



RealEstateJournal

THE WALL STREET JOURNAL *Guide to Property*

Filing Claims Renders Some Homes Uninsurable

By **CHRISTOPHER OSTER** and **JEFF D. OPDYKE**
Staff Reporters of The Wall Street Journal

From [*The Wall Street Journal Online*](#)

June 5, 2002 -- It's not you, it's your house. That's the harsh message being delivered by insurers to a growing number of homeowners.

The insurance industry has been cracking down on individuals who file too many claims. Now companies from State Farm to Nationwide are focusing on the houses themselves. Even if you have a squeaky-clean insurance record, the home you own -- or the home you want to buy -- may be tough to insure because it has had too many claims in the past.

For consumers, it is the latest development from an increasingly hostile insurance industry. Insurers were hit with \$8.9 billion in home-related underwriting losses last year, and they are taking aggressive steps to make sure they don't get hit again.

The change has broad implications for how homes are bought and sold. Getting insurance is almost always a prerequisite to buying a home and securing a mortgage, but some buyers are now having trouble doing so for homes with repeated claims. Homes that have been hit by water damage, storm damage and burglaries are particularly vulnerable to rejection.

In some areas, a home is "automatically rejected" if it has two or three claims of any sort in the past three years, says Sharon Emek, an independent insurance agent in New York.

Earlier this year, Michael DeLuke, a 31-year-old Dallas consultant, offered to buy a 1960s ranch home for \$225,000. He called Nationwide Insurance, which had carried his car and renters policies for years, and was quoted an annual premium of about \$1,900. However, when he informed Nationwide a week later that the deal was a go, an agent quickly called back to say the company wouldn't write the policy.

Mr. DeLuke says his own record was clean, but the home had several claims for water damage, including an \$18,000 payout in February 2001 for leaky plumbing in the kitchen and master bath. "I was aghast and frustrated," says Mr. DeLuke. "I knew I had a perfect claims history." Nationwide declined to comment.

At the heart of the problem is a little-known industry database called CLUE. The Comprehensive Loss Underwriting Exchange is a shared industry repository containing 90% of the insurance claims made in the U.S. While insurers have used CLUE for years to assess the risk of individuals, the big change is that they are now subjecting homes to extensive background checks.

Owners have the right to request the CLUE report on their property, but it can take weeks to get them. Starting this fall, however, they will be able to access the CLUE reports instantly over the Internet for between \$10 and \$15.

Buyers don't have the legal right to view the CLUE report until they close the purchase. But they can request that the owner provide them with the CLUE report before they agree to buy the house. Few homeowners do this today. But Realtors and insurers say CLUE reports may soon become nearly as common in a real-estate transaction as appraisals.

Risk Pool

State Farm, the nation's largest home insurer, with policies covering about one in five homeowners, now routinely checks CLUE reports on houses as well as homeowners as part of its underwriting process. Nationwide Insurance implemented a similar policy in certain markets.

"We do not want to bring into our pool of premiums a known risk, something we know we're going to have to pay down the road because of lingering water damage," a State Farm spokesman explains. (At some point, a house's claims history is no longer considered. The CLUE system generally tracks claims going back five years.)

The insurance industry paid out hundreds of millions of dollars in mold claims last year, and that is why insurers are particularly leery of water-damage claims. "Every company we represent is requiring us to pull reports on customers and properties," says James Armitage, an independent insurance agent in South Pasadena, Calif. "If you see a water claim on it, forget it."

When Connie and Vince Lambres went to sell their Truckee, Calif., home in January, the paperwork was all but finished when the buyer encountered a problem. His insurer wouldn't issue a policy on the house. It had a water-damage claim on record. But the Lambres never received a dime in insurance money. In February 2000, Ms. Lambres had called her insurer, State Farm, after noticing water bubbling up near her driveway, the result of a water-line break when a city work-crew nicked a pipe while doing some digging. The city corrected the problem, which caused no damage to the house, so State Farm had no claim to settle.

'A Hassle'

Yet, with the house all but sold, she discovered her phone call was a permanent part of her State Farm claims record. The potential buyer wound up going with another insurer, and Ms. Lambres dumped State Farm. "It was a hassle," she says. A State Farm spokesman said the company doesn't comment on specific policyholders.

Rejected homeowners often have to seek coverage from a nonstandard carrier, such as Lloyd's of London, or in high-risk pools that serve as insurers of last resort. Either way, the premium is going to be much higher, double or triple the amount of a regular policy.

Mr. DeLuke of Dallas was forced to go with a high-risk carrier when Nationwide and other insurers refused to write a policy on the house he wanted to buy. His premium is \$2,044 a year, and his coverage is barebones. It excludes water damage and has a deductible that requires him to front as much as \$6,000 depending on the type of claim. Also, instead of replacing lost items at full value, he will get only their depreciated value in the event of damage.

