

MAKING GOVERNMENT WORK FOR RENTERS

UNLEASHING DORMANT CAPITAL: A CENTRALIZED
RENT SECURITY DEPOSIT FUND AS REVENUE
GENERATION FOR NEW YORK CITY AND FASTER
RENT DEPOSIT REFUNDS FOR TENANTS

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New York City tenants face significant hurdles to get their rent deposits back at a time when money is scarce for them and for the City.

New York City has approximately 2.3 million rental units.¹ Under New York law, landlords in buildings with six or more units are required to hold tenant security deposits in interest-bearing accounts at a bank within New York State, with tenants notified in writing of the account details and accrued interest to be paid back to tenants, less permitted administrative fees.² According to the New York City Comptroller's Office, the median asking rent on publicly listed apartments citywide rose to a record high of \$3,500 per month in 2023 and has remained near that level.³ At that figure, aggregate security deposits across the City's rental market—typically equal to one month's rent—represent a pool measured in the billions of dollars: capital that is legally unavailable to landlords, but is also currently generating no public benefit.

Under the current system, that capital sits idle and divided across thousands of private landlord accounts. When disputes arise over deposit returns, tenants must either file in small claims court or lodge a complaint in court or with the New York State Attorney General's Office⁴—both paths are time-consuming, legally demanding, and disproportionately difficult for low-income tenants without legal representation. The proposal advanced here would change this system fundamentally by establishing by default that tenants receive their deposit refunds from a City office or agency, rather than the landlord, and putting the onus on the landlord to prove any damages to the property.

Through mid-May, 2026, New York City was carrying a structural budget deficit of approximately \$5.4 billion⁵—a gap that was driving Mayor Zohran Mamdani to scale back the ambitious economic justice agenda on which he campaigned. A campaign proposal to double the staff of the Department of Consumer and Worker Protection (DCWP)—an agency that took on a significant portfolio of new enforcement responsibilities under recently enacted legislation—became a budget proposal to cut staffing during the City's budget crisis.⁶ Even in times of better fiscal health, the City has not historically prioritized funding for economic justice. Though budget cuts to essential services seem to have been averted,⁷ to deliver on promises made to working-class and low-income New Yorkers, the Mamdani Administration must identify new and reliable revenue streams.

The City has been exploring a number of options to increase revenue. The property tax is the one major revenue source the City directly controls and can increase without state authorization.⁸ But doing so is deeply unpopular across the political spectrum,⁹ and no mayor has raised property taxes in more than two decades.¹⁰

Taxing the rich is essential for funding public services and reducing inequities—but Governor Hochul has so far been opposed to raising personal income taxes on New York City’s highest earners, and there will have to be a coordinated campaign on all fronts to make that happen. The governor’s proposed pied-à-terre¹¹ tax on non-primary residences owned by wealthy nonresidents is a step in the right direction, but insufficient on its own to fund a comprehensive economic justice agenda.¹²

The City must think beyond the traditional revenue toolbox. The question is not simply how to reallocate economic burden, but how to identify and ignite revenue streams that have not yet been explored. One such opportunity—substantial in scale, and proven in practice elsewhere—lies in the billions¹³ of dollars in tenant security deposits currently held in private accounts across New York City’s rental market, generating no public benefit whatsoever. With two million units at an average \$3,000 deposit, we would be looking at \$6 billion in deposits. If the City were to invest the funds with 4 percent return, it could generate \$240 million in annual revenue.

A Centralized Rent Security Deposit Fund

The Core Proposal

Rather than allowing security deposits to remain scattered in private accounts, New York City—through state legislation—should require that all residential security deposits¹⁴ be lodged with a centrally managed government fund.¹⁵ The principal of each deposit would remain credited to the individual tenant and fully returnable at the end of the tenancy. The interest generated by the aggregated, professionally managed pool would flow into a dedicated public fund to support programs serving low-income New Yorkers, with an initial focus on housing legal services and tenant protection programs. Not all of the City's 2.3 million estimated rental units are subject to the requirement to keep deposits in interest-bearing accounts, but the legislation would have to cover all City landlords, regardless of building size/number of units, in order to maximize the revenue potential.

It is unclear how routinely New York City's landlords comply with the current requirements and the current individual interest entitlement is, for most tenants, illusory. When and if their landlords comply with the requirements to hold the rent deposits in interest-bearing accounts, tenants rarely recover any interest. That is because traditionally, interest rates in deposit accounts have been very low.¹⁶ With the proposed new structure, tenants who today wait months to recover their deposits through small claims proceedings could instead receive automatic refunds within days of a tenancy's end, unless the landlord files a documented claim. That is a meaningful improvement in tenants' lived experience, and one that does not require them to sacrifice anything of real value.

