[Determining the Right Coverage](https://uphelp.org/determining-the-right-coverage/)

Philadelphia Inquirer

Patrick Rodgers, the Philadelphia homeowner with the “foreclosure” case against Wells Fargo Home Mortgage that made him a national celebrity, declared victory last week. To settle his claim under the Real Estate Settlement Procedures Act, he says, Wells Fargo WFC) agreed to reverse thousands of dollars in charges on his mortgage, plus other concessions.

Rodgers has joked that he’d be happy to be the “Johnny Appleseed of RESPA letters,” since it was a series of unanswered letters asking questions about the charges that led to the court judgment and “Sheriff Sale” poster — for the contents of a Wells Fargo office — that made his story go viral.

Here’s another role Rodgers might want to take on: becoming the Paul Revere for underinsured homeowners.

There’s a twist in the saga of this soft-spoken music promoter with the Tudor home and the Gothic look — yup, those are cosmetic fangs you see in the widespread Rodgers videos. While the media — yours truly included — have focused on the man-bites-dog part of this dispute, we’ve glossed over what sparked it: Wells Fargo’s insistence that borrowers insure the full replacement value of their homes.

The more I dig, the more I see the irony: Rodgers was absolutely right that he deserved answers, not stonewalling, when he asked about unexplained charges. But Wells Fargo may also have been right to require replacement-value coverage — or at least to warn borrowers about the dangers of underinsurance.

How dangerous is inadequate insurance? Risky enough that when I told Rodgers’ tale to Amy Bach, executive director of United Policyholders, a California consumer organization, her first reply was: “Honestly, I wish that more mortgage companies would do that.”

United Policyholders was founded after 1989’s “World Series Earthquake” and gained prominence after the 1991 firestorm that destroyed more than 3,000 homes in the hills of Oakland and Berkeley. It doesn’t take funding from the industry, and Bach is often at odds with insurance companies.

But her perspective comes from toiling on the far side of a divide most of us will be happy never to cross. We grouse about premiums we pay to protect us from events we’ll probably never confront. She aids those who, against the odds, wind up needing that protection.

And in Bach's experience, many come up short at the worst possible time — sometimes by hundreds of thousands of dollars in coverage.

Nor is what happens after a total loss the only risk from underinsurance. A key problem is how language sometimes called a "coinsurance penalty" allows insurers to underpay for partial claims — such as if a kitchen fire were to seriously damage part of your home.

Bach says a typical penalty threshold is 80 percent. That means that for a home to be considered fully insured, you'd need coverage equal to at least 80 percent of the home's actual replacement cost.

If your home's actual replacement cost is $600,000, you'd need at least $480,000 in insurance. If you had only $240,000, your insurer would consider you 50 percent covered. In other words, if the estimates say it will cost $50,000 to rebuild your kitchen, your insurer will pay $25,000 for the repairs. The rest is your coinsurance.

Why do some homeowners find themselves in this situation?

Bach says some people simply can't afford better coverage, which is why some companies offer options such as "actual cash value" insurance, an approach that takes depreciation into account and also leaves you underinsured for a loss. But she says a key reason is that insurers are responding to what the market will bear.

"Insurance companies know that people hate paying for their product, so they price it to where they think people can stomach it," Bach says. "They gamble that most people won't have a complete loss, and will never know they're underinsured."

Another reason is ignorance of what "replacement cost" represents — and especially of its loose relationship to a home's market value.

Nine years ago, Rodgers paid about $180,000 for a beautiful, century-old home in Wynnefield Heights — a house that would cost several times that much if it were on the other side of City Avenue in Montgomery County. His most recent policy provided about $250,000 in coverage for the house — near its latest appraisal.

That $250,000 was more than twice what Rodgers owed on his mortgage. So when his insurance broker told him that Wells Fargo now wanted his home insured to "full replacement value" — about $1 million — Rodgers balked.

It's a common reaction. Heywood Sloane, a Wayne consultant, bought an older "fixer-upper" in Media six years ago for about $190,000, and put about $100,000 into it. His reward: He's been told he needs from $850,000 to $1.3 million in replacement coverage, about twice its market value.

Like Rodgers, Sloane suspects such numbers are out of line. "My home isn't museum quality," he says. If disaster strikes, for example, "nobody in their right mind is going to go back and do plaster and lath. If I

had something to replace today, I'd use drywall."
Bach says that while some insurers have been accused of overstating replacement costs, it's more likely that they're simply using a computer tool that takes into account square footage, features, and regional building costs, and assumes that a high-quality home would be replaced to high current standards, not restored to historic form.
With any such tool, there's a "garbage-in, garbage-out" problem. Bad assumptions can explain a lot of variance, which is why getting multiple quotes is always crucial. To lower your premiums, she suggests raising your deductibles. For other tips, visit United Policyholders' site at www.uphelp.org.)
Bach says consumers can use replacement-cost estimators online at www.hmfacts.com and www.accucoverage.com.
What do you say, Paul Revere?