March 12, 2024

The Honorable Mark M. Nakashima, Chair
House Committee on Consumer Protection & Commerce
State Capitol, Conference Room 329 & Videoconference

RE: Senate Bill 2126, SD1, Relating to Security Deposits
HEARING: Tuesday, March 12, 2024, at 2:00 p.m.

Aloha Chair Nakashima, Vice Chair Sayama, and Members of the Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawaii and its over 11,000 members. HAR provides **comments** on Senate Bill 2126, SD1, which requires a landlord to accept either rental security insurance or a surety bond in lieu of a traditional security deposit, upon a tenant's request. Takes effect 7/1/2040.
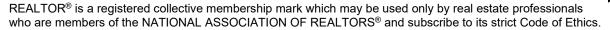
While we appreciate the amendments made in the previous committee, we still have concerns we would like to highlight. The role of security deposits is to ensure that tenants fulfill their rental obligations on time and maintain the rental unit in a good condition. Rental security insurance, while a well-intended alternative option, may lead to delays in turning over units to future tenants and create additional costs for tenants.

Rental security insurance functions more like a surety bond, such as those held by contractors or utilized by bondsmen for bail purposes. Unlike traditional insurance, which aims to mitigate risk for the policyholder, a surety bond is designed to ensure the fulfillment of contractual obligations, such as a renter's financial responsibilities to a housing provider. In exchange for a nonrefundable fee paid by the tenant, a surety company pledges to cover the housing provider against specified risks, like a security deposit. However, unlike insurance premiums, these fees do not provide coverage for the renter; rather, they solely serve as a guarantee for the housing provider.[1]

Many rental security insurance companies on the mainland adopt a model where they levy a recurring monthly fee that persists throughout the tenancy or until termination of the policy. Conversely, other entities require tenants to pay a one-time, nonrefundable fee, typically around 17.5% of the deposit in addition to monthly fees.

Regardless of the payment structure, tenants are ineligible for premium refunds upon moving out, irrespective of the condition in which they leave the property. Furthermore, they remain liable to those companies for any claims relating to damages or outstanding rent payments. This is in contrast to a traditional security deposit, which is returned to the tenant as long as they leave the unit in good condition.

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[1] Williamson, Alex. (December 10, 2020). Security Deposit Alternatives: The Misleading Marketing of "Renter's Choice". shelterforce.org/2020/12/10/security-deposit-alternatives-the-misleading-marketing-of-renters-choice/#

Moreover, the time a housing provider must wait for a rental insurance company to pay out a claim could cause a delay in repairing damage to a unit and ultimately delay when it can be rented out to another tenant. This is concerning for a housing provider who may need the income to make a mortgage payment and a detriment for tenants in the rental market who need housing.

Mahalo for the opportunity to testify.

March 11, 2024

Representative Mark Nakashima, Chair
Representative Jackson Sayama, Vice Chair
Committee on Consumer Protection and Commerce

RE: **SB 2126 SD1 – RELATING TO SECURITY DEPOSITS**
        Hearing date – March 12, 2024 at 2:00 PM

Aloha Chair Nakashima, Vice Chair Sayama, and members of the committee,

        Thank you for allowing NAIOP Hawaii to submit testimony providing **COMMENTS ON SB 2126 SD1 – RELATING TO SECURITY DEPOSITS**. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders, and other professionals.

        SB 2126 SD1 requires a landlord to accept either rental security insurance or a surety bond in lieu of a traditional security deposit, upon a tenant's request.

        NAIOP supports the intent of this measure which provides alternatives for a security deposits. We recommend allowing a property owner to determine its comfort with accepting alternative forms of security deposit. One motivation for this is that the collection from an insurer or surety company could be delayed, which would negatively impact a property owner's ability to service and upkeep the property or cause a property owner to need to borrow funds while the insurance or surety claim is processed.

        Accordingly, NAIOP Hawaii provides the above comments on SB 2126 SD1. Thank you for the opportunity to testify on this measure.

                        Mahalo for your consideration,

                        Reyn Tanaka, President
                        NAIOP Hawaii

SB-2126-SD-1
Submitted on: 3/10/2024 11:21:37 AM
Testimony for CPC on 3/12/2024 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Renee P Kaiama	Individual	Oppose	Written Testimony Only

Comments:

1. am not in favor of this bill. There are gray areas that could put the owner's property at risk. I would be in favor of this bill if language was added to protect the owner, such as if the 'rental security insurance' and/or 'surety bond' CAN ONLY be altered, cancelled, or claimed on by the landlord or landlord's agent; and not at all by the Tenant themselves, whereby the tenants get no claim to the security deposit. Ongoing premiums for such policies should be collected from the Tenant by the Landlord or Landlord's Agent for direct payment to the insurance company to ensure that the coverages stay in effect throughout the life of the lease term.

Additionally, the rental application takes into consideration qualifications of the rental applicant in regard to income, assets, employment stability, debt payment history, etc. It's the landlord and/or landlord's agent's consideration and discretion on accepted criteria for rental application approval, including whether to accept insurance or a bond in lieu of security deposit.

Unless the Tenant prospect is new to renting – the Tenant would typically have funds from the security deposit from their previous rental to provide.

1. could also utilize a personal loan, savings loan, or credit card if they don't have the funds immediately available. If the language with the current law does not allow for security deposits to be paid by credit card, then you would need to insert the proper language.

Submitted By	Organization	Testifier Position	Testify
Renee P Kaiama	Individual	Oppose	Written Testimony Only

Comments:

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The tenant could also utilize a personal loan, savings loan, or credit card if they don't have the funds immediately available. If the language with the current law does not allow for security deposits to be paid by credit card, then you would need to insert the proper language.