

ARDONLINE FEATURES

Emerging concerns about homeowner's insurance

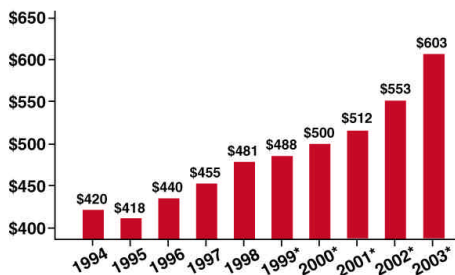
By K. Michelle Lind

Homeowner's insurance is generally required to obtain a loan and close escrow on a home purchase. Most loan documents require homeowners to maintain homeowner's insurance for the term of the loan. Recently, buyers are reporting difficulty obtaining the necessary insurance. The Arizona Association of REALTORS® ("AAR") has asked the NATIONALASSOCIATION OF REALTORS® ("NAR") to investigate these problems from a national perspective. AAR has also contacted the Arizona Department of Insurance and continues to look for solutions to these emerging concerns.

Rising premiums

Homeowner's insurance premiums are rising dramatically. The following Insurance Information Institute chart illustrates the increasing cost of homeowner's insurance over the last ten years.

AVERAGE EXPENDITURE ON HOMEOWNERS INSURANCE



* III Estimates

Source: NAIC, Insurance Information Institute.

The Insurance Information Institute reports that the number of recent catastrophes, the high cost of home repairs, the aging of the housing stock and mold claims are responsible for the increasing rates.

In response to the mold claims, federal legislation has been introduced (HR 5040) that calls for the Environmental Protection Agency to establish guidelines to identify conditions that facilitate indoor mold growth, measures to prevent mold growth, identify acceptable levels of mold in a home, and establish professional standards for mold inspectors. The proposed legislation would also establish an insurance pool that would cover the costs associated with toxic mold cleanup for people who opt to purchase the additional coverage from the pool.

Advocates of this legislation claim that this legislation would result in lower insurance premiums.

Homeowner's insurance in areas affected by wildfires

Some insurers have stopped selling new insurance in the areas affected by the recent wildfires in northern Arizona. AAR continues to monitor this situation. Department of Insurance Director Charles Cohen has been quoted as stating, "I am very concerned about the moratoria placed on new business by insurers in the area of the Chediski-Rodeo fires. A cessation in selling new insurance coverage while a loss is actually occurring is understandable but should be as temporary and restricted as is absolutely necessary."

The Department has published information to assist wildfire victims with insurance issues. The Department's information may be [accessed online](#) or by calling 602-912-8444 or 800-325-2548.

Canceling policies based on claims history

The insurance industry reportedly has been canceling policies on homeowners who they characterize as having filed too many claims. Some insurers have begun investigating the property itself, and if the property has had too many claims in the past, they are declining to insure it. There have also been reports of homebuyers having their homeowner's insurance canceled after closing escrow on a home purchase because of the insurance claims previously submitted by the seller of the home. Again, the claims that appear to be of most concern to insurers have to do with mold and conditions conducive to mold, such as water damage.

The Department of Insurance states that Arizona law does not appear to prohibit an insurer from canceling a homeowner's policy in the first sixty days of the policy based on the claims history of prior owners. An insurer can generally cancel a homeowner's insurance policy in the first sixty days after issuance for any reason. See A.R.S. §20-1652. However, if an insurer cancels a policy based on the prior owner's claim history after the policy has been in effect for 60 days, the buyer should file a complaint with the Department of Insurance.

Once the policy has been in effect for 60 days, an insurer can only cancel a policy mid-term for:

- Nonpayment of premium.
- Conviction of a crime that increases the hazard insured against.

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- Fraud or material misrepresentation in obtaining the policy, continuing the policy, or presenting a claim under the policy.
- Grossly negligent acts or omissions substantially increasing any of the hazards insured against.
- Substantial change in the risk assumed by the insurer, since the policy was issued, except to the extent that the insurer should reasonably have foreseen the change or contemplated the risk in writing the contract.
- A determination by the director of insurance that the continuation of the policy would place the insurer in violation of the insurance laws of this state.
- Failure to take reasonable steps to eliminate or reduce any conditions in or on the insured premises which contributed to a loss in the past or will increase the probability of future losses.
- At policy renewal time, an insurer can generally refuse to renew a policy for any reason except for reasons related to a condition of the premises. If a non-renewal is based on condition of the premises, the insurer must give the homeowner thirty days notice to remedy the identified conditions. If the identified conditions are remedied, coverage must be renewed. If the identified conditions are not satisfactorily remedied within thirty days, the insurer must give the homeowner an additional thirty days, upon payment of premium, to cure the defective condition.

Buyers should consider investigating a homes' claims history

A home's insurance claim history may be obtained from the [Comprehensive Loss Underwriting Exchange \("CLUE"\)](#), a shared repository containing 90 percent of the insurance claims made in the United States. CLUE generally tracks claims going back for five years and provides information on the cause of loss and the claim amount.

Homeowners have the right to request a CLUE report on their own property, but buyers do not have the right to the report until they close escrow. However, buyers should consider asking sellers for a copy of the home's CLUE report before submitting an offer or during the contract inspection period. If the report will not be available until after the inspection period, a buyer can make an offer contingent upon review and approval of the report.

A CLUE report costs \$8. The [report may be obtained online](#) or by calling 800-456-6004 or 866- 527-2600. Currently, it will take a week to ten days to receive the report. The company that maintains this information indicates there will be instant access to these reports (for a fee) online in the future.

To file a complaint or obtain additional information

To file a complaint with the Arizona Department of Insurance, include your name, address and telephone number; the name of the company or agent about which you are complaining; the policy number and the type of insurance and a description of the problem and send it to:

Consumer Services Division
Arizona Department of Insurance
2910 N. 44th St. Suite 210
Phoenix, Arizona 85018-7256
OR call the Department: Phoenix, 602-912-8444; Tucson, 520-628-6370; Statewide, 800-325-2548

OR visit the [Department's website](#)

For additional insurance information, contact the [Insurance Information Institute](#).

Finally, AAR is considering other possible actions to address these concerns, such as adding information about homeowner's insurance to the [Buyer Advisory](#) and determining

whether information on claims history should be elicited in the Seller's Property Disclosure Statement. In the meantime, educate yourself and your clients about these issues. ▲

Refinancing: it's not just about the interest rate

Most people refinance their mortgage to take advantage of lower interest rates and reduced monthly payments — but those are not the only reasons to consider trading in an old mortgage for a new one. The [Arizona Society of CPAs](#) has identified other reasons why refinancing makes sense and offers advice on getting the best deal.

Give up your ARM

When rates are high, many homeowners choose adjustable rate mortgages (ARMs) to take advantage of low initial rates. But ARMs come with the risk that interest rates could rise and significantly increase the cost of your loan. By refinancing your ARM with a fixed-rate mortgage, you can lock in a low interest rate and predictable monthly payments for the life of the loan. Although rates have edged up slightly, switching to a fixed-rate mortgage may still be best for you if you plan to stay in your home for a long period.

Borrow cheaply

If you need a significant amount of cash to pay off high-interest credit card debt, make home improvements, or pay college tuition bills,

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