

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

House Bill 840 (Delegate Stein)  
Economic Matters

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**Homeowner's Insurance - Ordinance or Law Coverage**

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This bill requires an insurer that issues, sells, or delivers a homeowner's insurance policy in the State to offer to provide ordinance or law coverage at the time a person applies for, or renews, a homeowner's insurance policy. The ordinance or law coverage offered must insure against the repair or replacement costs of a damaged structure that are incurred in order to comply with any local, State, or federal law, ordinance, or regulation. The amount of ordinance or law coverage offered may not be less than 10% of the limit of coverage on the dwelling.

The bill applies prospectively to all homeowner's insurance policies issued, delivered, or renewed in the State on or after October 1, 2010.

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**Fiscal Summary**

**State Effect:** Minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the \$125 rate and form filing fee in FY 2011. Review of form filings can be handled with existing MIA budgeted resources.

**Local Effect:** None.

**Small Business Effect:** Potential minimal.

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**Analysis**

**Current Law:** An insurer that issues, sells, or delivers a homeowner's insurance policy must offer in writing to provide certain coverage for loss at the time of application or policy renewal. Specifically, the insurer must offer to provide coverage for loss that

(1) is caused by or results from water that backs up through sewers or drains; and (2) is not caused by the negligence of the insured. A homeowner's insurer must provide an applicant with a written statement that lists all additional optional coverage available. The statement must be conspicuous, on a separate sheet, and titled "Additional Optional Coverage Not Included in the Standard Homeowner's Insurance Policy."

**Background:** Local, State, and federal laws, regulations, and ordinances concerning building codes, local zoning, and other requirements tend to apply prospectively to newly constructed dwellings. Thus, homes built before the laws, regulations, and ordinances take effect tend to be "grandfathered" in from meeting those new requirements. If an older home suffers loss and needs to be rebuilt or repaired, a standard homeowner's insurance policy may only cover the repair or replacement of the original structure – not necessarily any additional costs to bring the dwelling into conformity with current local, State, or federal requirements. For instance, if a hurricane damaged a house without ordinance or law coverage, the homeowner's insurance policy would pay the costs to rebuild the home but would not pay to raise the home out of the floodplain as now required by law.

Florida insurance law requires that if a homeowner's insurance policy automatically provides replacement cost coverage, or if the insured purchases replacement cost coverage, ordinance or law coverage must be offered for a minimum of 25% of the limit applying to the dwelling and other building and nonbuilding structures.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Insurance Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - February 19, 2010  
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