Buying INSTEAD of Rebuilding (California)

Navigating the decision-making and insurance claim process

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About United Policyholders

501(c)3 nonprofit organization.

A voice and an information resource for consumers in all 50 states.

A 29+ year track-record and subject matter expertise in insurance and disaster recovery.

Not for profit…not for sale.

Funded by donations and grants.

A volunteer corps with personal and/or professional expertise in disaster recovery and insurance.
The Fine Print

• This workshop is intended to be general guidance only, not legal advice.

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Today's Topics

Decision process: Buy or rebuild?

Starting point

Challenges
Decision Process

- Rebuild, Rent or Purchase Elsewhere
- Affordability
- Where Do Additional Funds Come From?
- Decisions You’re Now Facing
- Next Steps: Where To Go For Additional Help

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Remember - not all decisions will be financial!

Know insurance proceeds

Get rebuild quote

Is there enough to rebuild with adjustments?

Tax ramifications
Where Do Additional Funds Come From?

External Savings

Personal Property Proceeds

Retirement Savings/Loan
  Federally Tax Favored Qualified Withdrawal

Granny Unit within the Rebuild?
Decisions You’re Now Facing

- How this will impact the rest of your financial future
- College
- Retirement
- Medical and long-term care

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Should You Rebuild?

- Where are you in life?

- Kids’ ages? Family? - who else lives with you and who do you support?

- Are you rebuilding to stay in the area permanently or will you leave the area in retirement?

- Will your neighbor’s decision have an impact on your decision to stay or relocate?

- How committed are you to remaining in your same neighborhood?
Can You Afford To Rebuild?

- Were you properly insured?
- What if you were under insured?
- How much is owed against your home?
- Can you buy elsewhere in this market? How far away would you need to move? Will the commute impact your current lifestyle?
- Can you refinance?
- Should you consider accepting the insurance and now become a renter?
Talk to your CPA about the tax implications of buying or rebuilding.
You’ve decided to buy a house, instead of rebuild.

So, where do you start?
Buying vs. Rebuilding

The process is almost identical for all the different options (rebuild/buy/codes).

The most important thing: KNOW HOW MUCH IT WOULD COST TO REBUILD THE HOUSE YOU LOST up to the policy limits.

If buying, you will also need an estimate and a CODE BID for the house you lost, NOT the new one!

If you were paid the full policy limits, you will most likely not need an estimate.
Determining Coverage A - Dwelling

2051.5

(a) (1) Under an open policy that requires payment of the replacement cost for a loss, the measure of indemnity is the amount that it would cost the insured to repair, rebuild, or replace the thing lost or injured, without a deduction for physical depreciation, or the policy limit, whichever is less.
What does this mean???

• The amount you are owed is based upon the cost to rebuild the home you LOST, plus code upgrades, up to the policy limit.

• In most cases, you will need an estimate to determine what it would have cost to rebuild your prior home, even if you do not intend to rebuild it.
Aim for an agreed upon scope of loss

- Make sure that you correct the insurance company estimate so you can compare like-for-like with your contractor’s estimate.

- Make sure your contractor’s estimate is for your OLD home, not the one you want.

- In-person meetings with adjuster can be productive.

- Your contractor/subs should be able to stand behind his/her numbers.

- Know the areas where you differ, and why.
(2) If the policy requires the insured to repair, rebuild, or replace the damaged property in order to collect the full replacement cost, the insurer shall pay the actual cash value of the damaged property, as defined in Section 2051, until the damaged property is repaired, rebuilt, or replaced. Once the property is repaired, rebuilt, or replaced, the insurer shall pay the difference between the actual cash value payment made and the full replacement cost reasonably paid to replace the damaged property, up to the limits stated in the policy...
Challenges

- Differences between insurance co. and contractor’s estimates
- “Like Kind & Quality"
- Soft costs & supervision
- Code Upgrade coverage
- Land value deduction
My Estimate is Higher Than My Insurance Company’s Estimate?

• Ask your adjuster for a “reasonable” adjustment of the estimates – line-by-line

• Identify areas (trades, like roofing, flooring, framing, etc.) where there are large differences

• Get specialized bids (from roofer, flooring contractor, etc.)

• Know your rights!
(d) If losses are settled on the basis of a written scope and/or estimate prepared by or for the insurer, the insurer shall supply the claimant with a copy of each document upon which the settlement is based. The estimate prepared by or for the insurer shall be in accordance with applicable policy provisions, of an amount which will restore the damaged property to no less than its condition prior to the loss and which will allow for repairs to be made in a manner which meets accepted trade standards for good and workmanlike construction. The insurer shall take reasonable steps to verify that the repair or rebuilding costs utilized by the insurer or its claims agents are accurate and representative of costs in the local market area. If the claimant subsequently contends, based upon a written estimate which he or she obtains, that necessary repairs will exceed the written estimate prepared by or for the insurer, the insurer shall:

(1) pay the difference between its written estimate and a higher estimate obtained by the claimant; or,

