

Options are few for storm-ravaged homes with insufficient insurance

CNBC

With the Atlantic hurricane season underway, homeowners should be aware that inadequate insurance coverage can make recovering from a bad situation even worse.

Whether damage from a storm comes from wind or water, homeowners whose coverage is insufficient have discovered the hard way that it makes recovery difficult and that their options for help are limited. “Some people believe they don’t need [coverage], and then they experience an event and realize they can’t afford the cost of repairs or rebuilding,” said Brock Long, former administrator of the Federal Emergency Management Agency and now executive chairman at Hagerty Consulting, an emergency management consulting firm based in Evanston, Illinois.

As temperatures rise and more moisture is held in the air, massive storms — some of which stall and dump torrential rainfall — have become more frequent in recent years. This has caused flooding in places that previously were unaccustomed to it.

While most homeowners carry standard homeowners insurance, those policies typically have a hurricane deductible, and don’t cover damage from flooding — which often causes the most damage.

Separate flood insurance is available through the National Flood Insurance Program or a private carrier. Yet unless you’re in a special designated flood zone, your lender likely doesn’t require it.

When a homeowner faces storm-related damage — regardless of the weather event — that is uncovered, there might be government programs that can provide financial assistance: FEMA grants and Small Business Administration loans. However, that help is not guaranteed, and it likely wouldn’t get you quickly back on your feet.

For instance, after 2017’s Hurricane Harvey, which dumped as much as 60 inches of rain in some spots in Texas, the average FEMA grant for individuals was \$7,000, while the average claim through the National Flood Insurance Program was more than \$100,000.

“FEMA can kickstart recovery, but it wasn’t designed to make you whole,” Long said.

And, FEMA only gets involved when the weather event is declared a disaster area by the president.

SBA loans also are only available in those situations. You can apply for up to \$200,000 toward the cost of repairing or replacing your primary residence — vacation homes generally don't count.

Remember, too, that you're expected to continue your mortgage payments after a disaster. That means an SBA loan would be an additional monthly obligation.

"In that situation, you're essentially paying two mortgages for your home," Long said.

The SBA sometimes will refinance part or all of an existing home loan, although that decision is made on a case-by-case basis.

And, of course, a bank might be willing to lend you money to rebuild, in the form of a home-equity or construction loan.

Nonprofit organizations also typically are on hand after disasters to provide assistance, ranging from the basics such as food and shelter to longer-term aid that can include housing — although a new home through a nonprofit is typically available only to very low-income residents.

Beyond that?

"A lot of people sell the property, or lose it to foreclosure if they can't sell," said Amy Bach, executive director of United Policyholders, a nonprofit group in San Francisco that helps consumers handle insurance issues after disasters.

The long-term financial effects of a disaster on victims aren't great. Living in a community hit by a medium-sized natural disaster leads to 5 percentage-point increase in the share of people with debts in collection after one year, according to a recent report by the Urban Institute, a Washington, D.C., think tank. After three years, that jumps to a 10 percentage-point increase.

Credit scores also drop. The study showed a 22-point decline in scores from medium-sized disaster, and a 10-point drop from a large one which is more likely to get long-term public recovery funding).

"If you go through a disaster and have a lot of uninsured losses, and you weren't financially stable to begin with, your ability to overcome that is very difficult," Long said.

The Atlantic hurricane season runs from June 1 through Nov. 30. And although the National Oceanic and Atmospheric Administration predicts a near-normal season, it nevertheless expects nine to 15 named storms winds of 39 mph or higher).

Of those, four to eight could become hurricanes winds of 74 mph or higher) and include two to four major hurricanes winds of 111 mph or higher).

Last September, Hurricane Florence caused \$24 billion in damage when it battered the Southeast, dumping more than 35 inches of rain in some spots in North Carolina and causing widespread flooding — including inland. Of that amount, an estimated \$13 billion to \$18.5 billion was from uninsured losses, according to CoreLogic.



“Just because you’re outside a special flood hazard area doesn’t mean you aren’t at risk for flooding,” Long said.

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