

ASSURELEASE™ LATS Program

(Landlord Alternative to Security Deposits)

TENANT DEPOSIT INSURANCE PROGRAM - MULTI-FAMILY

Frequently Asked Questions

1. What is LATS?

“LATS” or Landlord Alternative to Security” is a financial/risk management insurance program that allows owners of multifamily apartments to eliminate the need for security deposits from their tenants, while being covered for damages due to destruction of property, default and legal expenses up to a minimum of one full month’s rent.

Unlike traditional insurance products and other security deposit products, AssureLease returns all the profits back to the property owner, thus giving a significant advantage to your bottom line and leveraged value to your enterprise.

2. What are the general workings of LATS?

AssureLease, the program manager, underwrites each portfolio based on information provided by the owner including specific portfolio metrics and historical loss information. Once approved, the owner becomes a “subscriber” (member) of a Reciprocal Captive Insurance Company and a “subscriber” account is created for each owner. All subscribers are of like, kind and quality to other property owners. The Reciprocal is overseen by a Board of Directors comprised of owners, and managed by captive a captive manager, Marsh Captive Services.

The advantages are that expenses are reduced because of the scale of the new overall portfolio and ALL underwriting profits from the insurance program are returned to its members.

3. Who is eligible for LATS?

Well managed property owners with approximately 300 to 3000 units are eligible to be considered for the program.

4. How do I get started?

It is easy! An insurance agent/broker will have you fill out an application that will include questions on your security deposit practices, the portfolio, and historical rents and losses. From there, AssureLease will underwrite your portfolio, and in conjunction with your insurance agent/broker, will be there to explain and guide you through the process.

5. What happens if I have one bad year?

One bad year will not necessarily disqualify you from the program. The program is intended to smooth out your results based on a long term relationship.

6. When are dividends paid?

Dividends are held in a trust that is owned by the Captive, which, in turn, is owned by the subscribers (property owners). After the Board (made up of the owners as Subscribers) and the Captive approve the allocations, dividends are paid three months after each year's policy expires.

Dividends are paid to the individual members and/or credited to their Subscriber Accounts.

7. Will I be able to see the results of the group's and other members' results?

As a part owner of the Captive, you will be able to review the overall financial results of the Captive and be able to see your individual results, but the specific results of other members (and yours) are confidential.

8. What are the specifics of the coverage being offered?

The AssureLease Insurance Program provides individual per unit coverage of one, two or three months' rent, depending on your choice of what limit you wish to purchase, for property damage, loss of rents and eviction costs.

9. Is there a deductible?

There is no deductible.

10. How are annual premiums derived?

Annual premiums are determined on a case-by-case basis through the utilization of our proprietary underwriting matrix in conjunction with the policyholder's own historical loss experience. In order to develop an appropriate charge (rate) per unit, AssureLease needs to analyze historical data from the last two to three years, including: (1) Amount of damages deducted from cash deposits, (2) Amount of damages in excess of cash deposits and (3) Costs due to failure of tenants to pay rent.

11. Who is responsible for payment of the premium?

*The property owner remits payment to the insurance company from the fees charged and collected from the tenants. The premium is remitted to the insurance company less any qualified losses. **Being able to deduct claims paid in a given month from the premium report ensures that the property owner does not have to wait to be reimbursed for claims by the insurance company.***

12. How does the program create a new profit center for the property owner?

The AssureLease Insurance Program is specifically designed to compensate the property owner for maintaining historical best practices. One hundred percent of unused premium dollars (net of fees and claims) are deposited into the owner's Subscriber's Account. Typically, property owners will receive a 35% to 50% return of premium paid as a dividend at the end of each policy year. Should actual losses exceed historical levels, the percentage of excess will be deducted from the dividend. In any case, AssureLease provides a greater return than the current process of collecting security deposits.

13. Do owners and management companies find it difficult to increase their rental rates to cover the premiums associated with the AssureLease Insurance program while still retaining market share in a highly competitive rental market?

The rental rate increases are very modest, generally 1-2% increase to monthly rent based on underwriting. Our research shows that most tenants would prefer to pay a small monthly increase to avoid having to pay an upfront large cash deposit. It is certainly a property owner's advantage not to require a security deposit. The AssureLease Insurance Program specifically allows owners the freedom to eliminate required deposits and still (1) Protect against tenant caused damages up to three times the monthly lease payment (2) Retain actual profitability and investment income from the underwriting of this coverage and (3) Increase or maintain occupancy levels by removing the barrier to entry for tenants by not having to pay a security deposit. AssureLease is a distinct benefit to both tenants and owners alike.

14. Under the traditional cash security deposit structure, owners have immediate access to the tenant's cash deposit to address compensable damages. What is the process for reimbursement under the AssureLease Program?

