

Survivors Speak: Coping With Underinsurance

Part of the ["Survivors Speak" Tip Series](#)

You may be eligible for a tax break if you are underinsured

"I was underinsured. During the immediate post-fire period, I carefully detailed all of my destroyed possessions in a computer-generated spreadsheet rather than the paper sheets initially requested by my insurance company. My destroyed possessions totaled approximately \$400,000.00. My insurance company paid me the total amount of my contents coverage of \$160,000.00. I ended up getting a large tax break for the \$240,000.00 in contents lost that was not reimbursed by my insurance company. That tax break greatly helped me finance the reconstruction of my house. So, anyone who is seriously underinsured should consult their tax professional to find out if they qualify for any type of tax break based on the loss.

An additional step that I took to help me recover financially was that upon completion of the rebuilt home, I refinanced my mortgage. At that particular time, rates were more favorable than when I had originally taken out the loan. The refinance allowed me to get some cash to help pay for furniture/possessions not covered by the personal property payment I received from my insurance company." **(CC, '03 Cedar Fire Survivor)**

Consider a group rebuild program to contain costs if many of the homeowners are underinsured

"Pretty quickly, I realized rebuilding my home was going to be a challenge because I was underinsured. Many others who lost their home in the same wildfire that destroyed my home were also underinsured. We began meeting together to discuss hiring a single builder so that we could try and create economies of scale and save money in the rebuild process. This took time and patience, but really paid off in the end. We ended up with a large number of people who wanted to be part of this "group rebuild program".

After much vetting by our group's leaders (checking references and licensing, reviewing previous building projects, etc.), three builders ended up making presentations to get our group's business (81 homes). Each household voted and the group went with the builder that got the most votes. Anyone who

was unhappy with the builder chosen could opt out of the program. Our group chose a builder that specialized in custom homes, who agreed to offer 7 different floor plans, but which would provide a customized exterior for every single home in the program. Also, the builder allowed much more customization than in a standard production program. The builder we chose, Stonefield, had a fixed fee contract. That was very important to me as I did not want to have any surprises later on. The builder did a great job and I love our rebuilt home". (**KR, '03 Cedar Fire Survivor**)

If you want to live on the property during building, try this

"I was underinsured on the dwelling coverage, but not on ALE. I negotiated with my insurance company for the purchase of a 5th wheel that I could live in on my property while my home was being rebuilt. To live in the 5th wheel required the installation of temporary water and electricity lines. The money spent to install the temporary water and electricity was also characterized as ALE because it was a necessary expense for me to live on the property. If I hadn't lived in the 5th wheel, my contractor would have had to charge me for the same temporary water and electrical line hookup, as he needed it for the rebuild, as well. That charge would have gone against my dwelling coverage, instead. Since I was underinsured on the dwelling coverage, it was helpful that the cost of the temporary water and electrical line hookup could be attributed to my ALE coverage. Additionally, after my home was rebuilt, I was able to sell the 5th wheel and money from the proceeds of that sale helped make up for money I had to spend out-of-pocket to rebuild the house." (**RM, '07 Rice Fire Survivor**)

An SBA construction loan helped cover what our dwelling coverage did not

"We obtained an SBA loan to help make up for our dwelling coverage shortfall. The best advice I can offer on this front is to provide as much documentation as possible and be persistent. Our experience was that the SBA asks for a lot of initial documentation. I used an Excel spreadsheet to document every cost associated with the loss of our home and highlighted the costs that were in excess of our insurance coverage. Initially, the SBA determined that we were under-qualified to receive an SBA loan. Later, they determined that we were overqualified to receive an SBA loan. We had a low mortgage balance and I felt that we truly should qualify for an SBA loan. So, I didn't' give up even though I was initially rejected twice. Each time I got a rejection from the SBA, I immediately wrote back, addressing any point raised in their rejection and including documentation that showed we were incurring expenses in excess of insurance policy limits. I also worked hard to build a positive relationship with my SBA case manager. Eventually, I prevailed and received an SBA loan for the underinsured portion of my dwelling rebuild. I

also tried to pursue an SBA loan for the underinsured portion of my personal property claim. Personally, I did not have success on this front. But the SBA construction loan made a huge difference in helping us cope with our underinsurance problem." **(JS, '07 Witch Creek Fire Survivor)**.