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REBUILD STRATEGY, FINANCE, & CONSTRUCTION SEMINAR



❖ Thank you to our supporting organizations!

❖ Schedule

- ◆ Panel presentations: 90 minutes
- ◆ Questions & answers: 30+ minutes
- ◆ We will keep answering questions until there are no more

❖ Questions

- ◆ Please hold all questions for the Q&A session
- ◆ Please line up for the Q&A session at the aisle microphones

❖ Wi-Fi

- ◆ Very limited capacity, for downloading the slide deck ONLY

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- ❖ **Rebuild Strategy (including insurance)**
 - ❖ **Rebuild Financing**
 - ❖ **Rebuilding**

 - ❖ **What we're NOT going to talk about today...**
 - ◆ Debris clean-up
 - ◆ Contents insurance
 - ◆ Buying a replacement house instead of rebuilding
 - ◆ Selling your lot
 - ◆ Taxes

Matthew Grill, Fire Victims Coalition



❖ About Matthew

- ◆ Graduated from Santa Rosa High
- ◆ Owned businesses in Santa Rosa for 10 years
- ◆ Moved away in 2004, lost my home in a 2007 wildfire, and found that I was vastly under-insured
- ◆ Came back to Santa Rosa after the 2017 wildfire to donate my time, leveraging my construction and development background
- ◆ I have volunteered for [Coffey Strong](#) since it was formed, and this has been the most rewarding time of my life

❖ Contact information

- ◆ 909-230-0929 (mobile)
- ◆ matthew@firevictimscoalition.org

Matthew Grill, Fire Victims Coalition



❖ About Fire Victims Coalition (FVC)

- ◆ I created [Fire Victims Coalition](#) as a non-profit in the wake of the 2017 wildfires
- ◆ Volunteering for Coffey Strong has taught me that many people are under-insured
- ◆ **Goal:** Figure out why we are chronically under-insured in these disasters
- ◆ **Goal:** Be the voice of the people in finding a solution that gets them the money they deserve
- ◆ **Goal:** Help the rebuilding effort by providing information to bridge the gap between fire survivors and general contractors

Kevin Smart, Exchange Bank

VP, Residential Mortgage Manager



❖ About Kevin

- ◆ Resident of Sonoma County since 1992
- ◆ Residential mortgage career since 1993, all in Sonoma County
- ◆ Since October 2017, I have been working on new construction lending programs to assist the community in rebuilding
- ◆ Volunteering time to meet with insurance companies, realtors, builders, neighborhood groups, & homeowners to discuss possible solutions for rebuilding

❖ Contact information

- ◆ 707-541-1252
- ◆ kevin.smart@exchangebank.com

❖ About Exchange Bank

- ◆ Founded in 1890 in Sonoma County; helped rebuild Sonoma County after the 1906 earthquake!
- ◆ Donated over \$768,000 to local communities in 2017; in response to the fires, donated over \$200,000 to local non-profits
- ◆ Created new Community Rebuild Programs to provide flexible financing to help rebuild Sonoma County, again

❖ Programs

- ◆ Construction-Only Rebuild Financing
- ◆ Construction-to-Permanent Rebuild Financing
- ◆ Construction Rebuild Lite
- ◆ Construction Rebuild Cross-Collateralization Loan
- ◆ Land-Advance Loan

❖ About Kunal

- ◆ Founded Nagpal Investments in 2007
 - Private equity firm – real estate, construction and insurance
- ◆ Founded BristleCone Residential in 2009
 - Full-scale design-build construction company
- ◆ Education
 - Bachelors in Engineering – University of Alberta
 - MBA in Finance and Real Estate – York University
- ◆ EMERGE...Rebuild after a Natural Disaster
 - Natural disaster rebuild specialists partnered with local contractors to manage each step of rebuild process

❖ Contact information

- ◆ 707-210-0806
- ◆ Kunal@EmergeRebuild.com

BREAKING NEWS

❖ New bills in process in Sacramento

- ◆ SB-894 (Dodd): “Property insurance”
- ◆ SB-897 (McGuire): “Residential property insurance: wildfires”

❖ Call the members of the Senate Insurance Committee!

