

BAD FAITH BLOG

Shaky Shake Roof Claim

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Summary: Mr. and Mrs. Wright purchased a home in an exclusive golf club development and purchased homeowners' coverage from State Farm. The home's roof was damaged by a storm and had to be fully replaced as a result of the homeowner's association's restrictive covenants. After State Farm only paid for the repairs to the roof, the Wrights sued. Summary judgment was entered in favor of State Farm on plaintiffs' breach of contract, misrepresentation and contractual bad faith claims. The Sixth Circuit affirmed the summary judgment in all respects.

Wright v State Farm Fire and Casualty Company

The Wrights were unaware of the restrictive covenants in Muirfield Village when they purchased their home. That restrictive covenant provided in relevant part that any roof needed "repair must be re-roofed in entirety. Partial or patch roofing is not permitted." They purchased a homeowners' policy from State Farm through one of its captive agents. Mr. Wright did not think he received a detailed policy pamphlet when he purchased the coverage.

A storm damaged some of the shingles while that policy was in force. The roof replacement of the wood shake roof cost approximately \$47,000. State Farm offered to pay only \$747.03 above the deductible to repair the roof. The Wrights had a separate claim, for the mysterious disappearance of a \$1,500 ring. About 45 days before the policy expired, State Farm informed them that it would not renew the coverage due to the Wrights' "overall claim activity." The U.S. District Court granted summary judgment for State Farm leading the Wrights to appeal arguing that Ohio law required State Farm to cover the entire roof replacement, State Farm had a fiduciary duty to the Wrights, and that the non-renewal of the policy violated the "contractual duty of good faith."

The Sixth Circuit explained that because there had been “no misrepresentation or bad faith on the part of State Farm, the district court properly dismissed all the claims.” The court then explained the reasoning behind its holding. First, the court noted there was no misrepresentation about the scope of the policy’s coverage. The policy had increased the coverages for any increased cost because of “the enforcement of a building, zoning or land use ordinance or law,” which the Wrights contended State Farm had misrepresented. The court disagreed noting that a restrictive covenant is neither a law nor an ordinance and for that reason the increased coverage did not benefit the Wrights. In addition, the Ohio statute providing that whenever a loss required “replacement of an item and the replaced item does not match the quality, color or size of the item suffering the loss, the insurer shall replace as much of the item as to result in a reasonably comparable appearance,” did not apply. Although the new shakes and the old shakes would not immediately match one another, they would in time. The appeals court agreed with the district court that there should not be a rule requiring a complete roof replacement costing nearly \$50,000 just to have immediate matching. The appearance of the replacement shakes due to weathering would soon match those of the surrounding shakes with the weathering of the roof.

The misrepresentation and bad faith claims were apparently based in part on a theory that State Farm had a duty to disclose to the Wrights “the possibility that the homeowners’ association might require the entire roof to be replaced if any part of it were damaged.” The court found it hard to understand why State Farm would owe them such a duty noting that their argument “relies extensively on their ignorance, for which the law in this context provides no excuse. The Wrights had at least a minimal duty to educate themselves about their homeowners’ association’s rules and the contents of their insurance policy.”

The court also ruled that there were no grounds for claiming a fiduciary relationship between the Wrights and State Farm creating a special duty to disclose information to the Wrights. The Sixth Circuit cited Ohio case law stating that the relationship between an insured and the insurance agent is “an ordinary business relationship, not a fiduciary one.”

In addition, the court found that State Farm had not acted in bad faith when it chose not to renew the Wrights’ policy chiefly because State Farm “complied with the terms of the policy regarding non-renewal. The policy explicitly provided State Farm a right not to renew the policy, as long as it gave notice at least thirty days before the expiration of the policy. Regardless, there is no damage, since the Wrights were able easily to obtain comparable coverage with Liberty Mutual.”

This case underscores the duties and obligations of homeowner insureds both to educate themselves about their property and also to educate themselves about the terms of the insurance policy they purchased. Because the Wrights failed to educate themselves and because State Farm fully complied with the terms of its contract, State Farm was entitled to prevail on the breach of contract, misrepresentation, and bad faith claims as a matter of law.

By Anthony L. Martin

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