

The purchase of a home represents one of the largest single investments most consumers will ever make. Protect yourself with:

- ◆ An independent home inspection
- ◆ A natural hazards disclosure report
- ◆ An environmental hazards disclosure report
- ◆ An insurance loss history report
- ◆ A review of all building permits for the address

Home inspection and hazard disclosure reports detail existing and potential problems with the home or property you are considering. The reports can help you decide whether repairs or mitigations (cures or preventative efforts) are needed. You, or in some cases, the seller, can purchase these reports during the escrow period, after your sales offer has been accepted and before it is finalized. Your real estate professional can give you the names of companies that provide these reports.

A home inspection looks at defects that you or a trained inspector can see. The natural and environmental hazards disclosure reports investigate hazards you can't always see, ranging from earthquake faults to contaminated soils. While often invisible to the human eye, these factors could affect you and your family now or sometime in the future.

These reports can help you decide if the home is right for you. Some findings can be easily and even cheaply corrected, while others are expensive to repair or mitigate. Even if the reports find items of concern, you do not have to cancel your contract. Inspection and hazard disclosure reports are a tool to help you become well informed when you make one of the biggest decisions of your life.

Home inspections

Home inspections can give buyers peace of mind at a reasonable cost of \$250-\$500 per report. Professional home inspectors identify defects and conditions that you as a prospective buyer should know about. Home inspectors are trained to look for "material defects"—conditions that significantly affect value, desirability, safety or habitability. Home inspectors cannot be expected to identify hidden defects if no symptoms can be seen.

According to the American Society of Home Inspectors (ASHI), a home inspection report summarizes the findings of a visual inspection of the home's heating system, central air-conditioning system,

interior plumbing and electrical systems; roof, attic, and visible insulation; walls, ceilings, floors, windows and doors; foundation, basement and other visible structures of the home.

Few houses are perfect. If the seller is motivated, you may be able to negotiate repair of major defects. Or you can accept the situation and make the repairs at your own expense after closing. If your contract allows you to seek a home inspection—a common contingency in real estate contracts—then you are free to walk away if the home inspection reveals problems you don't want to fix.

Natural hazards

Natural hazards of one type or another exist almost everywhere. For instance, California has many natural hazards of concern to homebuyers. In California it is important to learn if the home is in or near a government-designated flood or fire zone, landslide zone or a known earthquake fault. In coastal areas of the country, or near rivers, homebuyers should be aware of flooding or landslide potential.

Many areas of the Eastern and Gulf coasts are subject to hurricane damage. Accessing natural hazards information can help you take steps to protect your home and family. Natural hazards include hurricanes, floods, dams or levee failures, tsunamis, lava flows, fires, earthquakes, liquefaction (severe ground shaking and ground failure) and landslides.

Not a do-it-yourself job

There are many things homeowners can do for themselves, but researching potential hazards is best left to professionals. Agencies at the local, state and federal government levels have their own hazard maps. Obtaining this information is time-consuming and difficult to complete by the close of escrow. Most buyers do not have the expertise to understand the information they may find. Instead, many buyers and sellers seek the services of a natural hazards disclosure company, which often provides insurance to protect homebuyers against any errors or omissions in their reports.

Cost and quality of reports

The natural hazards industry is virtually unregulated. Wide differences exist in the quality of information, practices and insurance coverage. In California alone, dozens of companies supply natural

hazards disclosure reports. Their cost ranges from \$50-\$100. Some reports fail to go beyond minimal state-mandated requirements and miss key locally mapped hazards. Others don't investigate all local, state and federal maps and may not be comprehensive. Some reports may even contain inaccurate information.

