

Security Deposit Alternatives: The Misleading Marketing of ‘Renter’s Choice’

Dozens of cities and states are considering legislation allowing alternatives to upfront security deposits, such as "security deposit insurance." The only problem? It's not actually insurance.

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In January, Cincinnati became the first city to pass a “Renter’s Choice” law, which requires that landlords accept alternatives to the traditional lump-sum security deposit. Atlanta followed suit in early October, and elected officials in at least 10 other cities and states across the country, from Alabama to California, have proposed similar legislation.

On the face of it, allowing alternatives to upfront security deposits should be a good thing. As many housing advocates know well, high upfront moving costs act as a barrier to securing affordable housing for low- and middle-income renters, and can even keep people homeless. When you include first month’s rent, security deposit, application fees, and other miscellaneous expenses, the price of a move can run into the many thousands of dollars at a time when 40 percent of Americans **say they don’t have the cash** to cover a \$400 emergency expense.

Some community development credit unions have started offering **low-interest loans** to help low-income renters clear the security deposit hurdle.

While the Cincinnati law's required options include spreading the payment of a deposit across six monthly installments, the laws are being actively promoted by a company that provides one of the other options: Rhino, a venture capital-backed startup founded in 2017, sells a product called "security deposit insurance." Following a string of successes with Renter's Choice, including a temporary version that Gov. Andrew Cuomo enacted in New York state in response to the COVID eviction crisis, Rhino announced last month that 1 million customers across the country are now using its product in lieu of a traditional deposit. The startup's annualized revenue reached \$21 million in November, a 21-fold increase over a span of 18 months.

Deposit alternatives like Rhino's have been around for about two decades, but the pool of potential customers has always been seriously restricted by the number of landlords willing to accept those alternatives. In its 2019 Renter's Choice policy proposal, the startup argued that giving every renter the option to purchase its product instead of paying a large, upfront deposit would be a boon for affordable housing and a form of economic stimulus.

"Security deposits are tying up over \$45 billion in cash. This is money that could otherwise be reinvested into local economies or used by hard working Americans to cover critical expenses like healthcare, childcare, student loan debt, and other burdens," the proposal says.

It's not surprising that Renter's Choice sounds appealing to some housing advocates

"Allowing people to opt for Renter's Choice instead of a large, lump-sum security deposit is a great solution," said Michelle Heritage, executive director of Community Shelter Board in Columbus, Ohio, where the City Council is considering a Renter's Choice law that has broad support. Her organization helps homeless people find affordable rentals, and the cost of deposits presents a significant challenge, she said. "As the housing market has become hotter, property owners ask us for double security deposits for people who they deem as second-chance renters. Oftentimes, this is upwards of \$2,000. That's a lot of money to save working minimum wage. This financial barrier keeps people homeless," said Heritage.

However, there is a dark side.

Because these laws are still fairly new (Cincinnati's, the oldest, only took effect in April), much about how many of these security deposit alternatives work is not yet well understood by renters or housing professionals. Furthermore, some news stories have misreported or omitted key pieces of information about

these products—most importantly that, despite the name, most security deposit insurance does not provide renters with any protection from claims. On top of the nonrefundable fees, tenants using products like Rhino remain *fully liable* for any claims paid to their landlords. Also, these products are not governed by the same state laws that govern security deposits, leaving tenants with less recourse to dispute claims.

How It Works

Rhino uses the word “insurance” to promote its product. Its website says “Rhino is low-cost insurance that satisfies your security deposit requirement” and claims it “works just like a deposit does.” But this is inaccurate. When renters purchase “deposit insurance” from a company like Rhino, what they’re actually purchasing is a surety bond, like what a contractor would hold, or one would purchase from a bondsman to bail someone out of jail. The difference between insurance and a bond is huge.

