**Landlord & Tenant Guide to Security Deposits**

***What Is a Security Deposit for Rent?***

A security deposit is a sum of money that landlords can request from their tenants prior to moving in. Tenants are usually given back this fee once they’ve moved out, unless they’re behind on rent payments or have caused damage to the property that’s outside of normal wear and tear. In that case, you are able to retain a portion of the deposit fee with a justifiable reason as to why.

Upon receiving the security deposit, you will need to provide your tenants with a security deposit receipt displaying the name and address of the financial institution used to store the fee, the amount that’s been deposited, the recipient, and the address of the rental property.

***How to Determine Security Deposit Amounts***

Local landlord-tenant laws impact exactly how much you can charge for a security deposit fee. Landlords can charge anywhere from one to three months’ rent for a security deposit, with the price cap varying per state. There are also restrictions on how much military personnel can be charged, as well as different price caps for fully-furnished rental properties.

Another factor to consider is whether or not the security deposit you’ve set is affordable for your designated area. If you already have a higher rent price and require tenants to pay a security deposit worth two months’ rent, then this can deter tenants from submitting an application due to costly fees. To avoid this, you can request a security deposit that equals one month’s rent payment and invest in reliable and thorough rental background checks to find quality tenants that will take care of your property — removing the need to upcharge in security deposit fees.

***Does a Security Deposit Have to be in an Interest-Bearing Account?***

Landlords are usually not required to store security deposits in an interest-bearing account through the duration of the lease term, unless stated otherwise by local ordinances. However, in many states, this fee does need to be kept in a bank account that is not their personal account to avoid “commingling”, which is defined as the act of storing a security deposit in the same account as other rental fees, such as rent and application fees.

If you decide to store the rental security deposit in a neutral location, like an escrow or savings account, then the interest that accrued over time from bank fees will be your responsibility to cover.

***Are Security Deposits Refundable?***

Landlords are legally required to return a tenant’s security deposit within a certain timeframe unless it is used to cover unpaid rent or repair property damage. Security deposits cannot be kept without providing tenants an explanation as to what the deposit is used for with an itemized statement. States also vary in how soon a security deposit needs to be returned, so refer to local landlord-tenant laws to learn more.

Landlords can provide a **security deposit return letter** to tenants to let them know how much of their deposit will be returned if a portion has been used to cover expenses, and what those expenses were.

***What Can a Landlord Deduct from a Security Deposit?***

When tenants cause damage to the property that’s outside of normal wear and tear, the landlord is legally allowed to deduct expenses to cover the repairs from the security deposit. Examples of severe damage include:

Tears, holes, and burn marks on the carpet

Broken windows

Excessive holes on the wall from home decor

Damaged appliances (stove, fridge, dishwasher, etc.)

Damage caused by pets

If allowed by the state, a landlord can also keep a portion of the security deposit if a tenant is behind on rent payments. Allowing tenants to use their security deposit for rent can reduce the amount they owe until they’re able to improve their financial situation.

However, any deductions from the security deposit must be provided to tenants through an itemized list explaining the reasoning for the deduction and the cost of each expense.

***How Long Does a Landlord Have to Return a Security Deposit?***

Landlords have anywhere from 14 to 45 days to return both the security deposit fee and any accrued interest to the tenant after they’ve moved out. The time frame varies depending on which state you’re located in, so it’s important to be familiar with your local landlord-tenant laws prior to the end of the lease term.

Withholding a tenant’s security deposit past the allotted time can result in a lawsuit since it’s illegal to keep a security deposit from a tenant without justifiable reason. If you are planning on withholding part of the security deposit, your tenant will need to be notified as soon as possible.