

# Universal Shield Insurance Group Tenant Security Deposit Bond Program

## Memorandum of Understanding

Universal shield Insurance Group's (USIG) Tenant Security Deposit Bond Program allows apartment complex owners to offer a non-refundable alternative to traditional security deposits through a surety program. We issue tenant bonds under a blanket security deposit bond program that is established by the apartment community. The program allows for individual prospective tenants to be added to it for varying amounts as determined by the apartment community in a quick automated process. This Memo of Understanding is provided to foster full disclosure and understanding of the process obligations of all parties involved.

There are three parties to every transaction:

**The Obligee:** The apartment community(ies) offering the bond program in lieu of a security deposit

**The Principal:** The tenants(s) purchasing the bond

**The Surety:** Universal Fire & Casualty Insurance Company or Shield Indemnity, Inc.

### **How the bond works:**

The bond provides the apartment community owner the ability to manage and plan for recovery of unfulfilled obligations owed under a lease agreement executed by a tenant(s) who have elected to buy the bond in lieu of posting a returnable security deposit. Covered obligations include rent, cancellation penalties, and other related expenses which tenant is contractually obligated to pay under a bonded lease agreement up to the penal sum of the bond issued. However, the surety's obligations hereunder are, in total, limited to the funding level held by the Surety in the Claims Funding Account.

The establishment of the program for a community starts with us issuing a blanket bond. This bond sets the effective date of the program, the rate to be charged and the amount of the premiums available to pay claims. The effective date for a tenant is the date and time when they complete their on-line participation form and make payment to us. Participation shall continue for the life of the tenancy including relocation to any other apartment unit owned or operated by the community owner.

The premium paid by the tenant is not refundable and covers the entire duration of tenancy. Further the tenant is responsible for repayment to the surety for any sums paid. All such recoveries, after collection expenses, are returned to the claims funding account. . This structure allows immediate issuance of the bond upon the apartment community issuing a lease, and provides the community owner the ability to establish charges for the bond as they see fit within regulatory parameters.

**The onboarding process:**

USIG provides a QR code, as well as a link, for use by a participating community *after* the tenant is approved for a lease. The tenant can within a minute or two apply for and complete the bond transaction on their phone while in the rental office. They must pay by credit card or with a Pay Pal account at the time of the transaction. When a bond is issued the person designated by the community will receive a notice.

**Claims Funding Account :** When premium is collected by the surety for the bonds issued, a pre agreed percentage of the premium collected is held by Surety in the Claims Funding Account. The apartment community owner can make deposits to the Claims Funding Account at any time they wish either as premium for the program (which reduces the amount in the fund by the premium taxes and bureau fees (about 4%).

**How a loss situation is handled:**

We require that claims under this program be submitted within 90 days following a lease termination for damages or within 90 days after a tenant's default of a lease agreement resulting in the loss of rents, assessment of cancellation penalties or other related expenses. Upon notice of a claim with proper documentation (i.e., a copy of the signed lease), we will:

1. Confirm that the damages/default is legitimate and there is a bond in effect for that unit.
2. Notify the tenant(s) that there is a claim on their bond and give them time to respond. (this is necessary in order to perfect our right as surety to collect against the tenant – however if the community owner does not want us to attempt collection we can make payment without giving the tenant a chance to cure)
3. Compare damages sought to bond amount. If the damages sought are higher than the bond amount on that particular unit, the claim is limited to the bond amount.
4. Determine if any cash deposit is held for the unit in question.
5. Deduct any sum available per step 4 from the amount determined in step 3 to the amount in the claims funding account.
6. If the claims funding account is adequate to cover the amount determined in step 5, pay the claim. If not, we will have a discussion with community owner to decide on partial payment and/or ending the program. Note we cannot make a claim for reimbursement to the claims funding account of amounts we have not paid.
7. Institute collection procedures against tenant(s).

