Iowa insurers cut roof coverage, leaving customers with big bills and jeopardizing mortgages

Des Moines Register

After years of waiting, Vadim Shapiro finally got his new roof. He got a large bill, too.

Shapiro, 57, said he asked his insurer for a replacement three years ago, after a hailstorm swept through his Clive neighborhood. He said a contractor believed the storm damaged his home enough to justify a new roof.

But an adjuster for his carrier, Pekin Insurance, determined that the storm in fact hadn't left any damage. Shapiro said he didn't agree with the assessment, but he didn't know enough about construction to fight the decision.

A year later, in April 2022, he filed a second claim after a thunderstorm struck the neighborhood. He said wind stripped some shingles off the roof.

Pekin agreed to pay. But due to a provision in Shapiro's policy, the company would pay him only what Pekin believed his previous, 21-year-old roof was worth: $9,600.

The cost for a new roof, according to Shapiro? $25,000.

For two years, he said, he saved money until he could afford the $15,000 gap between Pekin's payment and the roof's cost.

"Something's better than nothing," he said.

He added that he was surprised to learn about the terms of his policy when he filed his claim. Like many other Iowans, his insurer had moved him to a form of coverage that decreased the amount of money it would pay for a new roof. And like many Iowans, Shapiro had not noticed the change.

“I did not pay attention,” he said.

A representative for Pekin, which stopped covering Iowa homeowners in December, said in an email that the company changed Shapiro’s policy “to ensure claims are paid fairly on the roof’s actual value at the time of damage.”

“This benefits the insured by keeping premiums more affordable and encourages homeowners to maintain roofing in good condition,” said Joel Jackson, Pekin’s chief operating officer.

Consumer advocates, insurance agents, roofers, public adjusters, bankers and industry lobbyists told the Des Moines Register that stories like Shapiro’s will become common around Iowa in the years to come, especially after the violent tornadoes that wrecked west Iowa towns Minden and Greenfield and did other damage around the state this year.

Industry filings with Iowa regulators show several companies recently amended policies to pay only the depreciated cost of a customer’s previous roof, often forcing policyholders to fork over more than $10,000 from their bank accounts to cover the cost of replacements.

Other companies increased deductibles. Some stopped covering what they describe as cosmetic damage from hail, requiring customers to pay for lab tests to prove their roofs are in danger of failing.

Roofers say some customers are not aware of the changes, pushing policyholders to open new lines of debt or live under faulty roofs until they can save enough money to pay their share of replacement costs.

The quiet change in industry practice may also impact the home lending market. Fannie Mae and Freddie Mac, the government-established companies that guarantee about 70% of U.S. mortgages, have policies that state they will not cover homes unless those properties are insured at replacement cost.

Known as government-sponsored enterprises, Fannie and Freddie announced on May 8 that they would pause the policies indefinitely while officials review “reported obstacles.”

Source: https://uphelp.org/iowa-insurers-cut-roof-coverage-leaving-customers-with-big-bills-and-jeopardizing-mortgages/ Date: November 26, 2024

Clifford Rossi, a University of Maryland business professor and former Freddie Mac risk management director, predicted property insurance problems like slimmed-down roof coverage will upend the home-lending market for the next decade.

Insurance officials say they must scale back coverage because of increased claims from storms in recent years. But banks and Wall Street investors, who buy Fannie Mae and Freddie Mac's mortgage-backed securities and keep the country's home-lending system flowing, say they need to know properties will be intact if homeowners default.

"You've got a clash of the titans," Rossi said.

State Farm, Nationwide among insurance companies scaling back roof coverage

A Register review of government filings from the state's 10 largest property insurance providers found that each company has adjusted its roof policies since 2020. Some made multiple changes.

Of those companies, seven began paying for roofs at a depreciated value. Two increased customers' deductibles for roof claims. Two more stopped covering cosmetic damage.

The companies made the changes through endorsements, adjustments that companies must submit to the Iowa Insurance Division for approval. The companies don't necessarily force every customer to take endorsements. In some cases, companies offer reduced prices if a customer takes a slimmed-down insurance option.

The government filings do not specify how many customers have received the reduced coverage, either voluntarily or because some companies require them to.

West Des Moines-based IMT Insurance Co., for example, told the state insurance division in a pair of filings last year that it would increase rates on customers by about 37%.

The company, the eighth-largest home insurance provider in the state, also announced a change to roofing coverage in March 2023. For roofs 16 years old or older, IMT said, it would cover hail or storm damage only at the roof's actual cash value, a depreciated sum based on an expert's assessment of the property.

