

Mold getting a costly hold on homes

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By Rochelle Sharpe, USA TODAY

When Beverly Hammond discovered black and green mold growing in her hall closet last fall, she wanted her family to evacuate the house immediately. She suspected the gooey fungus was causing her husband's frequent nosebleeds and her 16-year-old daughter's sudden memory loss.

Toxic mold can cause such symptoms, she knew, but she had no idea where her family of four could move. So, Hammond set up six tents in her backyard in Seabrook, east of Houston. Her family has been living in this encampment for six months.

And the first insurance adjuster showed up only six weeks ago, Hammond says. She fears it will take months before her house problems are resolved.

"The whole game of insurance is not to pay," she says.

Like thousands of other distraught homeowners, she feels betrayed by the insurance company she had paid to help in a catastrophe.

All over the nation, the American dream of homeownership is being hampered as insurance companies become inundated with costly mold claims stemming from water damage.

In Texas alone, the top five insurance carriers saw their mold claims quintuple in a year. The carriers paid more than \$1 billion on mold settlements the past two years, according to the Texas Department of Insurance.

Texas and California have had the highest number of claims for mold. As a result, many people there are finding it nearly impossible to get insurance when trying to buy a house.

Toxic mold is not the dark scum often found around the bathtub. Instead, it can grow unseen behind walls and on wood as a result of a water leak. Some scientists link respiratory problems, rashes, infections and possibly even brain damage to toxic mold.

"People don't believe mold hurts you, but it really is something that causes harm to the body," says Diane Ashley, an elementary school principal in Katy, west of Houston, who spent months figuring out why she was sick. Her school was closed because of mold.

The insurance bind

Insurance companies say they have no choice but to restrict coverage and raise rates of homeowner policies.

In Texas, real estate agents warn buyers to start shopping for homeowners insurance as soon as they sign a contract to buy a house because getting coverage could be difficult.

Deb Bryan, who sells real estate in Austin, says she had to contact nearly 150 insurance agents in Texas to find coverage for one house. She says the sellers lost eight offers because of insurance problems. The

house didn't have toxic mold, but there had been recent leaks. The insurers feared the house could develop more water problems — and mold.

In the end, the homeowners replaced the air conditioner and roof and upgraded the wiring to get insurance. The house sold for \$75,000 less than the \$275,000 asking price.

In California, consumer crusader Erin Brockovich — the subject of a movie that starred Julia Roberts — sued her construction company for causing mold to grow in her new Los Angeles-area house. Many builders in the state are finding it difficult to get insurance to construct condominiums.

Homeowners plagued with toxic mold are suffering the most. Some people run out of insurance benefits and are forced to pay for their unsellable moldy house and a new dwelling. Those who can't afford two homes are sometimes forced into bankruptcy.

"People have a right to know that mold can make you homeless," says Pam Walker of Southfield, a suburb of Detroit.

Her family moved out of their house because of health problems 24 days after buying it. Her insurance company didn't cover the mold-related water damage that environmental scientists discovered.

Walker, an office manager, is letting her house go into foreclosure. She has also worked with her boss, Rep. John Conyers, D-Mich., to draft legislation that would create a federal insurance fund for families whose insurers won't cover mold-related losses.

Old mold, new problem

Mold has been around forever, but only in the past 15 years has it emerged as a financial and health problem for homeowners. Many office buildings and schools with mold have been forced to close because workers and students got sick.

Entertainer Ed McMahon sued his insurance company for \$20 million in April. He claims toxic mold at his Los Angeles home killed his dog.

The new Residences at the Ritz-Carlton in Washington, D.C., where basketball star Michael Jordan has a condo, is undergoing extensive renovations because of mold.

There are 100,000 types of mold, but only a few dozen are toxic and can cause health problems. These molds produce chemicals called mycotoxins that can cause rashes, seizures, unusual bleeding, respiratory problems and severe fatigue in some people.

No one knows for sure why mold problems are on the rise. Scientists say it could be due to modern construction methods. Newer houses have walls that contain cellulose, where mold can thrive. Because houses today are more airtight, indoor air quality is more likely to affect people's health.

"We are building houses that are going to be deadly," says Kaye Kilburn, a professor of medicine at the University of Southern California who has studied toxic mold.

