

# ASSURELEASE™

## TENANT DEPOSIT INSURANCE PROGRAM – MULTIFAMILY

### Frequently Asked Questions

**1. What are the specifics of the coverage being offered?**

*The AssureLease Insurance Program provides individual unit coverage of up to three months rent for property damage, loss of rents and eviction costs. The aggregate policy limit is equal to 5% more than the gross premiums paid.*

**2. Is there an annual deductible?**

*There is no deductible.*

**3. 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 tenant to pay rent.*

**4. Who is responsible for payment of the premium?**

*As policyholder, the property owner remits payment to the insurance company, from the fees they charged and collected from the tenants. The premium is remitted to the insurance company less any qualified losses. This ensures that the property owner does not have to wait to be reimbursed by the insurance company.*

**5. 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 captive. Typically, property owners will receive a 35% to 50% premium dividend at the end of each policy year. Should actual losses exceed historical levels, the percentage excess will be deducted from percentage premium dividend. In any case, AssureLease provides greater coverage than the current process of collecting security deposits.*

- 6. 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 marketing advantage to not 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.*

- 7. 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 would first pursue the tenant for any damage or loss of rent. 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.*

- 8. The owner/property management company views deposits as 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 to 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.*

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

*Absolutely. No matter how small, almost every state, and some local municipalities, regulates 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.*

**10. 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 already 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 be easily 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 monthly/quarterly/annual basis.*

**11. 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 negotiating point. In line with current sales transactions, the sale of properties utilizing AssureLease should be viewed the same as units that are sold without security deposits.*

**12. Under the AssureLease Insurance Program, insurance premiums are deposited into a protected cell captive.**

*On a monthly basis, each insured will pay insurance premiums to their insurance broker who will remit payment to StarStone Insurance Company. StarStone will then cede to the protected cell captive the net reinsurance premium. This net premium represents funds to reimburse excess losses and dividends to the property owner.*

**13. How is the monthly insurance premium paid under the AssureLease Insurance Program treated from an accounting standpoint?**

*Premiums paid by the property owner to the insurance company are considered an insurance expense. Captive dividends released to the property owner can have significant tax advantages. There are various structures that can be discussed with the chosen captive manager.*

*Property Owners are strongly urged to consult with their legal and tax consultants the accounting requirements associated with this transaction.*

#### **14. Are there programs competitive with that of AssureLease?**

*There are currently no known competitors to the AssureLease Insurance Program, and our insurance product has a business process patent pending. Rates are established actuarially with coverage provided by StarStone Insurance Company, who is an AM Best Rated "A-" (Excellent) nationally recognized insurance carrier. Utilization of coverage through an independent insurance entity greatly reduces any perceived conflict of interest.*

#### **15. 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 with 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 captive dividends may have significant tax advantages depending on the structure that is chosen. You should consult your tax/accounting counsel with regards to the various different 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 out the correct amount 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, implementing, ongoing administration/reporting, and overseeing the captive manager.*