

Speakers: Banks not disclosing bad foundations

By Eric Bedner

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Speakers at a legislative public hearing Friday said banks are selling foreclosed houses without disclosing to the buyers that the houses have pyrrhotite in their foundations.

The revelation came during a joint public hearing before the legislature's Insurance and Real Estate and Planning and Development committees on several crumbling foundation bills.

One bill would require certain disclosures when selling a home, including whether there is pyrrhotite in the foundation, what testing or repairs have been done, and any deterioration associated with pyrrhotite, the iron-sulfide mineral that is causing foundations to crumble.

As currently written, the proposal would apply to homeowners selling their homes, but not to banks. Some legislators and real estate agents say banks should also be required to disclose foundation problems.

Dan Keune, president of the Connecticut Association of Realtors, said he has shown bank-owned houses that have obvious signs of pyrrhotite-related deterioration. After asking the listing agency if the bank had the foundations tested, Keune said he was told that banks won't test for the mineral, which expands over time and destroys foundations.

Rep. Thomas Delnicki, R-South Windsor, said a young couple moved into town after buying a house that had been foreclosed on, only to find out later that it had a crumbling foundation.

Delnicki said there is the potential for banks to take advantage of unsuspecting buyers who believe they are getting a great deal on a home.

State Sen. M. Saud Anwar, D-South Windsor, raised concerns about homeowners choosing not to have their



Jim Michaud / Journal Inquirer

Debbie McCoy of Vernon speaks during Friday's hearing in Hartford on bills to address crumbling foundations as other homeowners in the same predicament listen.

homes tested precisely because they would have to disclose the results if they try to sell the house.

Full disclosure by condos

Ellington lawyer Brenda Draghi said the proposed legislation should also include full disclosures by condominium complexes — not just sellers of individual condo units — because other affected units in a complex would affect a condominium owner's overall financial liability.

Other bills under consideration would require insurance companies to provide coverage for deteriorating foundations, establish an \$8 million grant program to develop methods intended to reduce the cost of repairing or replacing foundations, and require quarries throughout the state to be tested for pyrrhotite.

The question of whether insurance companies should

provide coverage is also the subject of a lawsuit in which the state Supreme Court is expected to issue a decision this summer.

Eric George, president of the Insurance Association of Connecticut, continues to assert that requiring insurance coverage for foundations would increase the cost of homeowners insurance and affect the availability and affordability of insurance for every homeowner in the state.

The American Property Casualty Insurance Association opposes the legislation for the same reasons.

Willington resident Timothy Heim, who is also president of the Connecticut Coalition Against Crumbling Basements, wants insurance companies to provide coverage and is calling for a Connecticut Unfair Insurance Practices Act investigation.

His efforts stem from insurance policy language being changed to require an abrupt collapse for foundation coverage to apply — and from the way policyholders were notified of the change.

Delnicki said the newly formed bipartisan Crumbling Foundations Caucus is working on a letter to the state insurance commissioner asking for an

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Flag protocol: Full staff

Only the president or a governor can authorize flying the national flag at half staff.

Only a governor can authorize flying the state flag at half staff.



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Insurers let themselves off the hook

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unfair insurance practices investigation.

Insurers escaped problem

South Windsor lawyer Keith Yagaloff called the abrupt-collapse requirement an "illusion." He said insurance companies intentionally changed their language to avoid covering crumbling foundations.

"They went to the insurance commissioner and got permission to change the language," he said of insurers. "And they basically wrote out coverage for everybody with this condition."

Proponents of testing all quarries in the state for pyrrhotite say it would help to ensure that the crumbling foundation crisis doesn't recur. But critics say the proposed testing is repetitive and too costly, potentially putting some quarries out of business.

Legislators are also considering slight language tweaks to legislation already passed. One proposal would allow condominium owners to receive funding from the state's nonprofit captive insurance company established to assist those with crumbling foundations. Another would ensure that an annual \$12 insurance surcharge is charged only once per policy, rather than once per policyholder.

Rep. Christopher Davis, R-Ellington, said it was always the legislature's intent to have the captive insurance company cover condominiums.

The superintendent of the state's foundation fund, Michael Maglaras, said "legacy" applicants — those who replaced their foundations but aren't eligible for captive funds because they no longer live in the home — will soon be able to apply for help.

He stressed the importance of receiving the next \$20 million installment of bonding from the state.

Claims outstrip funds

At this point, he said, there are \$57 million of claim liabilities on the company's balance sheet but only \$18.6 million in available cash.



Jessica Hill / Associated Press

Cracks in the foundation of the Willington home of Maggie and Vincent Perracchio are seen in June, when Housing and Urban Development Secretary Ben Carson visited. Many homes in north-central Connecticut and western Massachusetts have been found to have crumbling foundations blamed on pyrrhotite.

end of April and to \$90 million by the end of this fiscal year. Since launching in January, the company has paid out \$1.2 million in claims and will pay at least \$4.5 million in the next four weeks, he said.

He added that he expects fewer than 30 total legacy claimants and is confident the state fund will be able to help them.

During the brief time the captive company has been operational, Maglaras has determined that the average cost of replacing a foundation, excluding peripheral costs such as landscaping or decks, is about \$168,000, which is less than the \$175,000 cap on funds provided by the state fund.

Crumbling foundation legislation has been debated in the General Assembly for the last three sessions and is gaining support from lawmakers outside the affected area.

"Even though we don't have it in my end of the state, we're behind you 100 percent," Rep. Kenneth Gucker, D-Danbury, said to the room full of affected homeowners and advocates.