While surety bonds are usually backed by insurance companies, from a customer’s perspective they function very differently from insurance. The purpose of insurance is to shift risk away from the policy holder. The purpose of a surety bond, in contrast, is to guarantee the bonded party’s contractual obligations—in this case, a renter’s financial obligations to their landlord. In exchange for a nonrefundable fee (or fees) paid by the tenant, the surety company promises to cover the landlord’s risk, up to the value of the bond, in the way a deposit would. This allows a tenant to move into a new apartment without putting down the full cost of a deposit, while keeping the landlord’s financial interests protected.

But unlike insurance premiums, the nonrefundable fees that renters pay for these bonds don’t buy them any “coverage” from claims. If a landlord files a claim that’s deemed valid for damage or unpaid rent, the surety company will pay the landlord and then seek repayment from the renter.

Rather than having these charges deducted from an already-paid deposit, the renter receives a bill. Rhino’s **tenant agreement form** warns that not paying such a bill could result in damaged credit and difficulty finding rental housing or securing insurance of any kind in the future.

Rhino charges an ongoing monthly fee that continues indefinitely throughout the tenancy, or until the policy is canceled. The cost depends on the renter’s personal information, like income, credit history, and college education, as well as the coverage amount set by the landlord. The startup’s website estimates that a user could satisfy a \$3,000 deposit for \$24 per month in Philadelphia,

\$18 per month in Los Angeles, or \$17 per month in Atlanta, for example. Rhino users who choose to re-enroll when they renew their leases get a slight discount, according to Jordan Stein, the startup's head of public policy.

The bonds sold by The Guarantors, Jetty, and SureDeposit—three companies offering similar products—instead cost renters a one-time, nonrefundable fee, typically about 17.5 percent of the would-be deposit. To satisfy a \$3,000 deposit, for instance, renters using these products would put down about \$510.

Whatever the fee structure, tenants won't get their premiums refunded after move-out, even if they leave the unit in good condition. They also remain on the hook for any claims of damage or nonpayment.

Surety bonds have been used as a residential deposit replacement since at least 2000, when Assurant insurance started selling them under the product name SureDeposit. Beginning around 2014, "insurtech" startups like The Guarantors, Jetty, and Rhino started coming on the market. It's not clear how many renters are actually using surety bonds to satisfy their landlords' deposit requirements, since this niche sector of the bond industry isn't tracked by trade groups like the Surety & Fidelity Association of America.

The National Apartment Association found in a 2019 [survey](#) that the nationwide average "collections loss," or the average loss for property owners after move-out, is \$103 per unit. An [analysis](#) by LeaseLock, a different deposit alternative provider that doesn't work on a surety bond model, found that this figure doesn't take into account fees deducted from cash deposits, and estimates that the actual average collections loss is \$326 per unit.

Those averages, however, come from a small number of larger claims concentrated among a minority of tenants. According to Stein, the "vast majority" of Rhino users never have a claim filed against their bonds. Renters whose landlords do make sizable claims, however, could end up spending more than if they had simply paid a deposit and never got it back. And any nonrefundable fee exceeds the cost of a deposit that's returned in full.

How a \$3,500 Deposit Becomes a \$6,000 Bill

Many states [limit](#) the size of lump-sum security deposits that landlords can require. New York, for instance, [limits deposits to one month's rent](#). But because bond products are not subject to the same laws that govern cash deposits, landlords can ask for—and make tenants liable for—a bond worth more than the state's legal cap on security deposits.

If tenants think of the product as insurance, as it's described in Rhino's marketing materials, and either don't realize they're purchasing a bond or don't know how a bond works, they may unwittingly sign up for a liability that far exceeds what they would ever willingly fork over to their landlord for a cash deposit.

That's what happened to Brooklyn resident Peter Steininger, who was nearing the end of his lease in June. He and his roommates decided to extend their lease for two more months, and his landlord suggested that, rather than keeping their \$3,500 deposit with him, they get it returned early and replace it with Rhino.

