

504B.178 INTEREST ON SECURITY DEPOSITS; WITHHOLDING SECURITY DEPOSITS; DAMAGES; LIMIT ON WITHHOLDING LAST MONTH'S RENT.

Subdivision 1. **Applicability.** Any deposit of money, the function of which is to secure the performance of a residential rental agreement or any part of such an agreement, other than a deposit which is exclusively an advance payment of rent, shall be governed by the provisions of this section.

Subd. 2. **Interest.** Any deposit of money shall not be considered received in a fiduciary capacity within the meaning of section 82.55, subdivision 26, but shall be held by the landlord for the tenant who is party to the agreement and shall bear simple noncompounded interest at the rate of three percent per annum until August 1, 2003, and one percent per annum thereafter, computed from the first day of the next month following the full payment of the deposit to the last day of the month in which the landlord, in good faith, complies with the requirements of subdivision 3 or to the date upon which judgment is entered in any civil action involving the landlord's liability for the deposit, whichever date is earlier. Any interest amount less than \$1 shall be excluded from the provisions of this section.

Subd. 3. **Return of security deposit.** (a) Every landlord shall:

(1) within three weeks after termination of the tenancy; or

(2) within five days of the date when the tenant leaves the building or dwelling due to the legal condemnation of the building or dwelling in which the tenant lives for reasons not due to willful, malicious, or irresponsible conduct of the tenant,

and after receipt of the tenant's mailing address or delivery instructions, return the deposit to the tenant, with interest thereon as provided in subdivision 2, or furnish to the tenant a written statement showing the specific reason for the withholding of the deposit or any portion thereof.

(b) It shall be sufficient compliance with the time requirement of this subdivision if the deposit or written statement required by this subdivision is placed in the United States mail as first class mail, postage prepaid, in an envelope with a proper return address, correctly addressed according to the mailing address or delivery instructions furnished by the tenant, within the time required by this subdivision. The landlord may withhold from the deposit only amounts reasonably necessary:

(1) to remedy tenant defaults in the payment of rent or of other funds due to the landlord pursuant to an agreement; or

(2) to restore the premises to their condition at the commencement of the tenancy, ordinary wear and tear excepted.

(c) In any action concerning the deposit, the burden of proving, by a fair preponderance of the evidence, the reason for withholding all or any portion of the deposit shall be on the landlord.

Subd. 4. **Damages.** Any landlord who fails to:

(1) provide a written statement within three weeks of termination of the tenancy;

(2) provide a written statement within five days of the date when the tenant leaves the building or dwelling due to the legal condemnation of the building or dwelling in which the tenant lives for reasons not due to willful, malicious, or irresponsible conduct of the tenant;

(3) transfer or return a deposit as required by subdivision 5; or

(4) provide the tenant with notice for an initial inspection and move-out inspection as required by section 504B.182, and complete an initial inspection and move-out inspection when requested by the tenant,

after receipt of the tenant's mailing address or delivery instructions, as required in subdivision 3, is liable to the tenant for damages in an amount equal to the portion of the deposit withheld by the landlord and interest thereon as provided in subdivision 2, as a penalty, in addition to the portion of the deposit wrongfully withheld by the landlord and interest thereon.

Subd. 5. Return of deposit. Upon termination of the landlord's interest in the premises, whether by sale, assignment, death, appointment of receiver or otherwise, the landlord or the landlord's agent shall, within 60 days of termination of the interest or when the successor in interest is required to return or otherwise account for the deposit to the tenant, whichever occurs first, do one of the following acts, either of which shall relieve the landlord or agent of further liability with respect to such deposit:

(1) transfer the deposit, or any remainder after any lawful deductions made under subdivision 3, with interest thereon as provided in subdivision 2, to the landlord's successor in interest and thereafter notify the tenant of the transfer and of the transferee's name and address; or

(2) return the deposit, or any remainder after any lawful deductions made under subdivision 3, with interest thereon as provided in subdivision 2, to the tenant.

Subd. 6. Successor in interest. Upon termination of the landlord's interest in the premises, whether by sale, assignment, death, appointment of receiver or otherwise, the landlord's successor in interest shall have all of the rights and obligations of the landlord with respect to the deposit, except that if tenant does not object to the stated amount within 20 days after written notice to tenant of the amount of deposit being transferred or assumed, the obligation of the landlord's successor to return the deposit shall be limited to the amount contained in the notice. The notice shall contain a stamped envelope addressed to landlord's successor and may be given by mail or by personal service.

Subd. 7. Bad faith retention. The bad faith retention by a landlord of a deposit, the interest thereon, or any portion thereof, in violation of this section shall subject the landlord to punitive damages not to exceed \$500 for each deposit in addition to the damages provided in subdivision 4. If the landlord has failed to comply with the provisions of subdivision 3 or 5, retention of a deposit shall be presumed to be in bad faith unless the landlord returns the deposit within two weeks after the commencement of any action for the recovery of the deposit.

Subd. 8. Withholding rent. No tenant may withhold payment of all or any portion of rent for the last payment period of a residential rental agreement, except an oral or written month to month residential rental agreement concerning which neither the tenant nor landlord has served a notice to quit, or for the last month of a contract for deed cancellation period under section 559.21 or a mortgage foreclosure redemption period under chapter 580, 581, or 582, on the grounds that the deposit should serve as payment for the rent. Withholding all or any portion of rent for the last payment period of the residential rental agreement creates a rebuttable presumption that the tenant withheld the last payment on the grounds that the deposit should serve as payment for the rent. Any tenant who remains in violation of this subdivision after written demand and notice of this subdivision shall be liable to the landlord for the following:

(1) a penalty in an amount equal to the portion of the deposit which the landlord is entitled to withhold under subdivision 3 other than to remedy the tenant's default in the payment of rent; and

(2) interest on the whole deposit as provided in subdivision 2, in addition to the amount of rent withheld by the tenant in violation of this subdivision.

Subd. 9. **Action to recover deposit.** An action, including an action in conciliation court, for the recovery of a deposit on rental property may be brought in the county where the rental property is located, or at the option of the tenant, in the county of the landlord's residence.

Subd. 10. **Waiver.** Any attempted waiver of this section by a landlord and tenant, by contract or otherwise, shall be void and unenforceable.

Subd. 11. **Tenancies after July 1, 1973.** The provisions of this section shall apply only to tenancies commencing or renewed on or after July 1, 1973. For the purposes of this section, estates at will shall be deemed to be renewed at the commencement of each rental period.

History: 1999 c 199 art 1 s 16; 2000 c 282 s 1; 2003 c 52 s 2; 2004 c 203 art 2 s 61; 2008 c 177 s 2; 2009 c 123 s 4; 2010 c 315 s 6; 2023 c 52 art 19 s 85