

North Carolina Tenant Security Deposit Act: A Simple Guide for NC Landlords and Property Managers

Managing residential rental properties in North Carolina includes complying with North Carolina's Tenant Security Deposit Act. This article aims to make understanding the complexities of the Tenant Security Deposit Act a little easier. Let's dive in.

Do I Need a Real Estate License to Manage Property?

Most people and entities that manage residential rental properties are considered to be engaging in real estate brokerage and require a license. But there are some exceptions under North Carolina law.

You do **not** need a license if:

- You are managing or leasing property that you or your business owns.
- You are an attorney performing legal work (not routine property management).
- You are a court-appointed representative, like a trustee, executor, or guardian.
- You are a trustee handling property under a trust, deed of trust, or will.
- You are a salaried employee working for a licensed broker-property manager (within limits, see NCGS § 93A-2(c)(6)).
- You are a housing authority or its salaried employee working with property it owns or leases.

How to Comply with the North Carolina Tenant Security Deposit Act

1. Does the Act apply to you?

- It applies if you rent or manage residential property, even if you are unlicensed.
- **Exception:** Single rooms rented weekly, monthly, or annually.

2. Are you collecting a security deposit?

- This is not required, but if you do, there are limits on how much you may charge.
- **Deposit limits based on lease duration:**
 - Week-to-week: up to **2 weeks' rent**
 - Month-to-month: up to **1½ months' rent**

- Longer than month-to-month: up to **2 months' rent**

3. How to handle the deposit:

- **Option A: Trust Account**

- Use a licensed, federally insured bank or financial institution in NC.
- Out-of-state accounts must have an insurance bond (see below).

- **Option B: Bond**

- Obtain a bond from an insurance company licensed in NC. This option is NOT available to real estate brokers. If you are an owner, you may encounter difficulty finding an insurance company willing to issue such a bond.

4. Notify your tenant:

- Within 30 days of lease start, provide to your tenant:
 - Bank/institution name & address **or**
 - Insurance company name if using a bond (property owners only).

Handling Tenant Security Deposits at Lease End

At the end of a lease, as a property manager or owner, you must follow these rules when handling tenant security deposits:

1. Only deduct for tenant-caused damage

- You may deduct from the deposit only for actual damage the tenant caused.
- Do not deduct for ordinary wear and tear.

2. Understand “ordinary wear and tear”

- Normal aging or use of the property (e.g., worn carpet, plumbing, appliances) cannot be charged to the tenant.
- Tenants are not responsible for contributing to the normal deterioration of items.

3. Charge only for unusual or excessive damage

- If a tenant mistreats the property and causes damage, you may deduct the cost of repairing the additional damage, typically not the full replacement cost.

4. Cleaning and maintenance

- Charges for routine cleaning, painting, or carpet cleaning cannot be deducted.
- If the property is left in extreme disarray requiring extraordinary cleaning or restoration, the cost may be deducted from the security deposit. This is an extreme circumstance and should be documented with photos.

5. Return of Security Deposit and Accounting

- Within 30 days of tenancy termination, you must provide the tenant with either:
 - 1. A full refund, or
 - 2. A written itemized accounting of any deductions plus the remaining refund.
- If the total damage cannot be determined within 30 days, send:
 - 1. An interim accounting within 30 days, and
 - 2. A final accounting no later than 60 days after tenancy ends.
- Ensure tenants provide a forwarding address.
- If a tenant cannot be located, hold their deposit for at least six (6) months in your trust account.
- **Failure to comply can result in the following:**
 - 1. Tenants can sue for recovery of the deposit plus reasonable attorney fees.
 - 2. The forfeiture of the property owner's right to retain any portion of the deposit.

Property or Management Transfers

- If the property changes ownership during the lease term:
 - The original landlord must either refund the deposit to the tenant (after any proper deductions are made) or transfer it to the new owner to hold in trust until the termination of the tenancy.
 - The tenant must be notified in writing of the new owner's name and address.

- This must occur within 30 days of the transfer.
- If the landlord's broker/property manager collected the deposit and stops managing the property:
 - The broker must transfer the deposit to the landlord or, with landlord approval, to the new manager.
 - The broker must notify the tenant of the new location of the deposit and advise the landlord of their responsibilities under the Tenant Security Deposit Act.

Key Tips:

1. Document property condition at **move-in and move-out** with photos or videos.
2. Keep **detailed records** of all deposits, repair receipts and quotes, deductions, and communications.
3. Follow timing and accounting rules carefully to avoid disputes and legal issues.