**Premium to be charged:**

The *suggested* rate to be charged is \$17.50 per \$1,000 of bond amount. However due to the structure of this program, the community can work within our filed rates to determine the charges they wish for their community. We will work with the apartment owner to inform of all options.

**Percentage of premium to go to loss fund:**

60% of the premium paid to by the tenant for the bond is the standard funding percentage for the Claims Funding Account. This amount can be increased based on underwriting review of expected claims and company expenses.

## **BOND PERIOD**

The term of this Bond begins on the effective date shown above. The effective date for the tenant bond is the date and time when a they elects to participate, evidenced by payment of the premium and a completed participation form. The bond form states: "Participation shall continue for the life of the Principal's tenancy. For purposes of this Bond, "life of the Principal's tenancy" includes relocation of a Principal to any other apartment unit owned or operated by the Obligee at a Participating Bonded Location." The bond period ends when the lease is terminated either by natural time or by default.

## **BOND ELIGIBILITY**

All tenants shall be subject to the final approval of the community owner's own internal lease approval process and guidelines. We, as surety, shall have the right to refuse a particular tenant's participation to comply with applicable insurance laws and federal OFAC and other such laws, rules or regulations. Surety's approval shall not be unreasonably withheld. Tenant participation under the program must be optional. The community owner may not make participation a mandatory requirement of any lease transaction, and shall at all times offer the tenant a traditional security deposit alternative.

## **PAYMENT OF BOND PREMIUM**

Premium shall be paid at time of purchase through USIG's on-line execution system.

## **REPORTING REQUIREMENTS**

USIG will mail to the community, by the tenth (10th) day following the end of each calendar month, a set of reports detailing all transaction activity for the month recently ended.

The community owner agrees to provide us with timely notification of all lease terminations covered by a bond.

## **Cancellation or other winding up of the program:**

In the event a community owner decides to end the program we do require a 60 days notice to make sure we have a smooth exit. In such an event they have two options:

1. Immediately cancel and commute all of our bond obligations and receive as payment all funds remaining in the Claims Funding Account; or
2. Shut down the access to new bonds for prospective tenants and wait until all bonded leases are terminated. After that time runs all remaining funds in the Claims Funding Account will revert to the community owner.

It should be noted that option 1 will require you to allow those residents with bonded leases in force to remain in place without a security deposit or other form of security. A community owner should only do this if they believe they have enough money in the Claims Funding Account to make that an attractive option.

If Option 2 is selected, we will annually provide the community owner with a list of all then-current participating tenants for which we remains obligated and the then current balance in the Claims Funding Account. The community owner will in turn provide a status report identifying any inaccuracies in our paperwork.

In any event such liability shall be fully and finally extinguished, on a cut-off basis, immediately by our payment of the funds remaining in the Claims Funding Account to the community owner. This will be treated as taxable income. In our termination agreement that comes with the check for any remaining funds the community owner must agree that claims which have been or will be incurred, or are in the process of investigation and payment, immediately cease to be obligations whether or not reported to us.

#### **EXAMINATION OF RECORDS**

Upon reasonable notice during and after the duration of the program, we must give each other access to and the right to audit the other party's books and records, for all transactions related to the program. Neither Party will disclose the contents of same to any other party except as may be required by law or regulatory body.

#### **INDEMNIFICATION**

The very nature of this program is to allow the community owner to easily adopt a structure and process to be an acceptable security deposit option that is fully funded by tenants, collectively, in a non-refundable transaction. The community owner is in control of who and where they offer the program. Therefore we require that the community owner agrees to indemnify and hold us harmless from any claims, losses, expenses and costs, including reasonable attorney fees resulting directly or indirectly from breach of any of their obligations and/or undertakings contained in this Bond or for any violation of applicable law or any allegation thereof.

#### **NO AGENCY PARTNERSHIP OR JOINT VENTURE**

Nothing in the program or transmittals shall be construed as contemplating or forming an agency relationship, partnership, joint venture or other cooperative business relationship between the community owner and us.