

# TENANT DEFAULT INSURANCE SOLUTIONS

Reducing Leasing Friction and Rent Default  
Volatility Through Carrier-Backed Multifamily  
Insurance Structures



## Most multifamily portfolios are carrying uninsured rent default risk on the balance sheet.

Operators are being asked to do two contradictory things at once:

- **Lease faster** and widen the renter funnel
- **Carry more rent-default risk** on the balance sheet

**Traditional tools** don't solve this well:

- **Security deposits** - suppress conversion and delay move-ins
- **Deposit caps** - reduce effectiveness without reducing risk
- **Consumer rent-guarantee products** - add operational drag and compliance risk
- **Bad debt volatility** - remains largely unaddressed at the portfolio level

## Our Approach: Separate Conversion From Risk Transfer

We decouple leasing friction from rent default exposure by using true, carrier-backed insurance structures (Embedded Program, CLIPs, Captives) - not short-term fintech workarounds.

### Risk Reality:

- Deposits  $\neq$  risk transfer
- Rent default losses are correlated, not random
- Delinquencies spike during market softening
- Volatility is rarely insured today
- CLIP structures cap downside exposure
- Captives allow long-term economics retention

## The result:

- Faster lease-up
- Cleaner operations
- More predictable loss outcomes



Founder | CEO  
Steven Barge-Siever, Esq.  
steve@upwardriskmanagement.com

# SOLUTION 1: DEPOSIT ELIMINATION: FIXED RATE, CARRIER-BACKED

*Replaces security deposits, guarantors, surety bonds, and Jetty-style products*

## Deposit Elimination

### What it does

- Replaces security deposits, guarantors, surety bonds, and fintech products
- Removes upfront cash barriers at the leasing desk
- Expands the qualified renter pool without lowering rent

### How it works

- A-rated insurance backing
- Monthly tenant fee (not a deposit)
- No cost to the property
- No balance-sheet exposure

### Why operators adopt it

- Higher conversion rates
- Faster move-ins
- Reduced leasing friction
- Optional revenue participation instead of dead capital

## Operational Add-On: Tenant Legal Liability Coverage

Many portfolios rely on renters insurance compliance that breaks down in practice.

Tenant Legal Liability Coverage:

- Extends protection even when tenant insurance lapses
- Reduces tracking and enforcement burden
- Closes common operational gaps tied to resident non-compliance

# FROM BUYING INSURANCE TO OWNING THE ECONOMICS

## The Structural Shift

Once a portfolio reaches sufficient scale, tenant default losses become:

- Measurable
- Predictable
- Diversified

At that point, the relevant question is no longer “Can we insure this?”

It becomes - How much of the underwriting economics should the company retain?

This is where CLIPs and Captive structures diverge from vendor programs.

## SOLUTION 2: EXPERIENCE-RATED TENANT DEFAULT CLIP

### What is a CLIP?

A Contractual Liability Insurance Policy (CLIP) is issued by an admitted carrier, but introduces economic participation for the landlord.

### Structure

- Admitted carrier issues Tenant Default CLIP
- Tenant pays premium at lease signing (embedded)
- Carrier pays claims on tenant default
- Manager participates economically via:
  - Profit commission
  - Experience refund
  - Aggregate loss corridors

### What Changes

- The insurance remains fully regulated and compliant
- the company does not bear insurance risk on its balance sheet
- Pricing begins to reflect the company's actual loss experience

You behave like an insurer - without becoming one legally.

### Why Tier 2 Is Often the First Institutional Step

- No captive formation required
- Minimal regulatory complexity
- Immediate alignment between performance and economics
- Creates data and confidence for future structures

For many large portfolios, CLIPs are the optimal starting point.

# SOLUTION 3: CAPTIVE-BACKED TENANT DEFAULT CLIP (ADVANCED)

## What Changes in Tier 3

Tier 3 retains the same front-end CLIP, but shifts who ultimately bears the risk.

### Structure

- Admitted carrier fronts Tenant Default CLIP
- Risk is reinsured to a captive
- Captive holds loss fund capital
- Claims are paid from captive assets

### Economic Outcomes

- Retained underwriting margin
- Investment yield on loss reserves
- Reduced NOI volatility
- Insurance becomes a financial asset, not an expense

## Critical Regulatory Reality (Especially in New York)

A captive does not eliminate regulatory requirements.

- The fronting policy determines legality
- The captive determines economics

Fronting carrier = legality

Captive = economics

This distinction is non-negotiable in NY.

**Note:** Tier 2 is where most institutional owners start because it lets you test the economics without putting capital at risk. Tier 3 is where insurance becomes a balance-sheet tool, and works well if you've validated the loss experience and economics.

## STRUCTURAL COMPARISON

Dimension	Tier 1: Vendor Program	Tier 2: Experience Rated CLIP	Tier 3: CLIP + Captive
Risk Transfer Mechanism	Vendor-managed insurance / guarantee	Admitted Tenant Default CLIP	Admitted CLIP reinsured to captive
Regulatory Posture (NY)	Compliant	Compliant	Compliant (fronting required)
Who Bears Risk	Carrier / guarantor	Carrier	Fairfield captive
Tenant Pays Premium	Yes	Yes	Yes
Embedded at Lease Signing	Yes	Yes	Yes
Pricing Reflects Portfolio Experience	✗ No	✓ Yes	✓ Fully
Landlord Shares Underwriting Profit	✗ No	✓ Yes	✓ Yes
Capital at Risk for Fairfield	✗ No	✗ No	✓ Yes
Investment Yield on Reserves	✗ No	✗ No	✓ Yes
NOI Volatility Reduction	Limited	Moderate	High
Strategic Control	Low	Medium-High	Highest
Structural Complexity	Low	Medium	High

## What This Table Is Really Saying

- Tier 1 buys convenience
- Tier 2 aligns economics
- Tier 3 creates ownership

### Or said another way:

- Tier 1 transfers risk.
- Tier 2 transfers risk and economics.
- Tier 3 transfers risk into a balance-sheet asset.

**At the company's scale,** the question is not whether Tier 2 or Tier 3 makes sense - it's where to start.

Tier 1 is simple, but you give up all upside. Tier 3 gives you maximum control, but you take on capital and governance. Tier 2 sits in the middle and is often the most logical first step."