

What to Do With Checks from Your Insurance Company

If a disaster damages or destroys your home and possessions, you are likely to feel overwhelmed by the number of decisions that you and your family face during the recovery process. Rebuilding, buying a replacement home, or negotiating a cash-out with your insurance company are some of the most challenging ones. Figuring out what to do with checks issued by your insurance company is a related part of those challenges.

Once your claim is filed and you begin to receive checks for different parts of your claim, find a way that works for you to keep track of what has been paid, what category of benefits the payment relates to and what benefits are still owed. One method that has worked well for previous survivors is establishing a separate bank account that is just for insurance transactions. UP offers [a free downloadable spreadsheet](#) that can help you with expense tracking.

If you have a mortgage, the checks your insurance company sends for your dwelling and “other structures” repairs or rebuilding will be payable jointly to you and the mortgage company. (Other structures include garages and outbuildings). Experts agree that you should not use your insurance funds to pay off your mortgage until you have a plan to replace your dwelling (see below for more details).

People often ask whether it’s okay to cash a check from your insurance company if you think you’re entitled to a larger sum. The short answer is: Read both sides of the check and if you don’t see the words “full” or “final” or “settlement,” it’s fine to cash it and send an email or letter to the insurer confirming that you are accepting it as a partial payment only and that you look forward to receiving the balance owed. If you do see words on the check that suggest it’s a full or final payment, ask the insurer to re-issue it without them.

Typically, insurers divide the policy into “buckets”: Dwelling, contents, loss of use, other structures, trees, shrubs, and landscaping. Sometimes your insurance will issue a check specifically out of one bucket, and sometimes they will make a combined payment. Tracking the payments and allocations will

help you know what you've been paid and what is still available.

An increasing number of states are asking insurance companies to voluntarily advance a portion of what they owe you on your claim so you have cash to work with in the aftermath of your loss. We hope your insurer offers you advances. If you live in California, your insurance company is now legally required to issue you a check for 25% of your contents limits and four months of your "Additional Living Expense" coverage without requiring receipts or an itemized inventory.

People frequently ask UP whether they should cash or return an insurance check that is for less than what they are entitled to. If the front or back of the check doesn't say "final and full payment" or words to that effect, you can cash it, but we strongly recommend notifying the insurer in writing before you cash it that you consider it a partial payment.

Paying Off Your Mortgage - Yes or No

If you have a mortgage in place, the checks your insurance company sends for your dwelling and "other structures" will be payable jointly to you and the mortgage company. To be able to cash or deposit those checks, you need to find a person at the mortgage company to work with you so you can deposit those checks. Finding that person can be tricky. If you need help, try contacting the agency in your state that oversees banks and insurance companies; most of them have consumer helpers on staff. UP's website offers a national directory of state insurance agencies in our "State by State" help section at www.uphelp.org

Many disaster-impacted consumers report that a mortgage company representative pressured them to use their insurance funds to pay off their loan, or told them it was mandatory to do so. The law and the truth is, you're under no obligation to pre-pay the remaining balance of a mortgage, you only need to stay current. In fact, in a federally-declared disaster, many lenders are required to offer forbearance on your mortgage payments, meaning you don't have to make any payments for 12 months, and sometimes longer.

Talk to your lender to learn what your options are. Stay current with your mortgage payments. Fannie Mae offers up to 18 months of free mortgage counseling if you need it: 1-877-833-1746. For more guidance, see UP's [Getting Your Mortgage Company to Release Insurance Proceeds](#) and [Options and](#)

[Decision Points for Replacing Your Dwelling](#) publications, as well as Fannie Mae's [Planning for Insurance Payouts After a Disaster](#), all available free of charge in our online library.

Paying off your mortgage before you have a plan can leave you with insufficient funds to rebuild or replace your home. It can be very hard to find or qualify for a residential construction loan and SBA loans take time to process. Also, if you have a really good interest rate, keeping your existing mortgage may be your best choice. Before paying off your mortgage, consider whether you'd qualify for a new loan, given your stage in life and current earning power. Deciding how to handle your existing mortgage is an individual decision you should make after researching your options and considering your circumstances and goals for the future.

Dwelling Repair/Replacement Benefits

There are various ways your insurance company may issue benefit checks earmarked for replacing your dwelling. In most cases, the first check you'll get will be for the "Actual Cash Value" (ACV) of your home immediately before the loss, also known as the "depreciated" value. That will be followed by one or more checks toward the "Replacement Cost Value" (RCV) if your policy provides that type of coverage. If your home was substantially and clearly underinsured, your insurer *may* issue you a check for the full amount of your dwelling benefits without applying depreciation.

