

Discrimination in Property Insurance

by Former Nebraska Equal Opportunity Commission Executive Director Alfonza Whitaker

The purpose of this article is to alert you as consumers or as a person who may be engaged in providing a service in the Real Estate Industry of pervasive discriminatory practices that may involve violations of the Fair Housing Act which prohibits discrimination in property insurance.

While we at the Nebraska Equal Opportunity Commission are concerned about all discriminatory practices that restrict, limit, or deny homeowners insurance in predominately African American, Latino and Integrated neighborhoods within the state, we are particularly concerned about practices that prevent a potential homeowner from obtaining the American dream of owning a home of their own. For example, we are aware of a situation where a homebuyer had successfully qualified for all of the requirements of buying a home, including qualifying for a mortgage. At or near the closing date they were notified that they could not obtain homeowners insurance due to bad credit history. In this case, the buyer was not given the opportunity to exonerate themselves or explain their credit history or anything of that nature which allowed them to qualify for the mortgage, they were just given a flat no to the application for insurance. This is the type of discriminatory practice and underwriting standards that the Nebraska Equal Opportunity Commission would like to address and investigate. Therefore, if something of this nature has occurred to you or someone you know, you should contact the Nebraska Equal Opportunity Commission in order to have this matter investigated.

The Nebraska Equal Opportunity Commission finds that there is something fundamentally flawed with the use of a homeowner's credit rating in determining eligibility for insurance coverage. In these cases, the insurance companies use credit-scoring models, which purport to predict who will file a claim or commit insurance fraud. A family who is approved for a mortgage loan after their credit is thoroughly scrutinized can subsequently be turned down for homeowners insurance based on the same credit information that is used to approve their mortgage loan. Homeowners must have insurance in order to close on the mortgage loan and they must obtain insurance coverage for the life of the loan. The question you must ask is, does a late payment to a credit card company translate to "high risk" homeowner. Does a credit blemish really mean I'm likely to commit an insurance fraud – a felony. Insurance companies must get real and realize that credit scoring in the homeowner's insurance arena looks just like another proxy for race discrimination. Some insurance companies have stopped using the age or value of a home as the reason to deny coverage, yet we see the introduction and the increased use of credit which has the same results as denying coverage in African American, Latino and Integrated neighborhoods. The Nebraska Equal Opportunity Commission invites any citizen, real estate agent or member of the public to contact our office when they feel that there has been discrimination in the ability to procure insurance or anything unusual occurs which may hamper a person's ability to close a real estate deal.

As you may know, decades of insurance and mortgage redlining has led to a decline in property values and deterioration of our urban neighborhoods. We are concerned about policies, practices and underwriting standards that severely limit or deny insurance coverage needed to repair, replace or rebuild a home located in an older, African American, Latino or Integrated neighborhood. Many of the practices that intentionally hurt homeowners and damage neighborhoods throughout the state are:

1. Charging African Americans and people of color more for the same or inferior coverage
2. Requiring additional background information from applicants in minority neighborhoods;
3. Offering Whites replacement cost coverage, but denying it to African Americans;
4. Maintaining minimum age restrictions;
5. Maintaining minimum value restrictions;
6. Requiring inspection of homes in minority neighborhoods more frequently;
7. Failing to return calls or provide quotes to applicants in minority neighborhoods more frequently; and
8. Referring callers from minority neighborhoods to other insurance companies.

Constance Chamberlin, Executive Director of HOME in Richmond, Virginia, noted in a lawsuit filed against some of the major insurance companies, Citi Group, Travelers and Aetna, stated that "African American and Latino homeowners experience double jeopardy when they attempt to obtain insurance coverage from these companies – discrimination based on both the age and value of their homes. There is absolutely no business reason for these policies. In fact, State Farm, All State, Liberty Mutual and Nationwide, the largest insurance companies in the country, eliminated age and value restrictions from their underwriting guidelines years ago."

Based upon these factors alone, the fact that age and value restrictions will have a disproportionate impact on African American homeowners and because American neighborhoods remain highly racially segregated, it is easy for a company to select a minimum home price, which will exclude neighborhoods of color from obtaining insurance.

The results of these discriminatory practices are thousands of homes in Nebraska urban neighborhoods and rural communities are inadequately protected against loss. The Nebraska Equal Opportunity Commission is committed to ensuring that African American, Latino and other homeowners of color have the same ability to purchase quality homeowners insurance coverage as Whites. Insurance protects the largest financial investment that most Americans will ever make. We want to ensure that homeowners have access to insurance that provides replacement coverage for both the structure and contents regardless of the age or value of the home or the racial composition of the neighborhood. The Nebraska Equal Opportunity Commission is interested in investigating insurance companies that use discriminatory policies and credit scoring systems that virtually guarantee insurance will be denied to urban neighborhoods and people of color.

What are you going to do?