

Los Angeles fire survivor is told State Farm's \$900K check on hold due to insufficient funds

CAL Matters

Amelia McDonald couldn't believe her ears. She had been navigating what she calls "a horrible experience" trying to get her claims paid by State Farm after the Eaton Fire burned down her Altadena home and ranch in January. She, along with her father, daughter and the goats that survived the fire, have been displaced since then.

Now a \$876,354.07 check the insurer wrote her wouldn't clear.

McDonald called the check-hold department of her bank, Chase, Tuesday, asking why the funds from the check she deposited on June 30 were not available more than a week later. She said someone there told her it was because State Farm — the state's largest property insurer — had insufficient funds. In fact, he told her, the account had a negative balance.

She called the same department today, and reached someone who told her he expected the check to finally clear July 10. (Update: The check, which was also from a Chase bank account, cleared July 10.) But she pressed for details about the reason for the delay and asked to speak with a manager, who told her that the funds have been on hold because the bank wasn't sure the check would clear.

"It's just stunning," McDonald told CalMatters. "I'm an insurance defense attorney. I've been working for insurance companies for more than 20 years. I've never had a check bounce to a claimant in 25 years of practice."

State Farm is the largest property insurer in California. It said Monday in an update on its website that it has paid more than \$4.2 billion on almost 13,000 claims from the Los Angeles County fires.

“I really hope they’re not in so much trouble,” McDonald said. “Then we’re all in trouble.”

“After review on our end, we see no indication why the bank would not release the funds to our customer,” a State Farm spokesperson said in an emailed statement to CalMatters.

State Farm would not talk about McDonald’s interactions with her bank, or the allegation about insufficient funds.

On July 10, the day after this story published, State Farm spokesperson Tom Hartmann emailed CalMatters a written statement. “State Farm General had and continues to have the funds available to meet our commitments to customers,” he wrote. “We can’t speculate on what the bank may have said to our customer or its processes regarding the release of funds.”

Earlier this year, State Farm said claims from the LA-area fires would worsen its financial condition and potentially drive it out of California, where it has either canceled or refused to renew tens of thousands of policies. In May, State Farm received an unprecedented approval from the state to raise its rates on an emergency interim basis. Among the company’s arguments during a public hearing was that its credit rating had been downgraded, and that its solvency and therefore the policies of more than 1 million California homeowners were at real risk.

State Farm is facing lawsuits related to the fires that include complaints about its handling of smoke-damage claims and allegations that it systemically underinsured policy holders. In addition, California’s insurance department last month opened a formal investigation into the company’s handling of claims.

Michael Soller, spokesperson for the insurance department, said the department is investigating this issue with McDonald’s claim with State Farm. He would not comment about the check-clearing delay. An insurance compliance officer with the department, who McDonald emailed yesterday about the delay, responded to her today and said she has contacted State Farm and given the company five days to respond, according to an email seen by CalMatters.

Amy Bach, an attorney who co-founded consumer advocacy group United Policyholders more than 30 years ago, said she has never heard of a check from an insurer bouncing — though technically the check has only been on hold.

“That’s scary,” she said, adding that “people need a reality check on the financial realities of the enormous claims from the LA fires.”

Michael Bidart, an attorney who has litigated insurance cases, said he has never heard of an insurer’s check bouncing, either. But he has heard of insurers going insolvent, he added.

The nearly \$900,000 in funds McDonald is waiting for is for coverage of her house and ranch. State Farm also issued her a check for \$335,527.40 for the loss of contents on her property, according to records seen by CalMatters. She deposited that check in a different bank account. That check cleared.