

Rebuilding After a Disaster? Don't Let These Insurance Surprises Slow You Down

Consumer Reports

Prevent payout delays with these smart and simple moves

The October wildfires in California wine country destroyed more than 7,200 homes and other buildings, according to the latest estimate by the California Department of Forestry and Fire Protection.

Now, as wildfire victims begin the long road to recovery, they, like the hurricane victims before them, must deal with homeowners insurance claims.

One of the first surprises is that if you have significant damage and a mortgage on your home, the insurance settlement check will usually be made out to you and the mortgage lender, which means both have to sign it.

That adds extra steps that can delay rebuilding and repairs. Still more delays can arise if the lender is slow to release funds from an escrow account, where insurance proceeds are usually held to pay contractors.

Ordinarily, insurance payout money flows smoothly. But delays “can be a big problem” in the wake of a natural disaster, says Amy Bach, executive director of United Policyholders, a San Francisco-based nonprofit that gives advice on insurance claims to consumers, often right at the post-disaster scene of wildfires, hurricanes, and earthquakes.

Savvy consumers can get over these hurdles quicker. Here's how.

First, Prevent Problems

Home insurers add the mortgagee's name to a settlement check to protect the bank's financial interest in the property. You probably don't remember, but you agreed to this arrangement during the whirlwind of paperwork when you closed on your home purchase; it's in the fine print of your mortgage agreement and homeowners insurance policy.

To help prevent a problem from developing in the first place, take these steps to smooth the process: Call your mortgage servicer right after you file your homeowners insurance claim to report the loss and

ask what procedures you must follow to get the bank to co-sign the check and release the funds ASAP. Don't delay this call for the days or weeks it might take to actually get a paper check from your insurer, which you'll have to sign and forward to the bank. Get a jump on it immediately. Find contact information on this list of mortgage servicers from the Mortgage Bankers Association, a trade group. Tell the lender where to find you. Delays can be caused by outdated contact information. If the damage has displaced you from your regular home address and phone, tell the lender where you're staying temporarily, and give him or her your cell-phone number, email address, and other contact information. Request payment forbearance. Despite your bad luck, mortgage payments are still due, and if you fall behind, that could complicate the bank's release of your insurance money later in this process. New and unanticipated post-disaster cash-flow needs can also hamper your ability to keep up with the mortgage. So now is the time to ask about disaster-related payment forbearance, which most lenders offer, according to the MBA.

Get Your Check Processed

The dual-payee provision typically kicks in for the part of a settlement earmarked to pay for the repair or rebuilding of your home when it has sustained damages costing more than \$10,000, says Chris Hackett, senior director of personal lines at the Property Casualty Insurers Association of America.

This doesn't apply to other insurance checks for the lost contents of your home and reimbursements for motel, food, clothing, and other additional living expenses. Those payments should be made out only to you.

Follow the rules. The procedures for insurance claim-check endorsement and payouts vary by lender. For example, Wells Fargo, the nation's largest mortgage servicer, according to Mortgage Daily, an industry publication, advises borrowers with severe damage to call its disaster hotline (888-818-9147) to request a home-recovery kit, which contains all the forms needed to expedite insurance claims.

The servicer will tell you where to send your check to get it signed and what necessary paperwork you'll need to send with it, which might include the contractor's estimate and contract. Don't leave out any missing pieces.

Move fast. If you don't want the bank to delay, don't hold things up yourself. Get things done sooner rather than later. Hackett recommends that you send the check and other paperwork via a secure overnight delivery service.

Go local. An even better strategy for speed is to take your check to the lender's bank branch, if possible, says Bob Davis, an executive vice president at the American Bankers Association. Chase, the second largest mortgage servicer, recommends that you do that at one of its 5,227 U.S. branches.

After you've submitted the check and forms, Chase will generally send you a new check for the first \$20,000, or deposit the money into your personal checking or savings account so the contractor can get started. Wells Fargo says it will release a minimum of \$40,000—if your mortgage is current.

Get Escrow Funds Released

For major repairs, the rest of the money will be held by the bank in an escrow account and released in stages as the work is completed and inspected “to make sure the funds restore the collateral value of the home and the work doesn't result in a house with a big plastic sheet in place of a roof,” Davis says.

Seize the initiative. Don't wait for the bank or contractor to act. Closely monitor the progress of the project and contact the lender as your contractor completes each milestone. Bach says escrowed funds are typically released one-third up front; a second third after half the work is done, inspected, and verified complete by the lender; and the final third when the job is 100 percent done, inspected, and verified complete.

For claims involving more than \$40,000, Chase, for example, releases the first \$20,000 to start and advises homeowners to request a free initial inspection of the work when it's 50 percent complete. If all looks good, Chase will release half of the remaining funds in escrow. When repairs are complete, the homeowner should request a final free inspection to get the remaining balance released from escrow. Get personal. If you run into delays, try to find and get action from a human being at your lender. That might not always be possible, but “be as face to face and local as possible,” says Mark Romano, director of claims projects at the Consumer Federation of America. If the mortgage lender has a local office, go there and try to work with it.

Persistently press for action. “Be tenacious,” Bach says. Assure the lender that you're being diligent at restoring the asset you and the bank share. Keep notes of all your conversations with the lender, insurer, and contractor, and the names, titles, phone numbers, email addresses, and dates of everyone else you talk to. “If that doesn't work, file a complaint with your state or the CFPB,” Bach says, referring to the Consumer Financial Protection Bureau.