Insuring Fuller Center Houses

Builders Risk Construction Insurance

Once the Fuller Center Covenant Partner acquires property, the task of risk management becomes the responsibility of the organization and more specifically, the fiduciary responsibility of the board of directors.

Steps should be taken to avoid accidents and other liabilities. Vacant lots and vacant properties become what the insurance industry calls "attractive nuisances" in that they are places of temptation for visitors, children and vandals. Lots should be cleaned of broken glass and other garbage. Holes should be filled in or clearly marked to prevent accidental injury.

Builders Risk insurance should be secured on new construction as soon as the footers are dug. This form of property owners and builders insurance insures the property while it is under construction against vandalism, accidental losses, damage or destruction of property.

For Greater Blessing projects where the Covenant Partner is making renovations to homes already owned by the partner family it is important to ask the homeowner to inform their current insurance carrier about the construction. Failure to notify the insurer could result in a claim being denied or the Homeowners policy being non-renewed due to the increased liability risk during construction.

The following information will be requested from your insurance agent to obtain a quote:

- ✓ Exact location
- ✓ Completed value of the property (do not subtract for volunteer labor or in-kind donation materials
- ✓ Description of the project
- ✓ Type of construction (floor plans, wall structure, siding, type of roof, etc.)
- ✓ Number of stories
- ✓ Protection information, distance from fire department, name of fire department, distance from the nearest fire hydrant, security systems)
- ✓ Name of contractor, and years of experience
- ✓ Breakdown of phases in the project (start and anticipated finish dates)

There are important exclusions on Builders Risk policies of which the board needs to be aware. The coverage does not cover losses occurring before construction begins or after the completion of the construction. It is important to remember that for most Builders Risk policies coverage ends as soon as the property is occupied unless the policy is designed to convert to a homeowners or landlord dwelling policy. Liability and completed product liability are typically not covered under Builders Risk policies.

Earthquake and flood coverage may be purchased as an extra rider or policy but are usually not covered under Builders Risk policies. Building materials stored off site are generally not covered under builders risk policies.

There are multiple ways of billing that can make big differences in the cost of Builders Risk coverage. Some policies can be cancelled mid-term. The largest Builders Risk insurer only writes policies for 12 month terms unless they are "list billed," meaning the contractor has multiple construction projects going on at the same time. Deductibles and willingness to accept larger self-insurance ratios can also have a huge impact on pricing as will the Covenant Partner's loss history and years of experience.

It is extremely important that the local Covenant Partner group work with an experienced property and casualty agent who can offer multiple products and options. National plans and affiliated group pricing may save some upfront donation dollars and project costs, but it is easy to see from the exclusions above that without a local insurance advisor costly mistakes can occur.

Lease Purchase Period

As mentioned above, as soon as a house is occupied, the Builders Risk coverage ends, even if there is a punch list to be completed. One popular option to work with partner families is called a lease purchase. This gives the family time to adjust to the new neighborhood and the responsibilities of homeownership. However, the board of directors must do a cost benefit analysis when considering utilizing a lease purchase agreement with their partner families. The insurance cost may make this option cost prohibitive.

But this option creates an expensive insurance risk management scenario. Since the houses are no longer covered by Builders Risk, two major types of coverage are needed. The house must be covered by a "landlord's homeowner policy" which is sometimes called a "dwelling policy." Because the Fuller Center Covenant Partner is a commercial entity, this type of policy is often very expensive. The underwriters consider a tenant-occupied dwelling a higher claim risk than an owner-occupied dwelling.

As with the Builders Risk and Homeowners insurance programs, the house should be insured for the full replacement value without subtracting for volunteer labor and in-kind material donations. Simply stated, if something happens to the house, it should be covered sufficiently to be repaired or replaced by professional contractors. Insurance carriers and agents have sophisticated tools available to give free replacement cost estimates based on the local cost of contracted labor, local sales market data and the design of the structure.

While the partner family is living in the house under a lease purchase agreement, they will not have contents coverage unless they purchase a "renter's" policy. This type of contents coverage has various types of restrictions that should be studied with an agent. Flood or Earthquake coverage of contents must be purchased separately.

Homeownership

The most common strategy for a Covenant Partner is to sell the house to the family at the completion of construction and before they move in. Sometimes in the excitement of the completion and moving day the transfer does not occur on time. Failure to transfer title in a timely manner creates a legal and insurance liability problem for both the Covenant Partner and the partner family.

