

THE INSURANCE AVAILABILITY CRISIS: SURVIVAL TIPS FOR REALTORS®

It's no secret. Homeowners' insurance is a lot harder to get these days. Faced with losses from natural disasters, and fearful of the recent surge in mold-related claims, insurers are being far more cautious when writing residential policies. What was once a minor issue in real estate transactions is now becoming a frustrating source of delay in many cases.

Fortunately, progress is being made. C.A.R., the National Association of REALTORS®, and other allied industry groups are working with the insurance industry and legislators to find a rational solution to this problem, and the prognosis for a workable solution is good. In the meantime, however, problems persist, and REALTORS® must be prepared for the potential pressures that this crisis can place upon their transactions.

Whether you represent buyers or sellers, there *are* things your clients can do to minimize the impact of this crisis. Here are some commonsense tips worth considering.

TIPS FOR SELLERS

1. Gather Claims History. A property's insurability may turn on its seller's prior insurance claims. Therefore, your client's first step should be to review his or her prior claims history *early*, before offers are made on the property.

- Your client should first review his or her own records. Many sellers will have maintained records of their prior dealings with insurance carriers.
- Next, your client may want to check with his or her insurance agent for additional assistance in establishing a complete claims history.
- Another option is C.L.U.E.-the Comprehensive Loss Underwriting Exchange. C.L.U.E. reports provide insurers with detailed claims histories for insurance applicants, and are widely used by the insurance industry. For a fee, your seller can obtain much of the same claims data that insurers rely on. The C.L.U.E. report can be obtained from ChoicePoint Services Inc. at www.choicetrust.com, or an "A+" report.
- Clients should not use a homeowner's policy like a home warranty. They should save it for catastrophic events, and not be applied to small claims or wear and tear.

2. Disclose, Disclose, Disclose. Your client now knows his or her claims history. What's next? It's time to do something useful with that information.

- Consider any disclosures provided by the seller. He or she may disclose known insurance claims (as required by C.A.R.'s Residential Purchase Agreement), and may even provide supporting documentation (e.g., a C.L.U.E. or "A+" report).
- Once again, your client's insurance broker may be able to assist, this time to assess the property's insurability. Your client should provide him or her with any information needed.
- Now it's time to consider the insurance options the broker offers. Depending on the buyer's and property's combined risk profile, those options may be plentiful or scarce, affordable or costly.
- If it looks like your client is going to encounter obstacles to finding insurance, hopefully the steps he or she has taken thus far have illuminated those obstacles well in advance of closing. Your client's insurance broker can now discuss meaningful insurance alternatives, including out-of-state, or even out-of-country insurers. In particularly difficult cases, California's Fair Plan might provide a viable source of coverage.

By sharing these simple recommendations with your clients, you may save them some unnecessary frustration, and may even save a deal or two. The insurance availability crisis shall pass. But in the meantime, it's good to know that REALTORS® can make a difference for their clients.

TIPS FOR BUYERS

1. **“Pre-Qualify”**. Nowadays, obtaining insurance is much like qualifying for a loan. Your buyer’s first step is to get “qualified.”

- “Apply” early. Your clients need not wait until they’re in escrow to get working on their insurance needs. Last-minute insurance surprises in escrow are frustrating at best, and potential deal breakers at worst! Late application guarantees that the escrow will close on the strength of a “binder,” a 60-day temporary policy that can be cancelled or re-negotiated even after the close of escrow.
- Your client needs to explore insurance options. An insurance broker can work with your buyer to assess his or her insurability, and outline the various insurance alternatives that might be available. If your buyer has an insurance broker, now is the time to give him or her a call. Your client may have lost contact with the broker, or may never have had one. If that’s the case, this might be a good time for your client to engage the services of a reputable broker.
- At this point, your client may be able to estimate his or her insurance costs. You won’t have exact figures at this point, but an insurance broker can help your client gain a basic understanding of the costs of the various insurance options available to him or her.

2. **“Qualify” the Property**. Your buyer now has a fairly good idea of his or her insurance options. Once your buyer is in escrow, the next step is to determine the *property’s* insurability.

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- Once again, your client’s insurance broker may be able to assist, this time to assess the property’s insurability. Your client should provide him or her with any information needed.
- Now it’s time to consider the insurance options the broker offers. Depending on the buyer’s and property’s combined risk profile, those options may be plentiful or scarce, affordable or costly.
- If it looks like your client is going to encounter obstacles to finding insurance, hopefully the steps he or she has taken thus far have illuminated those obstacles well in advance of closing. Your client’s insurance broker can now discuss meaningful insurance alternatives, including out-of-state, or even out-of-country insurers. In particularly difficult cases, California’s Fair Plan might provide a viable source of coverage.

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