Senate Insurance Committee - Heard in Committee April 25th			
Name	Party	Major City	Phone Number:
Steve Glazer (Chair)	D	Antioch	916-651-4007
Ted Gaines (Vice Chair)	R	Redding	916-651-4001
Cathleen Galgiani	D	Stockton	916-651-4005
Ed Hernandez	R	West Covina	916-651-4022
Ricardo Lara	D	Long Beach	916-651-4033
Mike Morrell	R	Rancho Cucamonga	916-651-4023
Anthony Portantino	D	Glendale	916-651-4025
Tom Berryhill	R	Fresno	916-651-4008
Ben Hueso	D	El Centro	916-651-4040
Holly Mitchell	D	Los Angeles	916-651-4030
Josh Newman	D	Brea	916-651-4029
Richard Roth	D	Riverside	916-651-4031

Rebuild Strategy

Audience Questions (Show Of Hands)



- 1. How many of you did NOT live in Coffey Park?**
- 2. How many of you are NOT members of a neighborhood-based fire-recovery group such as Coffey Strong?**
- 3. How many of you ARE members of an insurance email (support) group?**
- 4. How many of you have considered or started getting a detailed “scope of loss” document written? (beyond just an 8-page builder’s quote on your old house)**

❖ Your insurance company may be...

- ◆ Trying to control your decision-making process
- ◆ Making “lowball” offers or paying slowly, making you think that you have less money than you really have
- ◆ Driving you to select a builder based on a cost-per-square-foot that they’re offering

❖ None of this is right!

- ◆ You can **take control** of the interaction with your insurance company, get more money from them, and feel better about the whole thing

❖ HOW to take control

- ◆ Start by calculating your maximum possible insurance payout
- ◆ Knowing how much money you have allows you to **take control!**

Ref #1: Strategy summary; Ref #2: FAQs on the process

❖ Get a copy of your specific insurance policy

- ◆ Ref #3 is a sample letter requesting your policy

❖ Strategy Advice

- ◆ Set the guidelines for how your insurance company must communicate with you (**take control** of the communication)
- ◆ Practice being politely assertive in all interactions with your insurance company (**take control** of your emotions)
- ◆ If your insurance company refuses to do something, explain (in writing) what you are requesting and why you believe that your request is **reasonable**

Ref #4: A guide to communicating with your insurance company

❖ Calculate your maximum policy limits for each bucket, including multipliers

- ◆ Don't rely on your adjuster for this calculation!
- ◆ **Ref #5** is a guide on how to do this calculation

❖ Strategy Advice

- ◆ Understand that your adjuster works for the insurance company, not for you. Don't mistake a friendly representative for a friend. He can't settle your claim!
- ◆ Understand that you WILL have multiple adjusters. Bringing new adjusters up to speed on your project is one way of **taking control**
- ◆ Have your policy reviewed by a lawyer for free

Ref #6: A guide to working with your adjuster

❖ Develop a plan to maximize each bucket

- ◆ Work first on the buckets that must get to 100% before additional buckets kick in

❖ Strategy Advice

- ◆ Realize that dealing with your insurance company is a **business negotiation**. It's NOT personal. Regardless of how much you're hurting over your loss, venting your frustrations and emotions to the insurance company won't help you win the negotiation.

