

NEW RISK ALERT: (MTH)

Meritage Homes Recognizes Revenue From Insurance Policies Not Yet Renewed

New language in latest 10-K reveals home builder counts estimated future renewals as revenue.

Published February 17, 2021

This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Meritage Homes Recognizes Revenue From Future Insurance Policy Renewals

As part of its financial services segment, Meritage Homes, a home builder targeting first time and move-up home buyers, offers title and escrow, mortgage, and insurance services. In the fourth quarter of 2019, Meritage began operating a wholly owned insurance broker that works with insurance companies nationwide to offer homeowners' insurance and other insurance products to its home buyers..

In its 2019 10-K, Meritage provided detail regarding its revenue recognition policy for its financial services segment:

“Our performance obligations for policy renewal commissions are considered satisfied upon issuance of the initial policy.”

In its 2020 10-K, Meritage includes new language that is more explicit:

“Revenue from financial services *includes estimated future insurance policy renewal commissions as our performance obligations are satisfied upon issuance of the initial policy with a third party broker.*”

It's unclear why Meritage assumes homeowners are certain to renew with the same insurer— in perpetuity or at least for the duration of their mortgage— since, on average, [16% of homeowners](#) switch insurance companies annually. Meritage says contract assets for estimated future renewal commissions are not material.

In 2020, Meritage's financial services segment— which includes estimated future policy renewals— accounted for 3% of the company's pre-tax net income. In 2019, the segment accounted for 6.8% and in 2018 it accounted for 8.5%.