Don't shop for a natural hazards disclosure report based on price. Instead, compare the services of different companies in order to get the most comprehensive and accurate report. Ask for sample reports. If you have any questions, call and ask to speak with the company's legal department. If you get the run-around, take it as a bad sign. Good natural hazards disclosure providers will:

- ◆ Base their research on the most up-to-date and detailed local and state information
- ◆ Base their research on your unique property boundaries—not some random computer icon (i.e. a caricature of a house, star or dot) that does not accurately reflect your property
- ◆ Clearly outline whether the subject property is in a hazard zone
- ◆ Give details of the source of information contained in the report
- ◆ Guarantee the completeness and accuracy of its reports
- ◆ Carry sufficient "errors and omissions" (E&O) insurance coverage

When you review sample reports, be alert for fine print notices or excessive "legalese" protecting the company from inaccurate or incomplete information. This can be a red flag that companies do not want to stand behind their reports.

In 2005, some of the largest California hazard disclosure firms were sold within months of being sued in a class action lawsuit that exposed them to enormous liability for research errors. Some of those same companies are now operating under different names. To guard against buying an incomplete, inaccurate or uninsured report from a company you haven't dealt with before, ask how long the company has been in business under the same name and/or ownership. You may be able to double-check this information with the agency in your state that regulates business entities.

Court decisions have made real estate agents and sellers responsible to disclose material facts (situ-

ations that affect the value and desirability of a property) and to use "reasonable diligence" in the sources they rely on.

In California, a leading state in real estate disclosure requirements, the Natural Hazard Disclosure Statement (NHDS) requires that sellers or sellers' agents disclose statewide hazards of potential concern to real estate buyers. The law outlines six required disclosure zones that apply statewide: Special Flood Hazard Areas, Dam Inundation Zones, Very High Fire Hazard Severity Zones, Wildland Fire Hazard Areas, Earthquake Fault Zones and Seismic Hazard Zones. The law also requires that locally mapped hazards affecting the value or desirability of the home be disclosed. Just because the property is not in one of these zones, it is not necessarily exempt from the named hazard.

Good hazard disclosure reports will notify you even if you are within a quarter mile of certain hazard zones. For instance, homeowners that purchased properties that were outside, but close to, mapped landslide zones have suffered serious damages in landslides. In California's Ventura County a massive landslide destroyed 13 homes and killed 10 people in 2005. None of the homes were in a state designated landslide zone, but all were within a quarter of a mile of the zone.

Environmental hazards

Communities across the country have environmental contamination that might cause harmful effects to the health of nearby residents. Environmental hazards reports that provide potential homebuyers with information about contaminants are available to homeowners. Sellers are not always required to provide potential buyers with environmental hazards reports. You must ask for them. Ordering one before the closing can give you key information about contaminants in the area that can adversely affect human health and property value. A good report can be purchased for about \$50. If the seller or the seller's agent is not willing to purchase a report, pay for it yourself.

Across the country, many homeowners have discovered too late that their home is in or near a contaminated area. Environmental contamination typically spreads and can take many years to clean up. There are measures you can take to protect yourself from environmental contamination, but the

cost of retrofitting, fire retardant materials, installation of filters and ventilation systems, etc. may be cost-prohibitive for many families. Knowing about hazards in advance gives you the opportunity to renegotiate the price of a home or make necessary upgrades to protect your family's health.

There are many potential environmental hazards to consider when buying a home—most people are aware of asbestos, lead-based paint, leaking underground storage tanks, toxic mold and radon gas. Asbestos, a carcinogen (cancer-causing agent) can be found in siding, floor covering and on pipes. Likewise, asbestos can occur naturally in rocks and soil. Homebuyers nationwide must be given a mandatory notice to alert them to the prevalence of lead-based paint in homes built before 1978. Lead-based paint can be harmful if ingested, and eating lead paint is particularly dangerous for children. Radon gas, another carcinogen, is prevalent in certain parts of the country.