*Under the AssureLease Program, the property owner could first pursue the tenant for any damage or loss of rent excess of limits. If losses prove uncollectable, the property owner would offset claims against premium due on a monthly basis **before premium is remitted to the insurance company**. In other words, the property owner is reimbursed immediately at an amount equal to or at a multiple of the current month's rent, thereby meeting or exceeding a traditional one month security deposit.*

15. The owner/property management company views deposits as an incentive for tenants to act responsibly and to return their units in as good a condition as possible. Without these traditional cash deposits, should there be a concern that the damages to units would increase?

Our results have shown that losses on a composite portfolio basis are in-line with historical performance when security deposits were held. Under the AssureLease Insurance Program, the tenants would still be contractually responsible for damages caused to the unit. Failure to pay would result in a tenant's credit rating being negatively affected. As part of the AssureLease agreement, the property owner would agree to maintain current standard practices in pursuing the tenant for damages.

It should also be noted, that in most jurisdictions the owner/property management company can still charge an upfront "non-refundable" cleaning fee, which does not impact the application of coverage under the AssureLease Program.

16. Can AssureLease reduce a property owner's exposure to potential criminal, class action or civil liability that may be created by the current cash deposit structure?

Absolutely. No matter how small, almost every state, and some local municipalities, regulate the amount and disposition of lease deposits relative to multi-family housing. Residential property owners/management companies are also vulnerable to tenant-initiated class action lawsuits for (1) Misfeasance, (2) Malfeasance and (3) Nonfeasance. The AssureLease Insurance Program eliminates this exposure by replacing the traditional cash deposit structure.

17. Can property owners/management companies readily track the impact of the AssureLease Insurance Program utilizing their current IT system capabilities?

All property owners/management companies generally have a rent roll software package in place through Yardi, AMSI, RentRoll, MRI, RentBureau or others with detailed statistical information regarding rental income per unit. Such systems can easily be expanded to include columns to track loss rates per unit, premiums per unit, returned premiums per unit, loss sustained per unit and subrogation recoveries per unit.

In addition to the property owner's internal tracking, AssureLease, the insurance company and the captive manager all provide detailed reporting on a quarterly/annual basis.

18. How does the AssureLease Insurance Program coverage work if an owner sells one of the properties out of its overall portfolio?

As part of most negotiations for properties that are sold, security deposits are a negotiated point. In line with current sales transactions, the sale of properties utilizing AssureLease should be viewed the same as units that are sold with security deposits.

19. Under the AssureLease LATS Insurance Program, insurance premiums that are paid to the captive insurance company are deposited into an account that is the individual account of each owner. It is called a Subscriber Account.

On a monthly basis, each insured will pay insurance premiums to their insurance broker who will remit payment to the insurance company that provides the regulatory oversight and licensing requirements in each state, StarStone Specialty Insurance Company. StarStone will then remit the premium less expenses to the captive insurance company. This net premium is then credited to the policyholder's Subscriber Account and is available to pay excess losses and dividends to the property owner.

21. Are there other programs competitive with that of AssureLease?

AssureLease LATS is the first group captive reciprocal company in the United States for this exposure. There are currently other surety and indemnity security deposit alternatives in the market place - these consumer products do not completely solve the problem - AssureLease does. We issue a policy to the owner with rates that are established from our proprietary underwriting methodology with coverage provided by an AM Best Rated "A-" (Excellent) nationally recognized insurance carrier.

22. AssureLease versus self-funding.

Five reasons it is better to insure vs. self-insure:

- 1. If the property owner chooses to self-fund the damage and skips of the tenants, they would in essence be collateralizing their own balance sheet. This, in essence, unnecessarily ties up available capital. AssureLease utilizes insurance because it is the cheapest capital available, as it enables the property owner to “borrow” the balance sheet of an insurance company for just a few basis points.*
- 2. There are tax benefits to utilizing AssureLease/insurance versus self-funding. The purchase of insurance is treated as an expense and the dividends paid by the captive may have tax advantages depending on the structure. You should consult your tax/accounting counsel with regards to the various options available.*
- 3. Without AssureLease, the property owner would need to “Pre-Fund” any losses that occurred before there was enough capital accumulated by raising the rent. An AssureLease policy immediately covers the property owner for losses up to three times the rent amount.*
- 4. AssureLease takes the guesswork out of figuring the correct premium to charge. Our unique formulas allow us to accurately calculate the correct premium to charge to maximize coverage and profitability for property owner.*
- 5. AssureLease has a dedicated staff that is responsible for underwriting, implementation, ongoing administration/reporting, and overseeing of the captive insurance company.*

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