

WALLACE ACT 1

The California Fair Plan Roof Replacement Program Proposal

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Proposed to: California State Legislature, Governor of California, Insurance
Commissioner of California, California Association of Realtors, California
Mortgage Association

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There is a significant concern with regards to the California Fair Plan on roof cancellation notices that are putting undue stress on not only the homeowners who get the cancellation notices but also realtors, lenders, and appraisers. Changes are needed immediately with solutions to this growing problem that will wreak havoc on real estate with massive foreclosures. The California Fair Plan is sending out cancellation notices based on roof conditions that, for a large percentage, they are wrong on. However, when correct, homeowners are struggling to come up with the funds for a new roof before being canceled by the only high-risk fire insurance provider in the state. If the state of California wants to cancel homeowners insurance, then a payment program must be provided to avoid massive foreclosures in the state.

My Background:

I am a second-generation licensed general building contractor and certified home inspector with extensive experience with home inspections and building homes. Roof cancellation inspections are becoming more prevalent with no solution on site. I would be called to inspect roofs after cancellation notices have been sent out to homeowners, and in return, I would either agree with the California Fair Plan or provide a roof certification by me that the homeowner would then send back to avoid cancellations.

I have found in the notices that they are not only exaggerating conditions like fiberglass lining (which very often still has 5–7 years of shingle life left) or moss buildup but actually confusing a tile roof with a composition asphalt shingle roof or labeling an asphalt shingle roof as a wood shingle roof. Canceling without knowing the type of roofing that is installed is incompetent and shows another example of the bad business ethics that California Fair Plan has been practicing.

Homeowners who are often on fixed income and already pay a premium for the California Fair Plan are now put in a situation where roof replacement is needed or face cancellations within months. This is a major issue not only for the homeowners but also for the lenders. How many homeowners have at times \$30,000 for a new roof and come up with the money in a few months or face foreclosure? Because without the “California Fair Plan,” the **homeowner can face foreclosure from the lender due to not being properly insured, which will lead to foreclosures.**

I have found myself risking my license against the California Fair Plan many times for the client because that is who I do business for, and I do know my experience with what I do for a living far exceeds anyone who is inspecting these roofs by drive-by photos, drone shots, or satellite imagery. Therefore, I have created a complete breakdown that I believe will protect everyone who is affected by the current situations going on with the California Fair Plan.

What Are Appraisers Facing?

There is already a major liability on the way towards appraisers, as now they are being put in a situation where if they state a roof is in “moderate condition” for the loan for the lender, and in reality it isn't, they can be liable for an errors and omissions claim or a potential lawsuit. Let's make it clear: appraisers jobs are not extensive inspectors, and the home inspection report that a potential buyer does get from a certified home inspector is not disclosed to the appraiser or lender, ultimately making the appraiser liable for a potential lawsuit after a cancellation notice is sent out from the California Fair Plan, especially if they put roof conditions that are wrong. Appraisers aren't using satellite imagery, not using drones to inspect the roofs, and only have a limited scope of view or knowledge. This goes as well for the realtors who do an agent visual

inspection; in the end, this puts not just liability but a bad image in the light of that appraiser or realtor on the homeowner, who could lose their home because of an insurance cancellation.

What Should Appraisers Do?

Appraisers can call for a roof inspection from either a licensed general building contractor or a licensed C39 roofing contractor to provide a thorough inspection report and certification to be presented to the lender, especially in locations that are in urban wildland interface locations that require being on the California Fair Plan. This would eliminate the liability on the appraisers based on the changing landscape of insurance and bring transparency from a licensed professional to be present to the lender and hopefully to be provided to insurance upfront to avoid cancellations from arising without notice.

What are Lenders Facing?

Lenders are facing foreclosures. The process of foreclosure is lengthy, and the lenders typically do not receive the full value of the loan. If the homeowner is unable to keep their insurance, then this not only puts significant stress on the homeowner but also on the lender of the home, depending on how much equity has been built up. Home's that are located in high-risk fire locations that have a high insurance cost are much harder to sell today and easier to lose to foreclosure than three years ago based on the increase in monthly insurance costs, and now adding a new roof makes it more unforgiving. Now, if a foreclosure happens because of the roof conditions with a cancellation from the California Fair Plan, the value of the home and equity in it just plummeted. This high insurance cost is also a huge issue for homeowners, especially with FHA loans.

