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KATHLEEN A. BIRRANE
Commissioner
TAMMY R. J. LONGAN
Acting Deputy Commissioner
ROBERT BARON
Associate Commissioner, Property
and Casualty

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202
Direct Dial: 410-468-2353 Fax: 410-468-2020
Email: robert.baron@maryland.gov
1-800-492-6116 TTY: 1-800-735-2258
www.insurance.maryland.gov

Date: February 7, 2023
Bill # / Title: House Bill 190 – Housing and Community Development – Homeowner’s Extreme Weather Mitigation and Preparation Grant Program
Committee: House Environment and Transportation Committee
Position: Letter of Information (LOI)

The Maryland Insurance Administration (MIA) appreciates the opportunity to provide the Committee with information regarding House Bill 190.

House Bill 190 (SB 77) establishes the Homeowner’s Extreme Weather Mitigation and Preparation Grant Program (“the program”) within the Department of Housing and Community Development for the purpose of distributing grants to homeowners, local governments and non-profit organizations to facilitate mitigation and repairs for water damage caused by extreme weather conditions. The bill also sets forth the eligibility requirements for a homeowner to obtain a grant from the program of up to \$5,000.

The Insurance Administration notes that the use of the phrases “Fair Market Value” and “Up-to-date” within the bill are inconsistent with lending and insurance statutes and practices and their use could lead to unintended outcomes. This can be rectified by replacing “Fair Market Value” with “Replacement Cost Value” and striking the words, “...as assessed by the State Department of Assessments and Taxation;” and, replacing “up-to-date” with “in-force.”

Homeowners insurance companies calculate dwelling coverage policy limits that are based on the cost to restore a home to its pre-loss condition from the foundation up in the event of a total dwelling loss. This is known as the “replacement cost value” or RCV. Fair Market Values may be significantly higher or lower than the RCV based on many factors that are unrelated to the cost to restore the insured property. Policies with limits that are significantly above or below the RCV amount pose problems for both the insurer and the homeowner. Additionally, mortgage lenders are prohibited under Maryland law (Commercial Law Article, § 12-124(a)(2), Annotated Code of Maryland) from requiring a homeowner to purchase a policy with limits higher than the RCV.

The MIA also suggests using the term “in-force,” which is the proper terminology to describe an insurance policy that is available to provide coverage at the time of a loss, instead of “up-to-date,” which is not a concise term in the realm of insurance policy and contract language. To the extent that the goal of the Sponsors is to assure that the values reflected in the policy reflect current values, that issue is addressed by referring to “Replacement Cost Value” as opposed to “Fair Market Value.”

The program’s objective of providing grants to homeowners, businesses and non-profits for mitigation and repairs of water damage from extreme weather is laudable and will best be served by making these minor language changes within the bill. Thank you for the opportunity to provide this letter of information. The Insurance Administration is available if we can answer any questions or provide additional insight.