

A Tenant's Guide To Recovery of Security Deposits Indiana

©2006 by Eric E. Willison and Andrew J. Ruzicho, II

all rights reserved

Chapter 1

I. Introduction to the Law

A. Two Sources of Law: Common Law and Statutes

There are two sources of law in any state, common law and statutory law. We all know what statutory law is. That is when the legislature gets together and enacts a statute for all residents of the state to obey. But before there is a statute covering a certain area though, there is the common law. Common law refers to court decisions covering that situation. In the absence of statutory guidance, courts tend to follow what other courts have already decided. They do this for reasons of consistency.

Before there was any specific statute in Indiana covering the subject of landlord tenant law, there were cases which determined the rights of landlords and tenants. The earliest cases were in keeping with the holdings of most other states not having landlord tenant laws. Those holdings determined that the tenant had almost no rights, and the landlord called almost all of the shots. The landlord could impose any conditions he wanted to upon the tenant by way of the lease agreement. If the tenant signed the lease agreement, then that was that and the tenant had to live with it.

For instance, if the lease contained no duty on the part of the landlord to repair the rented premises, and the furnace went out in January, then the tenant would be liable for repairing or replacing the furnace. There is an old case (not from Indiana, but it will serve to illustrate the example) where the judge wrote that there "is nothing at common law to prevent a landlord from renting a tumble-down house." The way the courts used to look at it, nobody was holding a gun to the tenant's head and forcing him to sign the lease agreement. If the parties intended that the landlord fix things, then they could have written that into the agreement.

Under the common law, if you placed a security deposit with the landlord, and the landlord did not return it, then you would have to sue for breach of contract. This would involve hiring a lawyer, going to court, winning, and then collecting upon the judgment you recovered. If your security deposit was for only \$750.00, you would very likely spend more in attorney's fees and lost time than you were likely to recover. Landlords knew all about this, and tended to keep security deposits, knowing that few people would sue out of principle.

B. Implied Warranties

But as the law evolved, courts began to realize that many tenants were

unsophisticated people. Some folks have trouble just reading, much less reading a contract with its \$64.00 words like “promissory,” “covenant,” and “estoppel.” Many courts also saw it as unfair that a tenant would have to pay to buy a new furnace for a landlord since the law of fixtures dictates that the tenant could not take the furnace with him when he left.

When a court looks at a contract, it construes the contract in accordance with the plain meaning of the terms, in order to get to what the parties to that contract actually meant to agree upon. Courts have a lot of discretionary power when doing this, and courts in Indiana started to use that discretionary power to imply certain terms into certain contracts, such as residential rental contracts. I use the word “imply” but I should actually say “pretend.”

What the courts will do is pretend that there is a clause in the residential rental agreement whereby the landlord promises that he will put and keep the rented premises in a fit and habitable condition for the tenant. This is called an “implied warranty of habitability.” This gave the tenants the right to claim that the landlord had breached an implied warranty of habitability if he refused to effectively fix a problem around the rented premises.

C. Enactment of the Landlord Tenant Statute

In 1881, the Indiana Legislature enacted the Indiana Landlord Tenant Act and later amended the statute in 2002. A security deposit is defined by Section 32-31-3-9 as "a deposit paid by a tenant to the landlord or the landlord's agent to be held for all or a part of the term of the rental agreement to secure performance of any obligation of the tenant under the rental agreement."

The term does not include (1) An amount paid for an option to purchase under a lease with option to purchase, unless it is shown that the intent was to evade this chapter or (2) An amount paid as a subscription for or purchase of a membership in a cooperative housing association incorporated under Indiana law.

The Act is fairly detailed concerning security deposits and the landlord's and tenant's obligations with respect to them. The text of the statute follows below.

1. The Text of the Statute

Indiana Code 32-32-3-9 and related sections cover the landlord’s duty to return security deposits. It is reprinted in its entirety below, and then I will provide a summary of what it all means for you. It’s hard to read statutes, so I’ll help you out.

IC 32-31-3-9

"Security deposit" defined

Sec. 9. (a) As used in this chapter, "security deposit" means a deposit paid by a tenant to the landlord or the landlord's agent to be held for all or a part of the term of the rental agreement to secure performance of any obligation of the tenant under the rental agreement.

