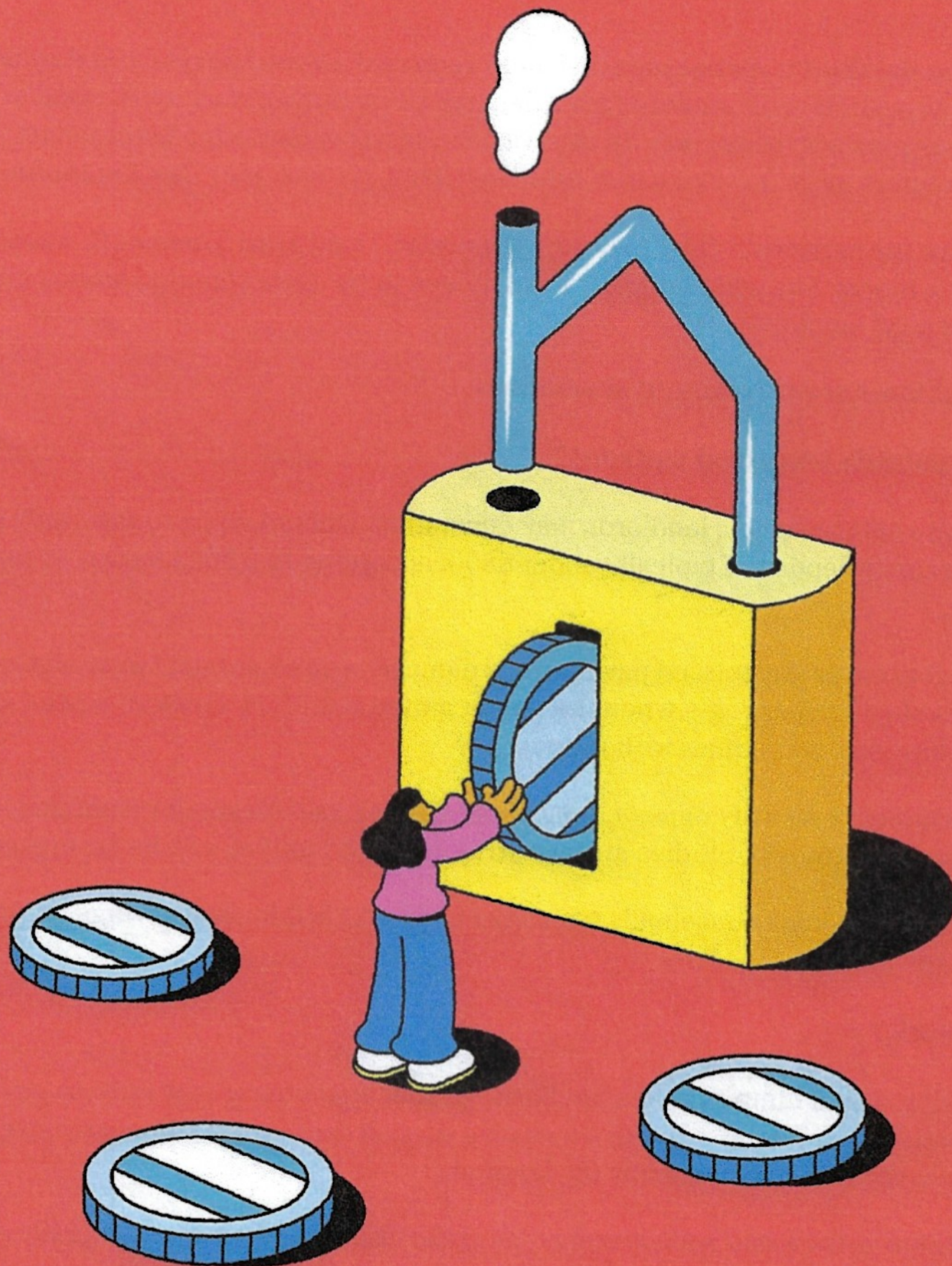


More renters are using security deposit alternatives



Third-party services charge fees to help renters bypass some upfront costs of signing a lease. Unlike traditional deposits, the money won't be returned to tenants. TILL LAUER ILLUSTRATION — THE NEW YORK TIMES

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THE NEW YORK TIMES

As renters struggle to cobble together cash for the upfront costs needed to sign a lease, financial technology firms are promoting alternative tools to manage a common pain point: security deposits.