Homebuyers should also be aware of:

- ◆ Contamination sites as identified by the Environmental Protection Agency (EPA). (See "For more Information.") These include actual and proposed "National Priority List" sites containing toxic pollution
- ◆ Solid waste landfill sites
- ◆ Leaking underground storage tank sites that may have polluted groundwater or have the potential to do so
- ◆ Former military sites and facilities that may be polluted with dangerous substances and by-products of weapons production
- ◆ Wildlife protection areas subject to conservation laws that limit what homeowners can do to their properties

Insurance loss history reports

Much to their dismay, many home buyers discover too late that the property they've invested time and money in is difficult or impossible to insure or the premiums are astronomical. Real estate transactions often fail when the new buyers find that they cannot secure homeowner's insurance. Properties that may be difficult to insure typically have had many prior insurance claims (or even just one water damage claim.)

Insurance companies use reports that provide

them with five years of loss underwriting history to determine the amount you, as the new owner, will pay for homeowner's insurance premiums. These documents—called "CLUE" (Comprehensive Loss Underwriting Exchange) reports—are designed to reflect the loss history for a specific property address, not individuals. Sometimes, based on prior insurance claims information contained in a CLUE report, insurers may refuse to issue a policy for a specific property.

To protect yourself, you can get a comprehensive insurance loss underwriting history report for the property you want to buy. Under the federal Fair Credit Reporting Act, only the owner, insurer or lender for the property can access CLUE reports. However, when you enter a contract to buy a property you can ask your real estate agent to get a report from the current owner. Ask your agent to be sure that you get a CLUE report from a company with the most pertinent local insurer information on file. The report should be prepared for the specific property address and should not contain the seller's personal information, such as date of birth, Social Security number or credit score.

Building permits

Homebuyers can, by themselves or through a professional, check with the local building and zoning department to make sure that all repairs and renovations on the home they wish to buy were done legally. Most agencies will, for a small fee, provide you with a record of building permits for the property. This is an important step, as many buyers have discovered far too late that the city or county may require that prior illegally constructed improvements may have to be removed before any future construction can commence. It is not uncommon for garages, in-law apartments, additional bathrooms, fireplaces or wood-burning stoves to have been added without legal permits.

Rights and responsibilities

In virtually every state, sellers and the real estate agents who represent them are legally required to disclose all material facts that affect the value and desirability of the property as well as all disclosures required by the government. Buyers have the right to carefully examine the home with a qualified home inspector and to order natural and environ-

mental hazard reports. Make sure your contract states that the purchase depends on these reports.

The bottom line

In any transaction—especially home purchases—buyers must do everything they can to avoid negative consequences. However, before the sale closes buyers have the right to stipulate contingencies in the sales contract, conduct independent inspections, ask questions and take every possible measure to protect themselves, their families, and their investments.

Natural hazards and environmental contamination cannot always be corrected, but informed home buyers can take active measures to protect and safeguard their families.

More consumer information

Association of Real Estate License Law Officials (www.arello.com): Use the "Regulatory Agencies" directory to find your state real estate regulator, where you can learn about disclosures that are required when you buy or sell real estate.

American Red Cross (www.redcross.org or www.prepare.org): Disaster response tips.

Consumer Action (www.consumer-action.org): Multilingual educational materials, both in printed form and on the Internet; non-legal advice and referrals on consumer problems at 415-777-9635 or 213-624-8327. Chinese, English and Spanish are spoken. For advice and referrals via e-mail, write to: hotline@consumer-action.org.

Earth 911 (www.earth911.org; 800-CLEANUP): Community-specific resources about pollutants.

Home Inspections: Your real estate representative can refer you to qualified inspectors in your area.

Scorecard (www.scorecard.org): Free, in-depth pollution reports for your county.

Superfund Sites (www.epa.gov/superfund): The U.S. Environmental Protection Agency's designates Superfund sites as places where hazardous waste is located and may have an unhealthy effect on people or local ecosystems. The Superfund web site has information about hazards related to exposure to contaminants, risk assessment and safety guides for cleaning up environmental hazards.



Reports you need before buying a home

- ◆ Natural hazards
- ◆ Environmental hazards
- ◆ Insurance loss history
- ◆ Home inspections

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