

East Valley Realtor®



OCTOBER NEWSLETTER 2009

Underinsurance: Myth or Method?

If your home is currently “worth” \$100,000 and your insurance coverage is valued at \$200,000 should you lower it to save a few dollars in premium? Is it worth saving a few dollars in premium only to end up possibly spending much more in the event of an accident? But, what if your mortgage balance is only \$160,000 but your insurance coverage is up to \$200,000 should you lower it to make them match?

The answers are no, no, and no way!

It seems in this economy everybody is looking for ways to lower costs. And sadly, yes the real estate values are not what they were two and three years ago. However, one of the biggest misconceptions when insuring a home is the word VALUE. I find myself saying the following verbiage almost every day: homeowner’s insurance coverage does not follow market trends. Very simply explained; the cost of the small manor you purchased in 2002 at \$200 per sq ft which is now valued at \$125 per sq ft will take the same amount of construction materials at the same price if not more than they were in 2002 to rebuild your home-sweet-home. And I haven’t even touched on the subjects of debris removal and contractor’s labor rates included in the bottom line...

So then what about that mortgage balance whispering sweet nothings in your ear once a month? Most people believe that their insurance is projection against the loan on their home. This is incorrect as well. That is what mortgage insurance (M.I.) is for. Homeowner’s insurance protects your dwelling and structures in an event of a loss and pays you to rebuild a comparable structure to the one you lost. Insurance is meant to get you back to the place you were before.

Occasionally it is true that a home is covered for too much and it is usually due to a lender requirement. If you find a lender is requiring you to carry an amount of coverage equal to the balance of your loan or more, there is a code that states that no lender can require more insurance of a borrower that the property is valued for replacement. The civil code section 2955.5 states “no lender shall require a borrower, as a condition of receiving or maintaining a loan secured by real property to provide hazard insurance coverage against risks to the improvements on the real property in an amount exceeding the replacement value of the improvements on the property”.

Source, Stefanie L.Hendrix, lic.0e14535, Klocek Insurance Agency.

Apparently they have been working!

On Sunday night (10/11/09) the Governor signed the following bills into law;

AB 260 restricts mortgage brokers from steering borrowers to riskier loans when they qualify for less expensive ones also bans neg amortization loans and limits prepayment penalties to 2% of loan balance.

SB 36 sets licensing requirements for all residential loan originators.

SB 239 makes it a felony to commit fraud on a loan application.

AB 329 requires lenders to give more and clearer information to seniors interested in reverse loans.

AB 957 allows buyers of foreclosed home to choose local escrow officers.

Library is ready!!!

At the General Membership meeting this month some of the books from our new library were on display. There will also be a display and list of books at the MLS Meetings.

While seminars offer us information about subjects we need to educate ourselves on (foreclosures, short sale, antitrust issues, etc.), they are often lacking the basic steps to handle these transactions and challenges. It is our goal to bridge that shortage of information with the new library. There will be education and motivational books and DVDs. We are also offering information on the Communities our Association represents. If there is a subject that is not covered, let us know. We are still growing. The libraries are at both offices, Redlands and Yucaipa. Enjoy!

A Little Green;

Don’t forget, the association is selling CF Light bulbs for a price seriously lower than you can buy anywhere else. They make a great green addition to a closing gift. Remember: REALTOR’s® are going green (look on the NAR website for the new green designation).

Light bulbs are just \$1.00 each. * Many size’s available!

Want to know your green footprint? Go to www.earthlab.com