"We didn't really understand what it was, but it meant we got the deposit back," says Steininger, a college student.

The bond's coverage amount was set at \$7,200. When Steininger signed the contract, he didn't realize he was agreeing to repay Rhino for any claims paid to his landlord up to that amount—more than twice the original deposit, and more than twice his monthly rent. He paid a \$45 fee each month for the service.

Shortly after he moved out, Steininger learned his landlord had made two claims against the policy. The first was for \$3,500, or a full month's rent. An email from the property management company explains that the roommates surrendered the apartment Sept. 2 when they were supposed to move out Aug. 31. Steininger says they did move out Aug. 31 but were two days late returning the keys.

The second claim was for \$2,500 for alleged damages. Steininger disputes these charges, particularly the \$1,400 charge to remove trash, cut a bicycle lock, and remove a bike from a fence outside the apartment. "The thing is, I have that bike," he says. "They said they cut the bike lock. I have the lock intact."

Rhino pays out claims within an average of four business days. Steininger's landlord was able to collect \$6,000 from the company, and the company is now pursuing Steininger for reimbursement.

According to New York State Sen. Brian Kavanagh, chair of the Committee on Housing, Construction and Community Development, his office is in talks with state insurance regulators about how the one-month's-rent cap on deposits applies to insurance products that purport to be deposit replacements.

"Insurance companies and landlords should not be using these products to circumvent the intent of the law. We've also heard reports that tenants are

being deceived as to how these products work,” said Kavanagh, referring to online reviews and Better Business Bureau complaints, “and we’re looking into those allegations as well.”

Legal Remedies

In New York, landlords must return a deposit in full within 14 days of move-out or provide tenants with an itemized bill for any charges deducted. If tenants dispute the charges, they can sue their landlords without a lawyer in small claims court, where they may be awarded double damages for money wrongfully withheld. Many states have similar laws regarding security deposits.

But the same laws don’t apply to a private company pursuing a customer for a debt. In his 21-year career, Eric Dunn, director of litigation at the National Law Housing Project, says he’s represented tenants in two cases involving residential deposit surety bonds.

“If the landlord uses one of these bond products, that can essentially void your rights as a tenant to enforce the protections you have under state law for being billed improperly,” said Dunn.

Private companies can also include clauses in their contracts that limit a tenant’s legal remedies in the event of a dispute over claims. Rhino’s bond agreement, for instance, includes an arbitration clause, which could limit a renter’s ability to bring a suit against the company. According to Dunn, arbitration tends to heavily favor companies over consumers.

The contract also contains a clause that bars renters from participating in a class action lawsuit against the company, a stipulation that Dunn considers “really problematic.”

“When you take away somebody’s ability to bring a class action, you’re really enabling bad actors to operate with impunity. That’s exactly the type of abusive contract term that subverts the basic legal protections that tenants are supposed to have,” said Dunn.

Unsupported Claims

Becca Doyle and her husband signed up for Rhino to rent a Jersey City apartment in 2019. She says they had the money to pay the \$2,385 deposit,

but the apartment's broker pushed them to use Rhino instead. "It sounded like it was this really wonderful, only-pros, no-cons alternative to a regular security deposit," she says.

Doyle and her husband paid \$25 a month for the service, \$300 total for the year that they lived in the apartment. They also paid for a duplicate Rhino policy throughout that year, because Doyle's husband had initially signed up for the service under his own name, but soon realized they could be paying a lower rate if they used Doyle's. They signed up under her name, then tried to reach Rhino's customer service to cancel the first policy, but couldn't get a response, a claim that's echoed by dozens of the startup's [online reviews](#) and [Better Business Bureau](#) complaints. They eventually gave up trying to cancel the first policy and paid for both policies throughout their lease.

Stein says the company has recently invested in its customer service, and that response times by email now take between 24 and 48 hours.

