United Policyholders
Empowering the Insured

Is quake insurance worth it with little equity?

SF Gate

Q: Reader Clare S. of El Cerrito asks: “Are there any advantages to carrying earthquake insurance if we have little equity in our home?”
A: Doug Heller, executive director of Consumer Watchdog, says earthquake insurance protects three things: your equity, the structure itself and your credit rating. Even if you have little or no equity, “those two other things are there to protect,” he says. Whether that protection is worth the price depends on many factors.
If you have a home in a neighborhood or school district you love, it might be worth it, although the neighborhood could change after a quake.
If your home is damaged and you walk away, you will be treated like any other homeowner who stops paying the mortgage. If the bank forecloses, it will go on your credit report as a foreclosure, says Pamela Simmons, a real estate lawyer in Soquel Santa Cruz County).
Until your credit recovers, it could be hard to get a loan or credit card at a decent rate. It could be hard to get a job if employers look at your credit report.
Another potential concern: If you have a second mortgage or other junior lien) on the home that is recourse debt and walk away, the lender could sue you and perhaps get a judgment allowing it to seize some of your income and other assets, according to Steve Elias, a bankruptcy attorney in Lake County.
If your only debt on the house is nonrecourse, the lender cannot go after other assets, only the house itself.
It’s not always easy to know if debt is recourse or nonrecourse but in general: If you took out a loan or loans to buy your primary residence and have never refinanced that debt, it’s nonrecourse.
If you refinanced, it could be recourse.
If you took out a home equity loan or credit line that wasn’t used to buy the home, it’s recourse.
Just because a lender can try to seize your other assets doesn’t mean it will, but it’s a risk worth considering.
Another potential problem: If you have recourse debt on the home and walk away, the unpaid balance that was not used to buy, build or improve your home could be considered income and you could owe tax

on it, Simmons says.
You might escape some or all of the tax if you are considered insolvent or file for bankruptcy before the foreclosure sale. The laws giving homeowners a tax break on canceled debt income are subject to change.
Only 12 percent of California homeowners have quake insurance. About 70 percent of it is underwritten by the California Earthquake Authority, a quasi-public agency that sells through certain insurance companies as an add-on to a homeowner's policy.
Heller says it would be much easier to recommend earthquake insurance if the deductible was a flat dollar amount.
On CEA policies, the deductible is 10 or 15 percent of the insured value. If a home is insured for $500,000 and has a 10 percent deductible, the policy will pay for no structural damage less than $50,000. The policy would pay $150,000 if the home suffered $200,000 in damage or $500,000 if it sustained $600,000. A separate deductible applies to the home's contents.)
If you have to move out while your home is being fixed, the policy will pay only $1,500 in additional living expenses, unless you pay more for $15,000 in coverage.
Despite the rising number of Californians who owe more than their homes are worth, the number of CEA polices in force has grown steadily from about 750,000 in 2005 to 820,000 today.
Amy Bach, a consumer advocate with United Policyholders, says homeowners should not make this decision without getting a quote. "It may be more reasonable than you think," she says.