The Australian Model

Australia has operated a version of this system for decades, and the results illustrate the potential for the model. In every Australian state and territory—with the exception of the Northern Territory—residential tenancy bonds are not held by landlords or agents but are lodged with government-run bond authorities that hold the funds in trust until the end of the tenancy.¹⁷ The bond is returned to the tenant by default; if a landlord wishes to make a deduction for damage, unpaid rent, or cleaning costs, they must file a documented claim with the authority and substantiate it.

The scale of the funds involved is significant. In New South Wales alone, the Rental Bond Board currently holds approximately AUD\$2.29 billion in rental bonds, and at a conservative 5 percent interest rate the annual return

would easily exceed AUD\$100 million.¹⁸ Queensland’s Residential Tenancies Authority held over 631,000 bonds at a combined value of approximately AUD\$1.3 billion at the close of the 2024–25 financial year.¹⁹ Across all Australian jurisdictions, the aggregate interest generated by pooled bond funds runs to many tens of millions of dollars annually. The programs are not without criticism. Tenant advocates, in particular, have expressed frustration over the lack of transparency on how the funds are used.²⁰

The IOLA Precedent

We do not have to look outside New York City’s borders for inspiration. There is a domestic analog for this approach, one that has been operating in New York since 1983. The Interest on Lawyers’ Accounts (IOLA) program—also referred to as Interest on Lawyers’ Trust Accounts, or IOLTA, programs—requires attorneys to hold client funds that are nominal in amount or short in duration in pooled interest-bearing trust accounts. The interest flows to a state-designated foundation that funds civil legal services for low-income New Yorkers.²¹ IOLA’s current five-year grant cycle provides \$80.9 million in appropriations, and in the most recent reporting year IOLA grantees closed over 307,000 cases benefiting nearly 640,000 New Yorkers.²² Every state in the country, along with the District of Columbia and the U.S. Virgin Islands, operates a version of this program.²³

Administrative Structure

A critical question is how the program would be administered—specifically, how deposit refund disputes would be resolved at the end of a tenancy. Two broad models are worth considering, each with different tradeoffs between equity, efficiency, and cost.

The first option is to establish a new dedicated administrative tribunal, modeled on Australia’s bond authorities, with the power to receive landlord claims, evaluate documentation, and issue determinations. This would provide the most robust adjudication process, but it carries significant cost and lead time. Building a new agency from scratch requires capital investment, ongoing staffing, and legislative authorization—all challenging in a fiscal environment defined by a \$5 billion deficit. It would also invite legitimate criticism that the program is creating bureaucracy even as it purports to generate revenue.

A second option is to route deposit disputes through an existing administrative agency, most naturally the Department of Housing Preservation and Development (HPD) or the Office of Administrative Trials and Hearings (OATH). HPD enforces the NYC Housing Maintenance Code, invests in affordable housing, and provides rental and down payment assistance to New Yorkers.²⁴ OATH already adjudicates a wide range of civil and administrative matters for City agencies and has established procedures, experienced hearing officers, and

physical infrastructure.²⁵ Assigning deposit disputes to OATH would avoid the cost of building a new institution. The tradeoff is that OATH's caseload is already substantial, and a significant influx of deposit disputes—particularly in the program's early years—could strain capacity and slow resolution times.

A streamlined option could be used by either HPD or OATH: a documentation-based online process that places the burden squarely on the landlord. Under this model, the deposit is returned to the tenant automatically at the end of a tenancy unless the landlord files a claim within a defined window—say, fourteen days—through a digital portal administered by the agency. The landlord must upload supporting documentation, such as itemized repair invoices, photographs, or move-in and move-out inspection records. If no claim is filed, or if the documentation is facially insufficient, the deposit is released to the tenant. Disputed claims above a threshold amount could be escalated to OATH's administrative tribunal, but the expectation is that the documentation requirement would resolve the vast majority of cases without formal adjudication. This model requires minimal new staffing and creates strong incentives for landlords to maintain proper records throughout the tenancy. This model is also most consistent with the program's overarching goal: to generate net public revenue, not to create a new administrative apparatus that consumes the revenue it generates.

Conclusion

A centralized Rent Security Deposit Fund, modeled after Australia’s residential tenancy bonds, can facilitate faster and fairer rent deposits refunds to tenants, and also provide a new revenue stream to the City. This intervention does not raise taxes on working New Yorkers. It does not cut services. It pools billions of dollars in rent deposits into a professionally managed public fund, and directs the interest they generate toward programs that serve the City’s most vulnerable residents. The path forward runs through Albany, and it will not be easy. But the political case is strong: this is a reform that protects tenants, generates revenue, and costs the average New Yorker nothing.