Some states have a "Valued Policy" law that requires your insurer to pay full value (not depreciated) on your dwelling if your home is totally destroyed. However, in most states and most situations, your insurer will calculate the replacement cost value of your dwelling loss, apply an ACV/depreciation formula, then issue an actual cash value payment. For more information, see [Insurance Recovery Tips for the Dwelling Part of Your Claim](#). If you have a replacement value policy, your insurer should then issue further payments upon proof that you have spent all funds they've paid to date.

If you have a policy that is labeled or was advertised to you as "Guaranteed Replacement Cost," and you are rebuilding, your insurer should continue issuing checks until your home is completely rebuilt. If you're replacing your home by buying elsewhere, you need to negotiate the "as was" replacement cost value of the original home and a settlement check based on that value. For more information, see [Buy or Rebuild](#).

Contents/Personal Property Benefits

The information presented in this publication is for general informational purposes and is not a substitute for legal advice. If you have a specific legal issue or problem, United Policyholders recommends that you consult with an attorney. Guidance on hiring professional help can be found in the "Find Help" section of www.uphelp.org. United Policyholders does not sell insurance or certify, endorse or warrant any of the insurance products, vendors, or professionals identified on our website.

Source: <https://uphelp.org/claim-guidance-publications/what-to-do-with-checks-from-your-insurance-company/> Date: April 26,

The checks your insurer issues under the contents bucket of your policy are for replacing personal property that was destroyed or damaged. There are some state laws and regulations that govern how insurers should pay for damaged and destroyed contents items, each insurer has their own process for how and when they issue checks. Some issue checks without requiring an inventory or receipts, but won't pay the maximum available benefits until you complete an itemized inventory. Some will issue checks each time you submit a partial inventory list of items. Just as with dwelling benefits, insurers typically issue checks for the depreciated value of contents items until you give them proof that you replaced those items. Some policies only pay ACV on contents.

Regardless of the type of policy you have, because insurers often dole out content benefit checks in installments, it's very important to keep good records. As you replace clothing, household items, furniture, etc., keep track of the purchases and receipts in a notebook or spreadsheet or whatever method is easiest for you. If you have RCV coverage on contents, these records will help you avoid leaving money on the table.

One practical and money-saving tip from a previous survivor: If you lost your home and you're living in a temporary unfurnished location, you may want to rent furniture until you move into your newly rebuilt or purchased home. Furniture you buy now may not fit into your new house! For more information, see [Home Inventory and Claim Tips](#) and [Completing Your Home Inventory – Contents Intensive](#).

Debris Removal

Removing debris from your property is your responsibility, and the amount of benefits available for debris removal depends on your insurer and your policy. Your City or County may offer a coordinated debris removal program and cover costs above your available insurance benefits, and this can save you money. However, to participate you need to assign your debris removal benefits to them. Because it can take up to two years before you get the bill from the City or County, it's important to keep your debris removal benefits on deposit so you have those funds available when the bill comes due. For more information, see [Debris Removal After a Partial or Total Loss](#).

Additional Living Expenses (ALE)

Checks for ALE will arrive as an advance and/or as you incur expenses and submit proof to your insurer.

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To determine whether something should be reimbursable as ALE, ask yourself this question: Is this an expense I incurred because of the loss event? Best practice is to be organized, save receipts, and be clear in your communication to your insurer. For more information, see [Survivors Speak: Additional Living Expense \(ALE\)/Loss of Use](#).

Paying Your Contractor with Insurance Funds If You're Rebuilding

As explained above, your insurer typically pays out a portion of the benefits earmarked for “dwelling” and “other structures” at the beginning of your project. They then pay additional portions based on documentation that materials have been purchased and work is underway. Although this can be challenging, this arrangement helps with quality control and protects you from cost overruns. For more information, see [Survivors Speak: Working With Your Contractor](#).

On large loss claims (larger than \$15K), your mortgage company may be very involved in monitoring construction progress and costs, or they may have no involvement. The mortgage company may ask to see the contractor’s estimate before work starts. Previous survivors recommend that you talk to your mortgage company about opening an escrow or construction account. In fact, some lenders require this.

An escrow or construction account will also require a private inspector to confirm that progress milestones have been hit before your contractor receives further payment. However, an inspector assigned to an escrow account will only sign off on the milestones, and will not review the *quality* of work. Because of this, you may want to consider hiring your own inspector to check on the quality and progress of your build. It is in your best interest as the property owner, to work with your contractor and/or mortgage company, to determine when a project is ready for the next payment.

To manage checks from your insurance company, our recommendations are the same as for other areas of your insurance claim: Keep good notes daily, use our website for guidance, stay on top of paperwork as best you can and get advice from trustworthy sources.