

Homeowners beware of insurance issues

Going into '05, keep wits about

COMMENTARY



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With 2004 merely a memory, the Nashville area residential market braces for another record year.

There are several significant developments within the industry that have carried over into 2005. The most daunting of the changes are: the homeowner's insurance situation, the decision of lenders to forego mortgage loan surveys, and an overhaul of the termite inspection procedures.

In the past, acquiring homeowner's insurance required only a telephone call to an insurance agent who would "bind" the policy verbally over the phone and fax a copy of the binder to the closing attorney.

Now, however, things have changed with the evolution of the Comprehensive Loan Underwriting Exchange (CLUE). The CLUE report is a number based on the value assigned to a person seeking insurance based on their likelihood to file a claim.

The CLUE report includes any claims that the homeowner has filed on any property, and can deny insurance based on those claims. There are cases where insurance has been denied to applicants that have paid insurance premiums for years, but have filed claims in the recent past. The claims were paid, but insurance denied on a later purchase, even though the claims were legitimate.

Therefore, in today's homeowner's insurance environment, claims should only be filed when a major expense is involved.

caused enough problems, the houses themselves are scrutinized by the insurance companies. If a former homeowner filed multiple claims while residing in the property, the companies may often deny coverage. Consequently, some real estate contracts now include a provision stating that the purchase is contingent on the buyer's ability to secure adequate insurance coverage on the property.

Another change that has become more prevalent in the transfer of real estate is the decision of lenders to abandon the requirement that a mortgage loan inspection be provided on real estate purchases. Surveyors that

inspected the property to determine if there were any encroachments on the property or if the property itself encroached upon a neighbor's property provided these inspections.

With no mortgage loan inspection, buyers and lenders are exposed to potential liability as to boundary disputes. If, after closing, the property is found to encroach upon a neighbor's property, the new owner has no remedy other than to cure the encroachment.

According to several experts, if the lot is anything other than a cookie cutter type lot, a staked survey should be performed prior to closing so that the title insurance will not include the exception for boundary disputes.

The good news is that the hospitals are not filled with homeowners stricken by mold poisoning, no home covered with an exterior insulation and finish systems (EIFS, or Dryvit) have tumbled to the ground, the Viridian is under construction with over 200 units under contract. The sky is not falling, merely being scraped. **CP**

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