These firms team up with landlords and management companies to allow tenants to pay smaller monthly or annual fees that replace the traditional lump sum that can be a stretch for many renters. It often works like a type of insurance.

These options are useful in the short term because they help keep cash in your pocket, but they do not replace the function of a security deposit. If your landlord files a damage claim during your lease, none of the fees paid to the alternative services apply toward those costs. In this way, the services may offer fewer tenant protections and can even end up costing renters more, new research from the National Consumer Law Center found.

Still, millions of renters use the services. "They're quite widespread," said April Kuehnhoff, a senior lawyer at the center and an author of the report. She added that the tools tended to be more common among large property managers than "mom and pop" landlords.

Here's what to know about these security deposit alternatives.

What rental costs are usually required upfront?

In addition to requiring an application fee, landlords may demand an amount equal to the unit's rent for the first and last months, plus a security deposit of typically about \$800, according to a 2025 survey of recent renters by the real estate site Zillow.

Landlords hold the deposit to cover any missed payments or damage beyond normal "wear and tear" — like claims of pet damage or broken appliances — when the tenant moves out. If the landlord makes no claim during the lease, the amount is refunded, sometimes with interest.

Median upfront costs, including a security deposit, total about \$3,700, said Alexander Hermann, senior research associate at the Joint Center for Housing Studies at Harvard University, but they can be far higher in some areas.

The Joint Center calculated that renter households typically had just \$1,810 in cash savings, making it difficult to meet move-in requirements.

How do alternatives work?

Generally, instead of forking over a lump sum to a landlord, tenants using these new options pay a fee or premium — typically monthly or annually — to the alternative deposit firm, which ultimately protects the landlord. (Often, the service provider is chosen by the landlord.)

Marketing language on some of the firms' websites may not make clear that their fees generally aren't refundable and can't be applied toward any landlord claim, the consumer law center report said. The provider Rhino's website, for instance, says it "covers your rental just like a cash deposit would without the upfront cost."

"None of that money goes back to the tenant," Kuehnhoff said.

Representatives for Rhino could not be reached for comment.

How much do they cost?

Fees may vary by property and by the tenant's financial situation, so it can be hard for renters to know the exact amount until after an application is submitted. The report said tenants had cited fees ranging from \$22 to \$65 a month for the duration of the lease.

The fees can add up over time, Kuehnhoff said, because they are typically charged each time the lease is renewed.

What happens if my landlord makes a claim?

Laws for handling deductions from security deposits vary, but tenants generally have the right to challenge landlords in court if they can't resolve disputes directly. Some states mandate options to avoid court — Massachusetts lets tenants file a "demand" letter with landlords — or allow tenants to file complaints in small claims courts without hiring a lawyer, Kuehnhoff said.

But tenants using the alternative coverage will still end up owing money if their landlord submits a request to cover damage.

Obligo, for example, says that if a charge is submitted for damage or missed rent, the platform "immediately" initiates payment to the property manager, up to the authorized amount.

Then, Obligo's automated system charges the renter for that amount, using a preauthorized bank account or credit card. Obligo declined to make executives available for an interview, but said in an email that tenants received "multiple" notifications and were not charged until 14 days after charges were submitted. Also, Obligo offers interest-free installment plans to pay costs owed to the landlord.

"Traditional security deposits are bad for renters," partly because they lock up cash when a renter needs it most, Obligo said in its email. Its "no deposit" alternative complies with state laws, the company said; rules vary, but provisions for different jurisdictions are built into its system.

Kuehnhoff said it appeared that no documentation was required for a landlord's claim to be paid out. "There's really no dispute process," she said.

Obligo's website says the company may review charges or pause payouts "in cases of suspected fraud or renter abuse." The company said that it "does not decide disputes between renters and property managers," but that renters can flag a charge they disagree with and Obligo will "help facilitate the conversation" with property managers.

How do state regulations apply?

State laws address the handling of traditional security deposits. They may set maximum amounts, deadlines for returning funds or rules for how the money is held.

But alternative products, the report said, may skirt such protections. "Essentially, they are designed to provide landlords the benefits of the security deposit" while avoiding the costs of complying with tenant protection laws, Kuehnhoff said.

