

Flood insurance is reasonably priced, yet most homeowners don't have it

by Ilyce_Glink

Q: I was in Nashville, Tenn., this last weekend delivering a seminar on FEMA and flood issues for land surveyors. I picked up a copy of "The City Paper" and caught your article regarding flood plain locale. You incorrectly state in the last paragraph that the buyer "may have to purchase flood insurance." According to the National Flood Insurance Reform Act of 1994, any federally regulated lender cannot make, increase, extend or renew any loan on any property located within a "Special Flood Hazard Area" (SFHA) unless flood insurance is purchased by the borrower. Also, the purpose of an elevation certificate is merely to determine the premiums for mandatory flood insurance and for the mental comfort of the purchaser.

A: Thanks for your comments. You are correct. According to FEMA, homes located in SFHAs that have mortgages from federally insured or regulated lenders must purchase flood insurance, under federal law. In my column, I said "may have to purchase flood insurance" to cover the possibility that some people might be working with non-federally regulated lenders or even relatives - in which case the borrower would not have to obtain flood insurance. One interesting statistic is that, despite federal law requiring homes in SFHAs to have flood insurance if they have mortgages, only 49 percent of single-family homes in SFHAs are so insured. According to a RAND corporation study conducted for FEMA, about 60 percent of homes in the South and West have flood insurance coverage. Nationally, just 1 percent of homes in non-SFHAs have flood insurance. As I've said before in this column, flood insurance is important and reasonably priced. It's worth buying. Thanks for writing.

Q: I have a home warranty question for you. I closed on my first home last October 30. According to my purchase agreement, a home warranty was to be included at closing (paid for by the broker). I signed so many papers at the closing, that I just assumed the warranty was included. In January, my thermostat went out. I called the listing broker and she said I never got a home warranty. After further investigating she found out that yes, I'm supposed to have a home warranty for one year. She ordered the home warranty, but stated that it won't begin until February 2007. She refuses to pay for the thermostat. Can I take her to court for the cost of the thermostat? What else can I do?

A: You can sue anyone you want. But it will take a lot of time and energy for a small matter. There are two kinds of "home" warranties available in the market. One is given to a buyer of a newly constructed home and the other is purchased or given to buyers of existing homes. I'm assuming that you purchased an existing home and are referring to the second kind of home warranty. What I'd do is call the managing broker of the seller agent's firm and have a discussion with him or her about the situation and ask the company to pop for the thermostat. Please keep in mind that many home warranties have a deductible that the homeowner is required to pay for each incident. That deductible can range from \$60 to \$100 or more per visit. You may find that even with the warranty, you will end up paying about the same cost for the thermostat because you have to pay for the deductible. Looking over your situation, it's clear that the seller's real estate agent forgot to buy the warranty, and he or she should bear the cost of the new thermostat. But I think it's fair that you pay what would have been the deductible. Finally, you bear some of the responsibility. You should have really read all the papers at closing and checked to make sure that the warranty was included. And if you didn't do it, your attorney (if you had one) should have done it.

Q: Is there a certain percentage below the asking price that is considered a reasonable offer?

A: A reasonable offer would generally be considered to be 5 to 10 percent below the list price. A so-called "low-ball" would be below that. But there's no hard and firm answer because the offer you make depends entirely on how well the house is priced and what the local market conditions are like. If the seller has priced his home competitively, then an initial offer 2 to 3 percent below list price might be reasonable. Even offering list price might be reasonable. But if the seller is pricing the home at a "pie-in-the-sky" price, then you may offer something substantially below that initially and some people would consider that reasonable. Of course, the seller may not think so, and that's really where you've got to get your game in order. Negotiations are very much a game of mental agility. Figuring out what's really important to the seller (price, timing, keeping the appliances) is key to a successful negotiating process.

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