



PA Legislature Enacts Mortgage Property Insurance Coverage Act

Signed into law in 2008 this act resolves a dilemma that has stirred debate within the insurance and mortgage lending industry for years with no clear cut solution for the consumer caught in the middle.

Up until this law was enacted, it was common for a mortgage lender to require the borrower to obtain insurance that equaled the value of the loan, regardless of the relationship between the value of the land and the home. For example, a borrower may purchase a \$300,000 property that includes 4 acres and a single dwelling. Consider in this case the value of the home to be \$200,000 and the value of the land to be \$100,000. The mortgage lender would want the borrower to have insurance of \$300,000. The problem is that the insurance policy only covers the cost to replace the home. The actual land itself is not insured property. Thus, homeowners were forced to buy \$300,000 of coverage when the policy would only provide up to \$200,000 if the home needed to be replaced. This was a waste of premium dollars for the homeowner.

The new legislation simply states that no lender may require a borrower to obtain property insurance that exceeds the actual replacement cost of the dwelling as a condition to secure a mortgage. This act only applies to private residential properties for which the owner is the occupant.

This act is good news as it will prevent homeowners from being forced into unnecessary insurance limits for which they would never be able to collect. The methodology for determining a proper limit on your homeowners insurance is often misunderstood, but in most cases should be the replacement cost of the home and not the loan, purchase or market value of the home. A broker can work with you to complete a "replacement cost" estimate using software that will help you derive an appropriate value, rather than relying on "out of date" values. This is also important as homeowners policies also contain conditions that require a home to be insured up to at least 80% of its actual replacement cost.

If you have any questions regarding your homeowners insurance policy or the methodology behind the valuation of your insurance limits, please feel free to contact Mike Gehman, CPCU, CIC at The Conestoga Group 610 889 9500 x 108 or email at mike.gehman@conestoga.biz

The Conestoga Group is an insurance, investment and employee benefits broker and consulting firm based in Frazer, PA. Conestoga specializes in providing financial products and services to small businesses and their owner/executives and other employees. Founder and President Brad Palmer is an Investment Advisory Representative of Commonwealth Financial Network-a Registered Investment Adviser and member firm of the FINRA/SIPC. Brad can be reached at 610-889-9500 extension 101 or at brad.palmer@conestoga.biz.

NOTICE

These legislative comments are our interpretations of information provided to us by various legal and other resources as of 1/10/09. It is possible the information was presented incorrectly or that we have misunderstood the presentation. The purpose of this communication is to provide you with basic summary information on the subject matter to assist you in determining if you may need to seek legal or other professional assistance. This update and its attachments should not be construed as legal, tax, investment, or other advice and does not take into consideration specific factors unique to the reader's situation.