

TEXAS NEIGHBORHOODS TOGETHER

SUPPORT

Homeowners Insurance Reform

Recommendation

Support legislation to insure accessibility and affordability of homeowners insurance to the citizens of Texas.

Background

Insurance companies use credit reports to investigate the claims histories of potential policyholders for both home and auto coverage. If a potential buyer is interested in a property with a prior claim listed on the CLUE Report, such as a leak in the foundation or hail damage, the house may be rendered uninsurable. A lender will not provide the buyer with a mortgage unless the house is insured. The seller's only recourse is not to sell at all or walk away from the mortgage. Remembering the large number of foreclosures in the late 1980s when the investment rules changed must give pause to this current circumstance.

The use of credit scoring is grossly unfair for rating homeowners' insurance — especially for older homeowners who tend to use cash rather than credit and pay their bills on time, but results in a low credit score. The scoring system itself is subject to multiple errors that negatively affect a score, such as duplicate listings of debts and erroneous entries. Generally, only surplus lines will provide insurance for properties or owners with prior claims histories or with low credit scores. Because of high cost, insurance with a surplus line is less than desirable. These conditions have the potential to cause thousands of neglected or abandoned homes throughout Texas, creating a burden on lending institutions, municipalities, individual homeowners, and the State government.

The Legislature passed a partial fix on the issue of credit scoring in the 2005 legislative session. Unfortunately, this fix did not go far enough. *Texas Neighborhoods Together* calls for a complete ban on the use of credit scoring.

Additionally, homeowners' insurance rates have continued to increase despite the fact that coverage has decreased. *TNT* also calls on the Legislature to protect homeowners from skyrocketing rates by requiring that insurance companies justify rate increases and attain approval before they go into effect.

Impact

The residential property market will remain viable, homeowners will not suffer, foreclosures will not increase, and the economy will not be impacted due to lack of homeowner insurance coverage.

[* The CLUE® database tracks claims on properties and property owners. CLUE® is a voluntary repository supplied by carriers of homeowner's insurance policies for the nation. It can tell an inquiring insurer the name and address of the policyholder and whether there has been a claim for water, earthquake, tornado, fire and other losses, and the damage claim amount paid. If the insurer thinks the house is a poor risk for another catastrophe, a homeowner's policy can be refused to the buyer. Without insurance, the buyer cannot get a loan, which precludes the sale.]