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A potential roadblock awaits if you don't know how to investigate a home's insurance claim records.

BY TERRY WATSON

When I became a real estate practitioner 13 years ago, asbestos was the boogie-man. Next came lead-based paint and more recently, mold. These issues continue to be potential deal-breakers that must be dealt with properly, but now another big issue has entered the scene: CLUE reports. If you aren't familiar with these reports or how they can throw a deal off track, it's time to learn.

CLUE, an acronym for Comprehensive Loss Underwriting Exchange, is a national insurance industry database with more than 40 million personal property claims. A CLUE report is the equivalent of a credit report for a house, which examines all claims reported to the insurance company for a given property over a five-year period, including water damage, fires, and mold. Reports show the date of loss, type of loss, and amounts paid out.

Traditionally, the insurability of a property is a topic that was left to the insurance company. But now real estate practitioners and their clients also must pay close attention to a home's record of insurance claims to make sure secrets of the property's past won't come back to haunt them.

A Cautionary Tale

Take, for instance, the story of what happened to a friend of mine when she and her husband didn't look at a CLUE report before

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buying a property. Last year, after months of home shopping, they found the perfect house, completely gut-rehabbed and freshly painted. They offered the full asking price, and it was accepted.

After moving in, a worker from the gas company stopped by to let them know a new gas meter would be installed and explained the installation had been delayed for so long because the house had been empty “since the fire.” My friend heard the casual comment, but it didn’t fully register until the worker was in the home installing the meter and said “I can still smell the smoke.”

My friend learned that a fire had occurred in the home about a year earlier, causing considerable damage, a fact the seller never disclosed. She and her husband took a closer look at the home and discovered an attic destroyed by fire and filled with burnt insulation. Not long after their discovery, the basement water pipes cracked due to the fire damage and had to be replaced.

To get to the root of the matter, they ordered a CLUE report for the home. It turned out the seller received insurance payouts from the fire totaling more than \$300,000, which the seller most likely used for new walls and ceilings, new shingles for the roof, and new siding on the house. My friend and her husband are now trying to force the seller to buy the house back, and they’re considering litigation to accomplish their goal. They’re even considering suing their real estate practitioner, who they hold responsible for not telling them to hire a home inspector.

Of course, this is an extreme case in which severe damage went undetected by a real estate practitioner and the buyers before the closing.

But similarly devastating instances happen all the time, making it highly advisable for buyers to always view a copy of a home’s CLUE report before signing a contract.

Insurance Risks Uncovered

CLUE reports also let potential buyers know about water damage, mold, and other issues that can make it difficult or prohibitively expensive to insure the home. Without viewing the report, big trouble may be brewing for buyers who wait until the day before closing, or even the day of closing, to get a paid insurance receipt.

Let’s say the property closes, ownership is transferred, the buyers get the keys and the real estate practitioner gets paid. Life is good. But about two weeks later, the bottom can fall out if the buyers get a letter from their insurance company rescinding the policy due to a previous claim. Most mortgage documents implicitly state that a property must remain insured. If homeowners can’t find insurance elsewhere, they can be forced into paying the mortgage company’s premium insurance rates, or worse, facing foreclosure on the home because they can’t afford the hefty payments.

I believe it’s only a matter of time before every state will include CLUE reports as a mandatory part of their seller disclosure documents. Mortgage companies already are starting to order these reports as standard procedure because so many deals are blowing up over insurance issues and they don’t want to be stuck with an uninsurable property.

How to Help Your Clients

Until CLUE reports are a standard disclosure in any home sale, you don’t want your clients to become a test case. Here’s how you can avoid bad situations like the ones described above:

When Working With Sellers:

- Ask sellers to order their home’s CLUE report before listing the property. This will make them aware of potential problems in selling the home and will give them a chance to correct any wrong information in the report. You can order a report online through

ChoiceTrust, a unit of Alpharetta, Ga.-based data provider, ChoicePoint Asset Co.

- Educate buyers by providing them with a CLUE Home Seller’s Disclosure Report from ChoiceTrust, available online at no charge.
- A clean CLUE report can be used as a selling point. Make sure potential buyers know that it’s available for them to view.
- Under the Fair and Accurate Credit Transactions Act of 2003, property owners can order one free report every year.

When Working With Buyers:

- Ask the seller to present you with the home’s CLUE report. Like a credit report, CLUE reports may only be obtained by the current property owner.
- Make the purchase contingent on viewing a CLUE report, or on the buyer obtaining affordable insurance. Check with your state REALTOR® association or real estate commission to see if it offers a rider or an addendum that you can include with the contract.
- Ask the buyer to apply for insurance immediately after a signed contract.
- Educate yourself and your clients. Go to ChoiceTrust’s CLUE Reports page to view a sample CLUE report, to learn how to read reports and to download a brochure for homebuyers or real estate professionals. Include this CLUE report information in your buyer’s packet.
- Buyers also should request a copy of their personal Insurance Scores, which also are often used by insurance companies to determine consumers’ overall insurance risks and premiums. Learning what factors are used in calculating rates can help consumers reduce their insurance premiums over time.

Real estate practitioners should take CLUE reports very seriously, especially at a time when insurability issues are so often snagging sales. Make it a habit to tell buyers to view the CLUE report for the homes they’re interested in buying, and educate them about the risks of not doing so. It will reduce your liability as the real estate salesperson and help to avoid property or insurance problems down the road. **MAR**