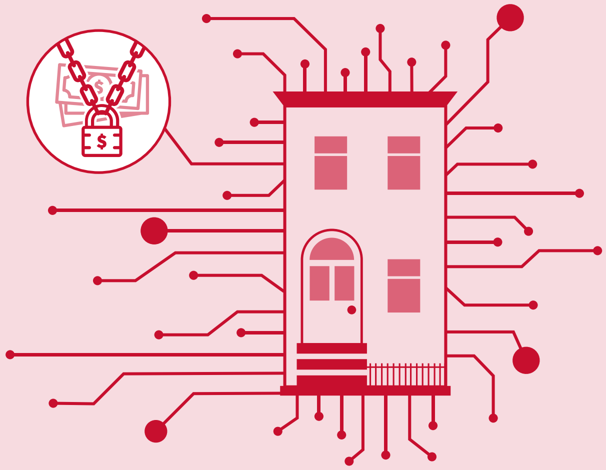
NCLC National Consumer Law Center *Fighting Together for Economic Justice*

WHAT STATES CAN DO ABOUT

Security Deposit Alternative Products

Predatory property technology or "PropTech" products are compounding the unaffordability and precarity of securing and maintaining rental housing. One example of predatory PropTech is security deposit alternative products.



[Millions of renters](#) across the United States use risky security deposit alternative products.

Security deposit alternative companies claim to solve **unaffordable upfront rental costs** by allowing tenants to move in without paying a large security deposit. Although promoted as a lifeline for tenants, these products involve significant risks, including **nonrefundable fees, higher costs, misleading marketing, differential pricing, and the failure to actually insure tenants**.

Security deposit alternative products are designed to evade the tenant protections that state security deposit laws provide. Unlike a security deposit, which helps to offset any damage claims from the landlord, "alternative" products do not provide protection to tenants. The fees paid by tenants are not applied to alleged damages. Instead, security deposit alternative companies generally seek to collect the full amount they paid to the landlord from the tenant.

Compared to a tenant who receives their full security deposit back at the end of the tenancy, a tenant who uses a security deposit alternative product will always pay more because those fees are nonrefundable. Any money spent on these products is simply gone at the end of the tenancy.

State and local governments should take action to increase access to traditional security deposits and protect tenants from risky security deposit alternatives.

Increase Access to Traditional Security Deposits

CONSUMER PROBLEMS	STATE SOLUTIONS
Tenants cannot afford an upfront security deposit.	**Require landlords to accept security deposits in installments, limit the deposit to one month's rent, and create public security deposit assistance programs.**

Enforce Existing Laws Governing Security Deposit Alternatives

CONSUMER PROBLEMS	STATE SOLUTIONS
Security deposit alternative companies flout state security deposit statutes and insurance regulations.	State attorneys general and insurance regulators should evaluate whether existing state laws cover security deposit alternative products, issue appropriate guidance, and bring enforcement actions.
Security deposit alternative companies use misleading language in advertisements.	Enforce state consumer laws prohibiting unfair and deceptive acts and practices.
Opaque, algorithm-based pricing uses factors like credit scores and financial profiles. Those who are least able to pay are likely to be charged the most.	Enforce fair housing and other anti-discrimination laws to ensure that differential pricing does not result in higher prices for members of protected classes.

Prohibit Abusive Practices by Landlords and Security Deposit Alternatives Companies

CONSUMER PROBLEMS	STATE SOLUTIONS
Security deposit alternative products protect landlords, not tenants.	Require security deposit alternative companies to insure the tenant who pays for the product.
Landlords may require tenants to use a security deposit alternative product instead of a traditional security deposit.	Require landlords to accept traditional security deposits.
Landlords frequently require tenants to use a specific security deposit alternative product or company.	Prohibit landlords that accept security deposit alternatives from requiring tenants to use a specific company or product.
Security deposit alternative companies pursue tenants for debts they do not owe based on unsupported claims from landlords.	Prohibit security deposit alternative companies from collecting amounts not owed. Require companies to obtain documentation from landlords before directly billing tenants for such claims.

For more information, see Tenant Insecurity: How Security Deposit "Alternatives" Raise Tenants' Costs and Erode their Protections or contact April Kuehnhoff (akuehnhoff@nclc.org)

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The nonprofit National Consumer Law Center® (NCLC®) works for economic justice for low-income and other disadvantaged people in the U.S. through policy analysis and advocacy, publications, litigation, and training.