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This March, the company adjusted the policy again. IMT will now use actual cash value for all roofs 6 years old or older. A company spokesperson did not respond to an email seeking comment.

State Farm, the largest home insurance provider in Iowa, announced an 11% rate hike last year. The company also introduced the option of a replacement roof schedule in 2020. The policy decreases the percentage of a new roof's cost State Farm will cover based on the previous roof's age.

State Farm spokesperson Gina Morss-Fischer said the company offers the schedule "at the discretion of the customer" in exchange for a lower monthly premium.

Nationwide Property & Casualty Group, Iowa's second-largest homeowner and farm insurer, announced slimmed-down coverage in a December filing. The company now requires all homeowners with shingle roofs that are at least 11 years old to use a roofing payment schedule if a wind or hail storm damages their property.

Nationwide spokesperson Ryan Ankrom said the company changed its roof policy after consulting with industry researchers about "performance of roofs and overall life expectancy of shingles."

"These updates help us provide protection at a reasonable price for the risk and are in line with today's insurance market," he said in an email

Iowa roofing companies say customers taking on debt as insurers scale back coverage

Des Moines roofers say they have seen more homes with slimmed-down coverage this year. Many customers are surprised that they have to pay more than $10,000 themselves.

"They're going into it thinking everything's covered," said Andy Ray, co-owner of American Dream Exteriors. "They're definitely surprised and shocked. 'Disappointed' would be the nicest way to say it."

Ray and other contractors said some customers take out loans with home improvement lenders like Hearth and GreenSky to pay for new roofs. Jerod Mollenhauer, owner of Recon Roofing and Construction, said the loans often don't require collateral.

But Chandler Steffy, owner of Superstorm Restoration, said he feels uncomfortable with some lenders. He said some customers have to pay $200 a month for a decade. If a storm damages a roof while customers are still paying the loan, they have to take on yet more debt for another replacement.

“People are just getting in a worse and worse spot,” Steffy said.

Roofing company owners also object to the cosmetic damage endorsements that some insurers have added.

American Family Insurance Group, Iowa’s third-largest home insurer and seventh-largest farm insurer, filed an endorsement with the state regulator last August to cover wind and hail damage on metal roofs only if a storm causes functional damage. The company said it would replace those roofs when holes allow water to leak into the buildings.

Metal roofs are common on farms and commercial properties. The company also announced in February that it would offer slimmed-down coverage for other roofs, paying the depreciated value of a customer’s previous roof.

An American Family spokesperson did not respond to multiple emails seeking comment. In an August memo to the state insurance division, though, a company representative wrote that it made the changes to “respond to an analysis of the emerging experience for the product.” The representative added that property owners with metal roofs can pay extra for coverage of cosmetic damage.

West Des Moines-based Farm Bureau Property & Casualty Insurance Co., the state’s largest farm insurer and fourth-largest home insurer, also added an endorsement last year that stated the company would not cover cosmetic damage from hail. A company spokesperson did not respond to multiple messages seeking comment.

Mollenhauer, the Recon Roofing & Construction owner, said insurers’ definition of cosmetic damage is too broad. Even if a hail storm’s impact doesn’t create leaks, he said, dented areas of a roof deteriorate faster. Paint flecks. Water collects in dents, rusting the roof.

“It’s garbage,” Mollenhauer said.

Caedan Tinklenberg, CEO of Swift Public Adjusters, said cosmetic damage policies force customers to

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prove a storm will have deep, long-term impacts on homes. Customers can send parts of their roofs to labs where technicians saturate shingles in a solution to detect whether debris has fractured or punctured the material. Technicians also can evaluate metal to show that hail damaged its coating.

Lab results can force insurers to pay for replacement roofs, but Tinklenberg doubts most homeowners know how to defend themselves.

“Nine out of 10 consumers are not up for that fight,” he said.

Some industry representatives partially blame public adjusters for increased insurance rates and reduced roof coverage. Tom O’Meara, CEO of the Independent Insurance Agents of Iowa, said adjusters have convinced customers to file dubious claims for minimally damaged roofs. In exchange, adjusters take a percentage of the insurance payout.

“They’re dealing with these bulldogs who do it for a living,” O’Meara said. “And bulldogs is my nice word.”

Loretta Waters, a spokesperson for the Insurance Information Institute, said some adjusters perpetrate fraud schemes after large storms — particularly hurricanes in Florida. Similar cases popped up in Iowa after the 2020 derecho, the costliest storm in state history.

