



PROPERTY INSURANCE BASICS

WHAT YOU SHOULD KNOW



Q: HOW CAN INSURANCE AFFORDABILITY AFFECT THE REAL ESTATE TRANSACTION?

A: The affordability and availability of insurance affects both buyers and sellers. Buyers will typically obtain mortgage financing to pay for the purchase of the property. The lender will require property insurance to cover their interest in the property. If proof of insurance is not available at closing, the lender may refuse to release the funds and therefore delay or even derail the transaction. Even in a "cash" transaction, the buyer may be hesitant to complete a transaction where insurance is not available to cover the buyer's equity in the property.



Q: HOW DOES THE INSURANCE COMPANY KNOW THAT CLAIMS HAVE BEEN FILED IN CONNECTION WITH THE PROPERTY?

A: Approximately 90% of all insurance companies contribute information regarding claims to an insurance industry database. When underwriting a new policy, the insurance company may obtain a report from this system to determine the property's claims history. This report is most often identified as a comprehensive loss underwriting exchange report or a "CLUE Report". The report contains information regarding property claims filed in connection with a particular property and claims filed by an injured person. For a fee, the current owner of the property may obtain a copy of this report through companies such as Choice Point, Inc., either by writing to Choice Point, Inc. located in Alpharetta, GA or by going to their website, choicetrust.com, and A-Plus, either by writing to A-Plus located in Jersey City, NJ or by calling them at 800.709.8842.

Note: Property insurance, often called hazard insurance or homeowners, insurance generally does not include flood insurance.



Q: WHEN SHOULD A BUYER APPLY TO OBTAIN AN INSURANCE POLICY TO COVER THE PROPERTY BEING PURCHASED?

A: The buyers should begin their search for insurance no later than the time that the contract of purchase is signed. This helps to assure a firm commitment for the issuance of a policy well in advance of the settlement of the transaction. Waiting until the last days or even weeks before the closing can limit the opportunities buyers and sellers have to address the affordability/availability and, if needed, to find alternatives for difficult to insure properties. There have been transactions which have been adversely affected in some manner because of problems associated with insurance availability/affordability.



Q: WHAT KINDS OF EVENTS/RECORDS CAN AFFECT THE ABILITY TO OBTAIN INSURANCE ON A PROPERTY BEING PURCHASED?

A: Several factors can affect the availability and cost of homeowner insurance on a property being purchased. They include:

- a. Past claims filed on the property. (The law limits companies from refusing to underwrite policies for 3 years, but there is no limitation on how long a claim can be used to determine price)
- b. Poor insurance score of the prospective buyer
- c. Past claims filed by the buyer on another property
- d. Physical characteristics of the property (e.g., leaky roof, historical)
- e. Characteristics of the property's location (e.g. proximity to a fire station, regional weather conditions)



Q: SHOULD I GET A COPY OF THE CLUE REPORT?

A: While the decision is up to the property owner, it is important to understand the limitations of the report. The report only contains raw information. How that information will affect the insurability of a property can't be explained as a part of the report. Moreover, not all insurance companies use the report and those that do use it don't all use the information the same way. As a result, having the report may not enable you to predict whether a company will insure the property. If you want information on how a CLUE Report or other similar report may affect your ability to obtain insurance, contact your insurance agent.



Q: CAN AN INSURER RATE MY INSURANCE RISK BASED ON MY CREDIT SCORE?

A: No. In Maryland, insurance companies are prohibited from using credit scores to determine a property owner's insurance risk.



Q: IF I HAVE A QUESTION ABOUT INSURANCE PRACTICES OR THE LAW, WHO SHOULD I CONTACT?

A: The Maryland Insurance Administration has a consumer complaint line for all forms of insurance. In the case of homeowners insurance, you would contact the Consumer Complaints Department for Property and Casualty at (410) 468-2340, or visit their website <https://insurance.maryland.gov>.



Q: ARE THERE FACTORS UNIQUE TO A BUYER THAT AFFECT THEIR ABILITY TO OBTAIN INSURANCE?

A: Yes. Although not used by all insurance companies in determining eligibility for insurance, some companies do review the claims filed by the buyer on properties owned by the buyer during the preceding five years. This is another aspect of the CLUE Report database that focuses upon the insured individual rather than the insured property.

Another more controversial factor is the use of Insurance Scores. Insurance Scores, which are formulas developed by insurance companies to predict the likelihood of an individual filing claims, are sometimes used to determine to whom or at what price an insurance policy will be issued.

Insurance scores are not standardized within the insurance industry and both how they are calculated and how they are used is generally not known outside of the individual insurance company. If you want additional information on how insurance scoring may affect your ability to obtain insurance, contact your insurance agent.

TRANSACTION CHECKLIST INSURANCE ISSUES

- ✓ Discuss your current insurance market conditions with your insurance agent and any problems you may have in obtaining insurance on the home you are purchasing.
- ✓ Review offer to purchase to identify insurance issues.
- ✓ Contact one or more insurance agents immediately after the contract is formed to begin the process of obtaining necessary insurance.
- ✓ Obtain a written commitment to issue an insurance policy from an insurance company and carefully review it with your attorney or insurance agent to determine the scope of that commitment.
- ✓ Be aware of alternative insurance sources that may be available if a problem develops:
 - ✓ Know available sources of insurance (i.e. what other insurance companies are in the market by calling different insurance agencies in the community).
 - ✓ Check with Seller's current insurer to determine if that insurer will continue to insure property with new owner.
 - ✓ Check with Buyer's current insurer to determine if that insurer will continue to insure buyer in a new property.
 - ✓ Alternative forms of coverage that may allow the transaction to proceed may be obtained by contacting the Maryland Joint Insurance Association, (410) 539-6808 or by going to the website mdjia.org