Is equity the same on these same homes at high-risk fire zone locations because of the insurance costs? If so, then this will be a huge issue for homeowners with a small down payment or on a FHA loan. As noted, FHA doesn't actually lend the money for the mortgage; it only regulates and insures mortgages, but more transparency will be needed, especially for FHA-type loans, to avoid California Fair Plan cancellations moving forward.

What Should Lenders do?

If lenders are aware upfront of roof conditions, then a different type of modification can be presented, like a 203k conventional renovation loan. Full transparency is needed between the appraisers, the lenders, and the insurance providers in order to avoid last-second insurance cancellations. This type of loan, which yes, can be a concern with the debt-to-income ratio for applicants, would also help the real estate market. If a roof certification from a non-biased licensed contractor (C39 or General B) can be provided and then honored by the insurance provider (home and fire) with a deadline date of when a roof should be replaced (like a two-year

certification), this will give a heads-up to the homeowner when replacement is needed and would already be built into the loan.

Conflict of Interest: Rule changes should also be applied to the licensed contractors (C39 or General B only) who do these roof inspections in order to avoid a conflict of interest. Home inspectors are not allowed to do any physical work they inspect for 12 months, and that should be the same in this situation. All roof inspections should state that no work will be performed for 12 months due to a conflict of interest. This would become a non-bias report, and this would show there is no incentive to exaggerate the conditions of the roof in order to get the job. Also, a home inspector is not licensed in California and shall be exempt from roof inspections and certifications moving forward for insurance and lender purposes, as they do not have a license but only a certification with their association that provides it, which is not recognized by the state of California.

General Building Contractors can do roof inspections and certifications as long as they show two or more unrelated trades which every roof does have those (electrical, roofing, plumbing, insulation, fabrication, paint, etc). This is true especially when inspecting from the top plate of the home to the ridge of the roof. A C-39 Roofing contractor is limited to the description of what is stated with the Contractors State License Board.

The Solution For All

Both a Public and Private Sector Initiative

Private Sector: Lenders should provide a second loan as either tied into the existing loan or a separate payment option regardless of the credit score, as this roof loan would immediately put equity back into the home. The loan should be to the extent of the manufacturer's shingle warranty. Also, only 30-year standard asphalt dimensional shingle composition roofs or roll asphalt (depending on pitch) should be allowed on this program, as three-tab roof shingle roofs present too much liability. Clay tile, concrete tile, and metal roofs are not the major concerns right now with insurance, but with asphalt shingles, it's important to go one step at a time with this.

Many manufacturers warranty the shingles for up to 20 years, and if a loan is provided, then the lender could ask for routine inspections while under the loan program. People will pay their roof loan in order to stay in their home, and a 0 percent down with a 5% interest rate does seem to be fair, and this will again keep people in their home. Their credit score should not be of concern as long as the mortgage payments have been made. All work must be permitted and finalized by the local building department and submitted to the lender.

Public Sector: If the lender isn't able to provide this option, the State of California should provide a roof loan program. If the California Fair Plan is the only insurance option in high-risk fire zones, then the state of California is obligated to provide a solution to keep people in their homes. The same program would require, regardless of credit score, a 0 percent down payment with a 5% interest rate at the extent of the warranty of the home, and this would be separate from the current lender but issued from the state. The state department could ask for routine inspections while under the loan program, and all work must be permitted and finalized by the local building department and submitted to the lender.

Monopoly and Labor Shortage Concerns

There will be a concern with monopolies by roofing companies, both the "manufacturer" and the contractors. There will be a need for a cap on profits and materials in order to avoid excessive profit gain. With regards to labor, work permits could be issued if there is a labor shortage.

The Positives Of This Proposal

- **Jobs would be created**
- **Immediate equity would be added on the home**
- **A significant reduction in insurance claims**
- **Foreclosures would be significantly reduced**
- **A jump start in green energy would occur**
- **This would be a bipartisan effort in California**

This program would create a significant number of jobs and move towards green energy. Having a new roof installed to keep people's insurance can pave the way for solar panels to be installed on roofs if decided by the homeowner. Putting a new roof on the home would also add equity to the home, which is again great for the lender. A significant amount of insurance claims would be reduced, and if new roofs are installed, it should lower the costs of insurance with the California Fair Plan. This is an election year, and the State of California needs bipartisanship to help protect homeowners, lenders, and realtors, as well as a positive resolution with regards to the current insurance crisis.

A handwritten signature in dark ink, appearing to read 'Dustin Wallace', written over a horizontal line.

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