(2) if requested by the claimant, promptly provide the claimant with the name of at least one repair individual or entity that will make the repairs for the amount of the written estimate. The insurer shall cause the damaged property to be restored to no less than its condition prior to the loss and which will allow for repairs in a manner which meets accepted trade standards for good and workmanlike construction at no additional cost to the claimant other than as stated in the policy or as otherwise allowed by these regulations; or,

(3) reasonably adjust any written estimates prepared by the repair individual or entity of the insured's choice and provide a copy of the adjusted estimate to the claimant.
“Like Kind and Quality”

- Like kind and quality is used to determine the amount the insurance company owes you to replace your home.
- Neither the statute, or the policies, say that you have to actually replace with like kind and quality, whether you are buying or rebuilding.
- Some adjusters misunderstand this concept.
CA Insurance Code 2051.5

(c) In the event of a total loss of the insured structure, a policy issued or delivered in this state shall not contain a provision that limits or denies, on the basis that the insured has decided to rebuild at a new location or to purchase an already built home at a new location, payment of the building code upgrade cost or the replacement cost, including any extended replacement cost coverage, to the extent those costs are otherwise covered by the terms of the policy or any policy endorsement. However, the measure of indemnity shall not exceed the replacement cost, including the building code upgrade cost and any extended replacement cost coverage, if applicable, to repair, rebuild, or replace the insured structure at its original location.
“SOFT COSTS”

• Historically, certain items were left as “OPEN” items, that were “paid as incurred” during the rebuilding process
• Some insurers are saying that these costs will only be paid if “incurred” in a rebuild
• These costs are part of the “replacement cost” of the home you lost, and are owed, whether you buy or rebuild
• Refer your adjuster to 2051.5 (c )
Construction Supervision

- Construction supervision is an important aspect of rebuilding a total loss
- Some insurers are not allowing for supervision, saying it is part of overhead and profit - it isn’t!
- Overhead are the fixed costs of running a construction company
- Profit is the profit a general contractor makes on a job
- Xactware is specific that supervision needs to be added to estimates, and is NOT part of O&P
2051.5 (c) In the event of a total loss of the insured structure, a policy issued or delivered in this state shall not contain a provision that limits or denies, on the basis that the insured has decided to rebuild at a new location or to purchase an already built home at a new location, payment of the building code upgrade cost or the replacement cost, including any extended replacement cost coverage, to the extent those costs are otherwise covered by the terms of the policy or any policy endorsement. However, the measure of indemnity shall not exceed the replacement cost, including the building code upgrade cost and any extended replacement cost coverage, if applicable, to repair, rebuild, or replace the insured structure at its original location.
What’s Included in Code Upgrades?

• As always, **read your policy**, as the language varies.

• In general, this coverage pays the amount to bring THE HOME YOU LOST up to current building codes, up to available limits.

• This means things that were not there, but will need to be added in order to gain occupancy after rebuilding, i.e., sprinklers, solar, energy efficiency upgrades, etc.

• The cost can be “rolled into” purchase and upgrading of a new house, but the amount is determined by the old house.

• This coverage is usually paid “as incurred” (meaning $ is spent) but insurer has discretion.

• Often, you have to show that the city/county will enforce the codes in order to get payment.
The Land Value Issue

- Some insurers want to deduct an amount for the land under the home you want to buy - we disagree!
- This is an unsettled area of the law.
- We recommend pushing back:
  - Ask where it states in policy
  - You are NOT asking for $ for land! Just cost of lost home
  - New home including land is same price as old home excluding land so it’s not a windfall
  - Bill in legislature for future
When you purchased your home, you purchased the structure as well as the land it sits on.

However, homeowner’s insurance only covers the structure, NOT the land.

Let’s say the house that was lost was worth $400,000 and the value of the land is unknown after the loss.
If your home was properly insured, your RCV should be $400,000 for a total loss. If you decide to buy elsewhere, you will likely purchase a home around $400,000. However, that $400,000 will necessarily include the value of both the house & LAND underneath it.

That means that you would be left with a house that is worth less than the $400,000 you received from your insurance policy to replace your previous home! Result: The purchased home is worth less than your previous home because the amount of your insurance proceeds will likely be used to purchase the land under that house as well!
Claim Handling Standards

California Fair Claims Settlement Practices Act

- 15 days to respond to communications
  - Email, letter, phone call

- 40 days to pay or deny claim

- If unable to make decision, must send letter
  - What they need to make a decision
  - How long they need to make the decision
  - Send letter every 30 days
Best Practices

Get it in WRITING!

If not, put it in writing, back to them confirming

Keep it professional

Be concise and to the point

Bold or bullet point your requests

Use proper grammar and punctuation

Promptly respond to letters and reasonable requests

Avoid venting frustrations and emotions to your adjuster

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24/7 help on the web: www.uphelp.org/pubs/buy-or_rebuild

- Insurance Claim Help
  - Recovery Blogs:
  - Claim Help Library
  - Guides for overcoming obstacles
  - Links to Government and Professional help
  - Tips from past disaster survivors
  - Sample Letters and Claim Forms

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“HOW TO SURVIVE THE HOME INSURANCE CRISIS”
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THURSDAY
September 3\textsuperscript{rd} @ 4:00 p.m.

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