There is a mutual vested interest in protecting the collateral of the mortgage, between the Covenant Partner serving as lender and the partner family as homeowners. From a family nurturing and support perspective it is important that the partner family become educated and empowered to purchase homeowners insurance coverage even if the Covenant Partner decides to offer insurance escrowing services with the mortgage payment agreement.

The Fuller Center Covenant Partner should be named in the insurance mortgagee clause with the statement "Its successors and or assigned as interest may appear" which is often abbreviated "ISAOA AIMA." This is a fancy legal way of saying, "If we change our name or we sell the mortgage, the coverage continues to protect our collateral interest."

For most homeowners, their home is their greatest financial asset, and it should be well protected. It is startling to consider that 76% of American homes are inadequately insured, according to a recent study by Marshall and Swift.

Homeowner's insurance protects against liability (in case someone is injured on your property), damage to the structure of your home and/or personal belongings, and theft. Most policies cover damage caused by certain "perils," such as fire, lightning, and wind damage (except in certain locations). Water and sewer back-up coverage is an important option to understand and consider.

As with the programs mentioned above, the homeowner must purchase separate policies to cover disasters such as floods and earthquakes, which can be a good idea if the house is located in a high-risk zone.

Most insurance companies offer different levels of coverage. Standard policies usually cover a home's contents for half the dollar limit carried on the house and reimburse only for the depreciated value of furniture and belongings. Other policies cover 80% to 100% of the value of a home, as well as its belongings.

When evaluating a Homeowners policy to determine whether it is right for the family they should find out how much it would cost to rebuild their home. Typically, even if the home is insured for 80% or more of the cost of rebuilding, the carrier will pay the cost of any repair only up to the limit of your coverage. Because of this drawback, they should consider a *guaranteed replacement provision*, a feature that ensures almost full reimbursement for replacement costs.

A guaranteed replacement provision places responsibility for valuation of a home on the insurance company. The insurance company conducts periodic appraisals, makes sure coverage is adequate, and automatically upgrades the policy as the value of the property increases. Of course, the premium rises automatically along with this increase in coverage. This type of policy will also pay to replace furniture and belongings with new or equal-quality items at current market prices.

For an extra cost, additional valuables can be protected with "floaters" designed to cover such items as jewelry, silverware, furs, artwork, other valued collections, and the contents of a safe-deposit box, up to a certain amount.

Regardless of the specific needs, the homeowner should be able to find a policy that will be well suited for their specific situation. The most important thing is to protect one of their greatest assets—their home.

Making an Insurance Claim

When it is time to make an insurance claim, the more prepared the homeowner is, the more smoothly it will go. The homeowner should be familiar not only with their policies but also with the steps they should take to file a claim.

Preventive Measures

It's important to know beforehand what to expect from the insurance company. When a homeowner purchases any insurance policy, they should read the contract carefully and learn specifically what is *not* covered. Know what numbers to call and the type of information you will need when speaking with a claims agent.

It's also a good idea to advise the homeowners to take inventory of their belongings and keep the list in a safe-deposit box. Items should include:

- ✓ Descriptions of possessions; for example, the makes and model numbers of electronic equipment and appliances.
- ✓ Photographs or a videotape showing the condition and quality of your insured items, especially jewelry or antiques and collectibles.
- ✓ Appraisals of expensive items such as antiques, artwork, furs, and jewelry.
- ✓ Receipts documenting purchase prices; canceled checks or charge-card statements also can be used.

When Trouble Strikes

File a complete and accurate claim as soon as possible. Take the time to fill out everything the way the insurance company wants it. Or, if the homeowner is on the phone with a claims agent, they should be extremely detailed in their descriptions and be certain that all of their information is correct.

The homeowner should file a police report in the event of theft or vandalism. The claim may be denied if they don't.

The homeowner should write a detailed account of any incident immediately after it occurs so that they are more likely to remember what happened.

They should take photos of any damage.

The homeowner should telephone their agent and send him or her a copy of the police report. Follow his or her instructions on how to proceed.

Filing a claim can be stressful, but being properly prepared and knowing what to expect will help move the process along, possibly allowing the homeowner to receive the funds they need to cover the losses in a timelier manner.