

## Deposit Replacement Products - good or bad for Landlord and Tenant?

### What is a Deposit Replacement Product?

Instead of a traditional deposit, this is **intended** to be a guarantee that the Landlord will not lose out if the terms of a tenancy are breached by a Tenant.

The Landlord is expected to **make a claim** from the deposit guarantor if the Tenant cannot pay.

However, If a Tenant cannot afford a deposit, how can they be expected to afford to pay for any damage, let alone the rent?

What about the **referral fee** paid to the letting agent? How much will it be, and where is the money coming from to fund it? – well, from the Tenant of course !

To try and avoid another mis-selling scandal, **the Tenant must be offered a choice** of either the traditional deposit or the guarantee/policy route.

### Where it gets Complicated...

There are insured, guarantee, warranty and non-insured products available. **Questions to be asked are:**

Will the advantages and disadvantages of each be properly explained by an agent, who stands to benefit from receiving a referral fee?

Will the letting agent explain that **the Tenant will still be responsible for damages and unpaid bills at the end of a tenancy?**

Will tenants be told that they are **not** actually purchasing an insurance policy that covers them, but rather **they are paying for a product that simply allows them to rent without paying a traditional deposit?**

Will tenants be warned that if they fail to pay what is owed at the end, their credit score may be affected?

**We think the answer to all these questions is unlikely to be a resounding 'yes' because the letting agent will in most cases, be receiving a referral fee and their advice is likely to prove biased as a result.**

### Both Tenants and Landlords Need to be Very Wary

Will all this be explained to the Landlord too? **Will the Landlord be warned that he/she will have to make a formal claim for even the smallest of deductions if the Tenant cannot or will not pay at the end of the tenancy?** Most of the longer established letting agents can remember the mortgage guarantee scandals of the 1990s, when similar products were mis-sold.

Unfortunately, many of these new products are being recommended by letting agents as a means of **revenue replacement in the wake of Tenant fees being banned** i.e. in the **agent's** best interests. Some agents are actively promoting them, even on higher value rentals, **before** they have even met the prospective tenant.

A very interesting statistic is that **the average deduction made from a Tenant's deposit is less than the equivalent of one week's rent !** Interestingly, one week's rent is about the same as the cost of purchasing one of these deposit replacement products (plus an admin fee of course) and about 20% of that is the referral fee, payable to the letting agent.

### Our Conclusion

Johnsons Lettings have concluded that these new products are **not in the best interests of either Tenant or Landlord.**

**We are very surprised they have been allowed to be introduced and we will not be offering them – not even with the 'bribe' of a referral fee.**