Insurance companies didn't worry about mold until last year, when a homeowner won \$32 million in a lawsuit against Farmers Insurance. A jury declared that Farmers had acted fraudulently and in bad faith when fixing water damage in Melinda Ballard's 22-room mansion in Dripping Springs, in central Texas.

Ballard, who founded Policyholders of America in January to help homeowners with similar mold claims, says the company delayed fixing a relatively small water leak, which turned into a giant mold problem.

The case, under appeal, spawned an insurance crisis in Texas as mold-related water claims began to proliferate. The state's top insurance carriers saw their mold claims skyrocket to more than 37,000 last year from 7,000 in 2000, according to the latest figures from the Texas insurance department. Settlements paid on those claims climbed to \$854.3 million last year from \$152.7 million in 2000.

As a result, State Farm Insurance stopped writing new homeowner policies in Texas last fall. Farmers and Allstate Insurance restricted mold claims related to water damage. Insurance rates started going up, tripling in some cases.

"It doesn't make any sense for us to bring in new business until we get control of this trend," says Keith Androff, a State Farm spokesman in Texas.

Today, Texas homeowners who want coverage for mold resulting from water damage need to buy an add-on to their policies. State Farm's add-on is so expensive that only 16% of its clients have mold coverage that was standard a year ago, Androff says.

"I feel incredibly lucky to get reduced coverage at increased rates," quips MaryAnn Selva of Dickinson, south of Houston. Her insurance coverage with CNA Lloyds of Texas was canceled in April because she filed two claims for water damage totaling \$30,000 — neither involving mold.

Most insurance companies wanted her to pay an annual premium of \$3,000, which is more than double her previous payment of \$1,400. "The only thing it covered was if an airplane hit the house," she says. Eventually, she found coverage at a relative bargain: \$2,100 a year.

Limiting settlements

Insurance companies in every state are trying to reduce mold coverage, which typically pays for mold cleanup only if it results from sudden water damage, such as a burst pipe. Insurance companies filed petitions in all 50 states last year to limit settlements. So far, 28 states have approved coverage caps ranging from \$10,000 to \$50,000.

The companies say they had to make drastic policy changes. "Unfortunately, if you've had a water claim, it could signal you'll have more water problems down the road," says Candysse Miller of the Insurance Information Institute, a non-profit group in New York.

Insurance companies, meanwhile, are suspicious about the proliferation of claims and lawsuits. "This has become the pot of gold at the end of the rainbow for trial lawyers who think this is the new asbestos of the world," says Jerry Davies, a spokesman for the Personal Insurance Federation in California, a lobbying group.

California insurance companies, which have the second highest number of mold claims in the country, have watched settlements jump in the past six months. The average claim increased to more than \$36,000 from \$3,000, Davies says. The companies also are fearful of proposed state legislation that would mandate insurers to cover mold claims.

Some consumer advocates say this insurance crisis has been largely manufactured by the insurers to cover other financial problems. All insurance companies suffered economically because of Sept. 11 and the declining stock market.

In addition, State Farm, which stopped writing new policies in California and Louisiana as well as Texas, lost \$5 billion last year, in part because it had been selling policies below cost to keep its market share, says Robert Hunter of the Consumer Federation of America.

As for the mold problems, consumer advocates say insurers take so long to fix homeowners' minor water problems that they become costly mold disasters. But the Texas insurance department says some delays, which on occasion exceed one year, are due to the huge increase in the number of claims and the need to wait for test results to confirm whether toxic mold is in someone's home.

The department says consumer complaints about mold claims jumped to 321 last year from five in 2000.

"All the industry wants to talk about is Melinda Ballard's \$32 million verdict," says Dale Washington, a California attorney who has handled many mold cases. But, he says, Ballard's case wasn't really a mold claim. "It was a \$32 million fraud claim."

Washington says he has seen insurance companies repeatedly withhold information from customers about the possible health effects of toxic mold.

Nancy Gerding of The Woodlands, near Houston, says State Farm stopped paying for alternative housing and insisted her home was habitable though her contractor kept finding mold. She's borrowing against her 401(k) to rent a townhouse.

State Farm declined to comment on the Gerding case because she is suing the company.

"This is not right. It's un-American," Gerding says. "It's taking away the American dream."

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