to offer tenants a fee in lieu of a security deposit and introduce several common-sense protections for tenants.

- The landlord shall disclose in writing the fee amount and security deposit required, the frequency of payment, whether the fee is non-refundable, and that the tenant is still responsible for paying to repair damages and their rent.
- A tenant may opt out of the fee in lieu of a security deposit upon providing a landlord with the security deposit.
- A landlord must use the fee to purchase insurance to cover the tenant's failure to pay for damages or rent.
- The fee is capped to what it costs the landlord to obtain and administer the insurance, and a tenant cannot pay more than two month's rent in waiver fees over the course of a tenancy.
- A landlord shall not charge a tenant for normal wear and tear.
- A landlord shall not alter the fee amount during a lease term.
- The landlord must comply with all notice and inspection requirements per the security deposit law, including providing the tenant documentation of any damages and receipts for damages repaired.
- Provides for penalties if a landlord cancels a fee in lieu of a security deposit during a tenancy or fails to procure or maintain insurance.
- Restricts landlords from "double-dipping," charging a tenant for damages an insurer covered in a claim.
- Provides for restitution to tenants if landlords or insurers violate the rules laid out in the bill.

Survey: Maryland Renters Overwhelmingly Support Security Deposit Alternatives

Small Fees Instead of Big Deposits Can be Life-Changing

Overview

The Data Catalyst Institute surveyed 400 Maryland renters who are likely voters (Voter/Renters). Each was asked about their access to housing and explored whether innovative security deposit alternatives can meaningfully enhance their access to and choice of higher-quality housing.

Maryland Voter/Renters clearly understand why landlords need a security deposit, but:

- Renters are financially challenged by requirements to pay up to three months' rent (first and last month's rent and a security deposit) on move-in day.
- Too many Marylanders can afford rent but not the security deposit. The security deposit barrier meant a lack of choice in housing and schools and forced Marylanders into longer commutes.
- Maryland renters say they want to be given a choice to pay a small, non-refundable monthly fee to their landlord as an alternative to a large up-front security deposit.
- Voters would vote for legislators who support legislation that ensures landlords can offer security deposit alternatives.

Key Findings

- 61% said it was difficult to come up with their last security deposit.
- 61% said that a smaller security deposit would mean better housing for their family.
- 45% at some point couldn't afford the security deposit
- As a result of not affording the deposit, renters were forced to accept housing that was
 - smaller (47%)
 - in worse/less safe neighborhoods (41%)
 - farther from work (25%)
 - in lower-quality school districts (20%)
- 85% said they could have spent the security deposit money on more important things

- 76% were not aware that some landlords offer an optional deposit waiver fee
- 69% would welcome the fee option
 - 67% would have liked the option of paying a small monthly fee at some point in the past
 - 65% have family or friends who would have liked this option because they could move into new housing sooner or afforded nicer housing
- 45% would choose the nonrefundable fee option, knowing the fee was nonrefundable and they would still be responsible for damage or lost rent.
- 70% would support legislators who support legislation ensuring that landlords can offer new tenants the option of paying a small monthly fee instead of a big up-front deposit

Methodology:

The poll of 400 renters that are also likely voters was conducted by the Data Catalyst Institute, Nov 6-15, 2022, with a margin of error of +/- 4.0%

Frequently Asked Questions - 2024 Fee in Lieu of a Security Deposit

1. What is LeaseLock, and how does it work?
 - a. LeaseLock provides landlords with insurance to guard against a tenant's failure to pay for damages or rent. When landlords work with LeaseLock, they can offer tenants the option of a traditional security deposit or a monthly fee to waive the security deposit. The landlord would then use that fee to cover the premium associated with that tenant's unit. The tenant is presented with these options before they sign their lease, with all the costs disclosed. The tenant is also reminded that they are still responsible for the terms of their lease, including paying for rent and not causing damage beyond wear and tear. The deposit waiver fee is only in exchange for not having to provide a security deposit at move-in.

2. How many U.S. insurance companies offer landlords this type of coverage?
 - i. LeaseLock is currently the only provider we know that offers this type of insurance, as it is a wholly new type of insurance. Creating legislative certainty around deposit waiver fees would encourage more providers to enter the space.
 - ii. Other security deposit alternatives on the market exist, such as surety bonds (Rhino, Jetty) that are already authorized by Maryland law and guarantor services (One App).

- b. How long has the product been used in the U.S. per company?
 - i. LeaseLock has been operating since 2016 and operated in Maryland from 2016-2021.

2. What complaints have there been regarding the product across the U.S., even if small?
 - a. We know that more than 100,000 tenants have opted to pay deposit waiver fees. We are unaware of any complaints filed by tenants who pay deposit waiver fees regarding those fees.

3. What happens if there are damages or unpaid rent at the end of a tenancy? There is no security deposit to withhold, so what does the landlord do?
 - a. Tenants are always responsible for paying their rent and not damaging their apartments. At the end of a tenancy, a landlord would conduct a walkthrough and notify the tenant of any damage. If money is owed to a landlord for damages or unpaid rent, the landlord would bill the tenant. If the tenant fails to pay in 30 days, the landlord will submit a claim to LeaseLock. If it is a valid claim, LeaseLock will pay the claim to the landlord up to the coverage amount. If the tenant owes more than LeaseLock provides in coverage, the landlord may still try to collect the balance from the tenant.
 - b. While Maryland insurance law provides for the ability of an insurer to seek reimbursement from the party responsible for damages, LeaseLock does not pursue its subrogation rights and does not attempt to collect from tenants.

- c. Subrogation rights exist in all forms of insurance. The damaging party is always responsible for paying for those damages. For example, if someone dents someone's car with a shopping cart, the car owners' insurance policy may cover the damage, but they will pursue the person who caused it.
 - d. These subrogation rights also apply to other products, such as surety bonds. Surety bond providers always exercise their subrogation rights against tenants and are expressly authorized to do so under Maryland law.
- 4. Are deposit waiver fees refundable if a tenant does not cause any damage and pays their rent?
 - a. Deposit waiver fees are not a deposit and are therefore not refundable. They are a fee a tenant opts to pay to waive a security deposit requirement.
- 5. If tenants pay these fees for the landlord's insurance, should they also be covered and not liable for damages or lost rent?
 - a. When tenants pay deposit waiver fees, they are not purchasing insurance or are insured. They simply pay to remove a security deposit requirement to move into a rental unit.
 - b. It is impossible to allow tenants to move into a unit, pay \$39/month for a month or two, damage a unit, skip out on ten months of rent, and not be responsible for any of it because they paid \$60 in fees.
- 6. What is the difference between a deposit waiver fee and an installment?
 - a. Deposit waiver fees replace the security deposit, so the landlord is not holding on to thousands of dollars of the tenant's money. An installment stretches that requirement out over a certain amount, usually the first six months of a tenancy.
 - b. The downside of installments is that landlords have less security if tenants fail to pay their rent or move out unexpectedly and damage a unit.
- 7. Do other states require installment options for security deposits?
 - a. Washington state does; we are unaware of others, but we believe some states are considering legislation requiring installments.