Endnotes

- 1 *Housing Types*, NYC Rent Guidelines Board, <https://rentguidelinesboard.cityofnewyork.us/resources/apartment-hunting/housing-types/>.
- 2 New York General Obligations Law § 7-103.
- 3 Report, *Spotlight: New York City's Rental Housing Market*, Office of NYC Comptroller (Jan. 17, 2024), <https://comptroller.nyc.gov/reports/spotlight-new-york-citys-rental-housing-market/>.
- 4 *Recovering Rent Security Deposits and Interest*, Office of the New York State Attorney General, <https://ag.ny.gov/resources/individuals/tenants-homeowners/tenants/recovering-rent-security-deposits-and-interest>.
- 5 Nicole Galinas, *Unresilient City*, City Journal (Spring 2026), <https://www.city-journal.org/article/new-york-city-economy-spending-budget-deficit>.
- 6 Amir Khafagy, *Mamdani's Proposed Budget Threatens Cuts to Labor and Human Rights Agencies*, Documented (Mar. 12, 2026), <https://documentedny.com/2026/03/12/nyc-budget-guts-worker-protections/>.
- 7 Honan, Katie, *Mamdani Plugs \$12 Billion Budget Hole with Hochul Assist*, The City (May 12, 2026), <https://www.thecity.nyc/2026/05/12/124-billion-mamdani-budget-leaves-city-reserves-intact/>.
- 8 Brochure, *New York City Residential Property Taxes, Class 1*, NYC Department of Finance, https://www.nyc.gov/assets/finance/downloads/pdf/brochures/class_1_guide.pdf.
- 9 Sally Goldenberg, Benjamin Oreskes, and Jeffery C. Mays, *Mamdani Is Quietly Backing Away From a Threat to Raise Property Taxes*, New York Times (Mar. 25, 2026), <https://www.nytimes.com/2026/03/25/nyregion/mamdani-property-tax-increase.html>.
- 10 Mayor Bloomberg raised the property tax by 18 percent in 2013. Michael Cooper, *Mayor Signs Property Tax Increase Into Law*, New York Times (Dec. 3, 2002), <https://www.nytimes.com/2002/12/03/nyregion/mayor-signs-property-tax-increase-into-law.html>.

11 Press Release, *Governor Hochul Announces Pied-à-terre Tax Proposal for Luxury Second Homes Valued at \$5 Million or More*, Office of Governor Kathy Hochul (Apr. 15, 2026), <https://www.governor.ny.gov/news/governor-hochul-announces-pied-terre-tax-proposal-luxury-second-homes-valued-5-million-or-more>.

12 “The proposal is expected to generate \$5 million a year in revenue for the city.” *Id.*

13 See Report, *Insecurity Deposits: A Plan to Reduce High Entry Costs for NYC Tenants*, Office of the New York City Comptroller (July 15, 2018), https://comptroller.nyc.gov/wp-content/uploads/documents/Insecurity_Deposit_Report.pdf. There was approximately half a billion dollars in rent deposits in 2016 for new renters during that year. *Id.* This was over a decade ago when the median advertised rent was \$2,695. *Id.* (citing Report, *State of New York City’s Housing & Neighborhoods - 2017*, NYU Furman Center (2017). Since then, rents have gone up significantly, with the median asking rent in New York City registered at \$3,616 in Q1 2026. See, e.g., Jiayi Xu, Danielle Hale, *New York City Rental Report 2026Q1: The Real Cost of Moving in New York City*, Realtor.com (Apr. 28, 2026), <https://www.realtor.com/research/nyc-q1-2026-rent/>.

14 One question to address is whether this requirement should apply to all landlords of all sizes or be limited to the same universe of landlords that are currently required by law to maintain rent deposits in interest bearing accounts.

15 Whether the government fund is managed by the same office that handles rent deposit disputes is an issue that needs to be further studied.

16 Samantha Maldonado, *Getting Your Apartment Security Deposit Back: A Guide for New York Tenants*, The City (Sept. 11, 2024), <https://www.thecity.nyc/2024/09/11/security-deposit-return-landlords/>. As of May 2026, standard savings accounts in New York average low interest rates around (0.38 percent).

17 *Rental Bonds*, Department of Local Government, Industry Regulation, and Safety (Australia) (updated March 28, 2026), <https://www.consumerprotection.wa.gov.au/rental-bonds>.

18 Andy Kollmorgen, *Where do the millions in rental bond interest go?* Choice (Mar. 19, 2026), <https://www.choice.com.au/money/property/renting/articles/where-do-the-millions-in-rental-bond-interest-go>.

19 *Id.*

20 *Id.*

21 *About IOLA*, IOLA Fund of the State of New York, <https://www.iola.org/about-iola>.

22 *Interest on Lawyer Account (FY 2026)*, New York State Division of the Budget, <https://www.budget.ny.gov/pubs/archive/fy26/ex/agencies/appropdata/InterestonLawyerAccount.html>.

23 *Interest on Lawyers' Trust Accounts: Overview*, American Bar Association, https://www.americanbar.org/groups/interest_lawyers_trust_accounts/overview/.

24 *About HPD*, NYC Housing Preservation and Development, <https://www.nyc.gov/site/hpd/about/about-hpd.page>.

25 *Independent and Impartial Administrative Law Court*, NYC Office of Administrative Trials and Hearings, <https://www.nyc.gov/site/oath/index.page>.