

Help Your Clients Avoid Insurance Pitfalls

By spotting potential problems before they happen, you can avoid delayed closings

By Matt Naimoli and Zack Gould



Illustration by Dennis Wunsch

Unless your clients are going to purchase a home without a loan, they will need to obtain homeowners insurance. Finding the right home insurance is a vital step in every homebuyer's journey. Once your clients find their dream home, they want to protect every aspect of it.

As a mortgage originator, you want to ensure that your borrowers understand the importance of purchasing home insurance, as well as the pitfalls that can prevent or hinder them during the process. By keeping an eye out for certain issues, and alerting your clients about them, you can help ensure that their closing goes through without an insurance-related hitch.

Credit history

It is crucial that homebuyers pay close attention to their credit history and have clean credit reports and decent credit scores. This is probably the most important message to relay to your clients when they are looking to purchase home insurance. Poor credit can be an indicator of higher risk to insurance agencies, which can cause homeowners to be denied insurance.

As a mortgage professional, you should talk to your clients about how important this is. Encourage your clients to look into their credit as soon as possible so they can clean up any issues that might be lingering. Clients can pay off past-due accounts or find ways to improve

their debt ratio to improve their credit score. Even just opening a credit card and paying off the balance can make a difference in your clients' credit history.

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The sooner that these issues are addressed, the better off you and your clients are.

Weighing options

It is a good idea to encourage your clients to shop around as early as possible before they purchase home insurance. If your clients decide to compare and contrast insurance providers at the last minute, they may become overwhelmed. If your clients become indecisive, this could create a delay in the closing process.

By starting this process as soon as possible, they also are more likely to find the best deal. In addition to shopping around in advance, you may also want to encourage your clients to shop for value, rather than price. All too often, homeowners who shop for price instead of value find that they do not have the right coverage. By comparing options early, your clients can get the best coverage possible and you can have peace of mind during your closing.

Underwriting questions

Insurance companies take into consideration what is on the property. If, for example, your clients are buying a home with a pool that is not closed off by a fence, they may experience an issue when purchasing home insurance. If this is the case, you may want to encourage your clients to make a deal with the sellers to have a fence put in beforehand,

or at least encourage them to start making plans for a fence.

Other potential insurance roadblocks include trampolines or specific dog breeds that are known for bite attacks. These may not seem like huge deals, but insurance companies consider these to be possible liabilities.

Many things can cause your clients to be noted as risky customers, which can potentially create roadblocks in their search for homeowners insurance. Urge your clients to think about their current situation before they look to purchase their homeowners insurance, because they may not even be aware that these things can put their dream home — and your closing — on hold.

Sellers' past claims

If your clients are purchasing a home, and the home sellers have a history of insurance claims, this can hurt your client when they try to obtain homeowners insurance. One such scenario can arise when, for example, sellers call their insurance agent for two different issues for which they may want to file claims. Eventually, however, they decide to only file a claim on one issue, and end up fixing the other issue on their own with their own money.

Because the sellers had called about the second issue and inquired about filing a claim, a claim file was opened on the issue even though the seller repaired it without actually filing a claim. Your clients may be

unaware of situations such as this one, which is why it's important that they pay attention to home inspections and real estate disclosures. Ensure that your clients are aware of the history of the home that they are purchasing before they get in too deep.

Borrowers' past claims

Just as sellers' past claims can hinder your clients' efforts to purchase homeowners insurance, your clients' past claims can haunt them as well. If your clients have small issues in their current home that they can fix themselves, urge them to do so. Making even one call to their present insurance agent for their current home can cause problems when they try to obtain insurance for a new home.

Filing just two claims in two years can put your clients at risk when they are searching for homeowners insurance. You may also want to advise your clients that many small claims can count against them more than a few large claims. Remind your clients that their claims history will follow them, regardless of the home they live in.



You don't want to be stuck when your clients are trying to close on a new home, but they cannot acquire insurance. Reminding your clients of these common pitfalls and offering guidance can make all the difference when it comes to the success of your closings. ■