(b) The term includes:

(1) a required prepayment of rent other than the first full rental payment period of the lease agreement;

(2) a sum required to be paid as rent in any rental period in excess of the average rent for the term; and

(3) any other amount of money or property returnable to the tenant on condition of return of the rental unit by the tenant in a condition as required by the rental agreement.

(c) The term does not include the following:

(1) An amount paid for an option to purchase under a lease with option to purchase, unless it is shown that the intent was to evade this chapter.

(2) An amount paid as a subscription for or purchase of a membership in a cooperative housing association incorporated under Indiana law.

IC 32-31-3-12

Return of deposits; deductions; liability

Sec. 12. (a) Upon termination of a rental agreement, a landlord shall return to the tenant the security deposit minus any amount applied to:

(1) the payment of accrued rent;

(2) the amount of damages that the landlord has suffered or will reasonably suffer by reason of the tenant's noncompliance with law or the rental agreement; and

(3) unpaid utility or sewer charges that the tenant is obligated to pay under the rental agreement; all as itemized by the landlord with the amount due in a written notice that is delivered to the tenant not more than forty-five (45) days after termination of the rental agreement and delivery of possession. The landlord is not liable under this chapter until the tenant supplies the landlord in writing with a mailing address to which to deliver the notice and amount prescribed by this subsection. Unless otherwise agreed, a tenant is not entitled to apply a security deposit to rent.

(b) If a landlord fails to comply with subsection (a), a tenant may recover all of the security deposit due the tenant and reasonable attorney's fees.

(c) This section does not preclude the landlord or tenant from recovering other damages to which either is entitled.

(d) The owner of the dwelling unit at the time of the termination of the rental agreement is bound by this section.

IC 32-31-3-13

Use of deposits

Sec. 13. A security deposit may be used only for the following purposes:

(1) To reimburse the landlord for actual damages to the rental unit or any ancillary facility that are not the result of ordinary wear and tear.

(2) To pay the landlord for:

(A) all rent in arrearage under the rental agreement; and

(B) rent due for premature termination of the rental agreement by the tenant.

(3) To pay for the last payment period of a residential rental agreement if a written agreement between the landlord and the tenant stipulates that the security deposit will serve as the last payment of rent due.

(4) To reimburse the landlord for utility or sewer charges paid by the landlord that are:

(A) the obligation of the tenant under the rental agreement; and

(B) unpaid by the tenant.

IC 32-31-3-14

Notice of damages; refund of remaining deposits

Sec. 14. Not more than forty-five (45) days after the termination of occupancy, a landlord shall mail to a tenant an itemized list of damages claimed for which the security deposit may be used under section 13 of this chapter. The list must set forth:

(1) the estimated cost of repair for each damaged item; and

(2) the amounts and lease on which the landlord intends to assess the tenant. The landlord shall include with the list a check or money order for the difference between the damages claimed and the amount of the security deposit held by the landlord.

IC 32-31-3-15

Remittance of full deposit

Sec. 15. Failure by a landlord to provide notice of damages under section 14 of this chapter constitutes agreement by the landlord that no damages are due, and the landlord must remit to the tenant immediately the full security deposit.

IC 32-31-3-16

Liability for withheld deposits

Sec. 16. A landlord who fails to comply with sections 14 and 15 of this chapter is liable to the tenant in an amount equal to the part of the deposit withheld by the landlord plus reasonable attorney's fees and court costs.

IC 32-31-3-17

Waiver of chapter

Sec. 17. A waiver of this chapter by a landlord or tenant is void.

IC 32-31-3-19

Sale of property; liability for deposits; exceptions

Sec. 19. (a) Unless otherwise agreed, if a landlord conveys, in a good faith sale to a bona fide purchaser, property that includes a dwelling unit subject to a rental agreement, the landlord is relieved of liability under law or the rental agreement as to events occurring after written notice to the tenant of the conveyance. However, for one (1) year after giving notice of the conveyance, the landlord remains liable to the tenant for the security deposit to which the tenant is entitled under section 14 of this chapter unless:

(1) the purchaser acknowledges that the purchaser has assumed the liability of the seller by giving notice to the tenant; and

(2) upon conveyance the seller transfers the security deposit to the purchaser.

(b) Unless otherwise agreed, a manager of a dwelling unit is relieved of any liability the manager might have under law or the rental agreement as to events occurring after written notice to the tenant of the termination of the manager's management.

2. Plain Meaning of the Statute

a. How much of a security deposit can my landlord charge?