# [FAIR Plan coverage caps at $3 million: Here’s why experts are worried about Bay Area housing market]

ABC7 News

The estimated insured losses from the Los Angeles County wildfires could reach $20 billion, which would be recorded as the costliest fire in U.S. history in that category, according to J.P. Morgan.

The impacts are expected to be significant when it comes to access to coverage and a likely jump in premiums across the market — that’s if you’re lucky enough to get a private insurance policy. And now new concerns are being raised as a record number of people are forced to the state’s insurer of last resort, the California Fair Plan — a policy that offers inflated rates with limited coverage.

According to its website, the FAIR Plan provides basic fire insurance coverage for high-risk properties when traditional companies will not.

Specifically, the coverage caps worries experts, and could have a long-term impact on our housing market.

“There’s no question there’s going to be a lot of people impacted by this fire where their insurance falls short,” said Amy Bach, with United Policyholders.

For example, the California FAIR Plan caps insurance payments for natural disasters at $3 million for residential policyholders. That price tag is important, given there are now at least 33 Bay Area cities where the average home value exceeds $2 million, according to data from Zillow.

So, what impact could this have on our housing market?


Source: https://uphelp.org/fair-plan-coverage-caps-at-3-million-heres-why-experts-are-worried-about-bay-area-housing-market/
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“With the cap being at $3 million, you’re talking about a high percentage of homes in the Bay Area not able to get coverage up to a certain amount — that’s going to drastically change how the market is going to be moving forward,” said Neil Canlas, who owns a real estate company that tracks market trends across the Bay Area.

“People already can’t get insured as it is now and you can’t get a loan without a policy in California.”

Canlas says his company has already seen a hit from the insurance crisis.

“We’re losing a percentage of buyers because they can’t get policies, or the policies are too high in price,” Canlas said. “If you buy a home for $2 million — you’re already paying mortgage, property tax — then you’re paying a $10,000 home insurance policy that’s $800, $950 a month.”

Canlas says if the $3 million cap isn’t raised, he expects the Bay Area housing market will continue slowing down.

“We’re already seeing the highest interest rates we’ve seen in a long time… the Fed has already said they’re going to drop their rates twice in 2025, probably only about a quarter point each drop — so then we’re looking at higher prices, still-high interest rates, and insurance policies being extremely high or not available,” Canlas added.

The FAIR Plan cap could also disincentivize homeowners who live in high-risk areas from choosing to invest in their homes.

“It may make homeowners a little hesitant to spend that $150,000 to remodel the kitchen or bathrooms… because that may exceed the cap they have for their home insurance policy,” he said.

Bottom line, if you’re lucky enough to get a private insurance policy, analysts expect premiums to go up as high as 40% on average, even if you don’t live in a high-risk area. If you do, that figure could be up to 100% or more. That’s according to data compiled from several insurance advocacy groups and a recent survey out of Florida from real estate brokerage firm RedFin. California is in the process of implementing similar insurance regulations that Florida has enacted.

“The impacts of this wildfire are going to be far reaching on consumers on the market for many, many years to come,” said Amy Bach, with United Policyholders.

California’s insurance crisis was already at a breaking point prior to the fires devastating Los Angeles. Now, the state is bracing for more chaos as at least a dozen of the largest insurers making up 80% of the market have already dropped out or restricted issuing new policies. This comes as the FAIR Plan has seen a 164% increase in demand since 2019, accounting for roughly a half a million policyholders as of last June.

Experts say it will likely get worse before it gets better.

“The California Fair Plan is only as strong as the number of admitted insurance companies we have voluntarily doing business in the state,” Bach said. “If that number shrinks…I’m sure we are going to see some shaking out of the market.”

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