Tinklenberg, president of the Iowa Association of Public Insurance Adjusters, said some in the industry do commit fraud. But he believes insurers overstate the problem. He said insurance companies employ fraud investigators who should be able to detect problems without forcing the company to increase rates and cut back on roofing coverage.

Amy Bach, founder of United Policyholders, an insurance consumer advocacy nonprofit, said regulators should force companies to better prevent fraud rather than allow the companies to scale back policies.

“Don’t punish the homeowner for entrepreneurial activity by roofers,” she said. “That’s not right.”

Insurance changes can upend U.S. mortgage market, leaving government leaders ‘scared to death’

In February, Fannie Mae and Freddie Mac representatives issued bulletins stating they require insurance policies to cover homes at "replacement cost value." In other words, policies that don't pay the full cost for new roofs don't comply with Fannie and Freddie's regulations.

The policies have existed for years. But Fannie and Freddie officials issued the bulletins after hearing that mortgage servicers increasingly saw slimmed-down roof policies.

On May 8, in a follow-up announcement, representatives for the companies said they would not enforce the policy while they learned more about insurance problems.

"We have received feedback from industry participants about the ability of lenders and servicers to comply with our requirements," the representatives wrote.

Fannie and Freddie are important cogs in the country's home-lending market. In addition to guaranteeing mortgages for lenders, the companies buy loans from banks and free the lenders' balance sheets, allowing them to issue more mortgages.

Fannie and Freddie contract with mortgage servicers to manage those loans, collecting payments from customers and ensuring that the properties follow their regulations. They also bundle the loans and sell them as mortgage-backed securities.

Rossi, the Maryland professor and former Freddie Mac official, said he worries the recent announcement will upset investors. Owners of mortgage-backed securities want to protect the value of homes after storms. If insurers don't cover the full replacement costs of roofs and customers can't pay for new ones, those investments would deteriorate.

"Both (Fannie and Freddie) are scared to death about the fact that there isn't a viable solution in the marketplace for homeowners insurance," Rossi said.

Bob Hartwig, president of the Johnston-based Iowa Bankers Mortgage Corp., a loan servicer, said industry leaders became upset when Fannie and Freddie announced that slimmed-down insurance coverage didn't comply with their policies.

If mortgage servicers don't ensure that the loans comply with Fannie and Freddie policies, the enterprises could write a negative report after their annual inspections of the servicers. Fannie and

Freddie could force the servicers to take corrective actions or risk losing their ability to work with them. (Rossi said he can't think of a time when Fannie or Freddie have taken such a drastic step.)

Following the May announcement that Fannie and Freddie would not enforce the policy, Hartwig said Iowa Bankers Mortgage Corp. will not take any action. If the enterprises resume the policy, IBMC would buy gap coverage for homes with inadequate insurance. IBMC would pass the cost to customers, increasing their bills.

"(Mortgage servicers) won't want to have to go in and do that," Hartwig said. "It's going to upset their borrowers."

Iowa resident says she's paying $920 monthly home insurance premium: 'Something has to be done'
Inadequate roof coverage could also impact a home sale, industry representatives say.

Chris Nicol, owner of the Elite Insurance Solutions agency in Ankeny, said insurers require proof of a roof's age when a buyer acquires a home. The seller sometimes doesn't have documentation of their last roof replacement.

Nicol said one client wants to close on a home in the next two weeks. He said an inspector found signs of damage in several spots, likely from hail. He said he hasn't found an insurer willing to cover the property.

"This is going to be a real problem for a lot of people," he said. "If they have an older roof, they're going to be in a tough spot."

Jacque Anderson, 61, of Grinnell, said she is nervous about how much her family will need to pay to cover the farm that her husband inherited at the end of last year. The property's current policy expires in August. Her husband added two new buildings with metal roofs.

The Andersons will add that insurance payment to an already steep expense. During the 2020 derecho, the family lost about half a dozen old trees behind their home, which their insurer paid to haul away. The company also paid to replace broken windows.

Two years later, during a December 2022 polar vortex, her pipes froze and broke, flooding the basement and causing about $10,000 in damage. A May 2023 hailstorm ruined the home's roof and windows, as well as the siding on the garage.

Three months ago, Anderson said, Selective Insurance increased the property's monthly bill to $920. She couldn't recall her previous premium but said the price hike was "astronomical."

She said she hopes to find coverage with lower premiums and higher deductibles. Eight insurance companies have denied her agent's applications.

"Something has to be done," Anderson said, advocating for government action. "There's a lot of people, it's going to devastate their finances. If they can bail out airlines and stuff, surely they can help out homeowners."

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