When the couple moved out, Doyle says she received an un-itemized bill for \$915 in alleged damage. She says this was the first time she realized that the monthly fees she paid to Rhino didn't provide any coverage from claims. She also says she couldn't understand what the charges were for, and that when she finally got an itemized bill from the property management company, she thought the charges—including roughly \$500 for "a fresh coat of paint," and hundreds more for general cleaning—were "nit-picky" and exaggerated. They are also the sort of things that typically fall under "normal wear and tear," which is not on the [list of items](#) that can be withheld from a security deposit. The same standard is supposed to govern what landlords can make a claim to Rhino for, according to their [bond contract](#).

Asked about how Rhino verifies claims, Stein says landlords' claims must be substantiated with evidence, such as photos, and renters are able to view the evidence and submit their own.

The email Steininger received from Rhino did invite him to reply with any evidence to counter his landlord's claims. The email did not offer his landlord's evidence or make Steininger aware that he could ask to view what had been sent to Rhino. (The management company had sent some photos to him in an earlier email.) Steininger sent a long reply to Rhino's claims department. He told the company that his landlord was charging thousands of dollars to remove trash that was left at the curb by other tenants and to remove chalk drawings from the building's facade that were there when he and his roommates moved in. He submitted photos from a current real estate listing for the building that showed the chalk drawings, arguing that the drawings were still up, and that therefore his landlord was charging for work he hadn't actually done. He also

emailed Rhino a photo of his bike, with the lock intact, next to an open laptop with the *New York Times* homepage pulled up displaying the date in late September, weeks after he'd moved out.

A few days after he submitted this evidence, Rhino sent Steininger an automated message saying that the claim was closed and they'd decided in his landlord's favor, without an explanation as to why. He says he's still trying to dispute the claims, but Rhino's customer service isn't responding.

"This past month, I think I've called six times. Voicemail, every time. I've sent them half a dozen emails. I can't even talk to anybody. Nobody will speak to me. It's nuts," said Steininger.

Stein declined to comment on the record about the specific circumstances surrounding Steininger's claim.

Doyle, having already experienced problems contacting Rhino's customer service, disputed the \$915 claim directly with her management company. She eventually convinced the management company to withdraw the claim and settled with them directly for about half the price.

To Dunn, the National Law Housing Project attorney, this isn't surprising. He says given their business model and lack of the legal constraints in pursuing consumer debt as compared to security deposits, bond companies are likely to have motivation to pay landlords without aggressive verification of the legitimacy of their charges.

The Rise of Renter's Choice

As mass unemployment threatens a nationwide tsunami of evictions, Rhino's leaders have encouraged lawmakers to give cash-strapped tenants the option to apply their already-paid deposits to rent and either replenish them gradually or replace them with "insurance." New York Gov. Andrew Cuomo signed an **executive order** in May putting a temporary version of this policy into effect across the state.

On Dec. 3, one of Rhino's co-founders, Ankur Jain, **co-authored an op-ed** along with the mayors of Los Angeles and Miami voicing support for this emergency form of Renter's Choice, calling it a Renter Stimulus Plan, and claiming that renters have already used the plan to "unlock" \$200 million in cash deposits across the country over the course of the pandemic.

"To our fellow mayors, city councilmen and governors: Join us. Fix this. Winter is coming hard and fast and we can't wait to bring relief to the American people," the CNN op-ed reads.

The op-ed was quickly **panned** on Twitter by housing groups and others, who argued that the plan was a transparent attempt by Rhino to cash in on a crisis, and that giving renters their own money back could hardly be called a stimulus.

Dunn is similarly skeptical. He says that, even among housing professionals, security deposit "insurance" is not well understood, and that some proponents of Renter's Choice are understandably under the false impression that these products give renters some protection against claims in exchange for their fees.

"I think the people being deceived are not only the consumers, it's even us housing advocates," said Dunn. "I don't know who's out there describing these bonds as insurance, but that really strikes me as misleading and deceptive."