❖ Create a scope of loss document on your old house

- ◆ It's NOT the same as a builder's estimate on your new house
- ◆ If your payout is already close to your limit, you don't need one

❖ Strategy Advice

- ◆ Remember that your goal is to maximize the money you get from your insurance company
- ◆ Understand that your insurance company's goal is to pay you the smallest amount of money that they can while still being "fair"
- ◆ Understand that an insurance company is NOT a fiduciary. They are NOT required to act in your "best interest"; they are only required to act in "good faith" (i.e., not be dishonest)

Ref #7 & #8: An explanation of a scope of loss and what should be in it

Ref #9: A sample scope of loss (31 pages)

Ref #10: A sample rebuilding estimate for a new house (38 pages)

❖ “Fire-recovery is a marathon, not a sprint”

❖ Strategy Advice

- ◆ Be patient! “Statistics show that the longer your claim stays open, the more money you will get” – *Amy Bach, Co-Founder and Executive Director of United Policyholders, 1/15/18*
- ◆ Get in the habit of initiating inquiries to your insurance company rather than just responding (**take control** of the interaction)
- ◆ Accept that you can’t change ANY of the insurance company’s rules or procedures. You must learn their language and figure out how to meet their requirements while still maximizing the money you get.
- ◆ Understand your rights in California

Ref #11 thru #13: An explanation of your rights

❖ **When you figure out how much money you really have...**

- ◆ You may be able to spend more per square foot (more amenities)
- ◆ You may be able to build a larger house
- ◆ You may be able to change from a one-story to a two-story (upsizing)

❖ **The market value of a home in a neighborhood of all new homes is likely to grow faster than the market in general**

❖ Old House

- ◆ Insurance company pays you based on the scope of loss for your old house (“to make you whole again”)

❖ New House

- ◆ Builder charges you based on his estimate of the cost to build your new house

❖ **Unless you’re rebuilding the exact same house with no changes, these numbers are different!**

- ◆ You **MUST** use all of the insurance money on the new house, even if you’re downsizing
- ◆ You can **ADD \$\$\$** to the insurance money to build a larger house
- ◆ **Caution:** In high-end neighborhoods, make sure that the rebuild cost doesn’t exceed the market value of the new house

❖ Options

- ◆ From a purely financial point of view, you'll get more money if you rebuild your house and immediately sell it rather than selling your lot now. Use a “plan” (turnkey) builder to minimize your involvement
- ◆ If you can afford to hang on to your lot (assuming, for example, that you're buying a house elsewhere), the value of the lot is likely to increase over time (but no guarantees!)
- ◆ The time & energy required to rebuild your house is **substantial**. Not everyone has that much extra time & energy. Some homeowners are better off selling their lot and buying elsewhere.
- ◆ For some homeowners, factors such as kids' schools, attachment to the neighborhood, downsizing in retirement, and lasting trauma caused by the fire can all be more significant than dollars

Ref #14: The “Build vs. Buy” decision

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- ❖ **The “Insurance & Construction” seminar held on March 10th, 2018, at the Luther Burbank Center included 11 slides on strategies for dealing with under-insurance**
 - ◆ Please download the slides from **Ref #15**

1. [Insurance Recovery Tips for the Dwelling Part of Your Claim](#) (United Policyholders = UP)
2. [FAQs about Home Insurance Claims in California](#) (UP)
3. [Sample Letter to Request a Copy of Your Policy](#) (UP)
4. [Tips for Communicating with Your Insurance Company](#) (UP)
5. [Simplified Guide to Calculating Policy Maximums from the Declarations Page](#) (UP)
6. [Guidelines for Reviewing Adjusters' and Contractors' Estimates](#) (UP)
7. [Explanation of Scope of Loss](#) (UP)
8. [List of Categories for Everything that Should Be Included in a Scope of Loss](#) (UP)
9. [Sample Dwelling Scope of Loss for Destroyed House](#) (UP)
10. [Sample Rebuilding Estimate for New House](#) (UP)
11. [Insurance Claim Rules in California Disasters](#) (CA Insurance Commissioner's Office)
12. [Your Insurance Legal Rights \(Slide presentation\)](#) (UP)
13. [A Guide to Your Insurance Legal Rights \(Article\)](#) (UP)
14. [Buy or Rebuild?](#) (UP)
15. [Insurance & Construction Seminar 3/10/18 at LBC](#) (Fire Victims Coalition)

Rebuild Financing

Audience Questions (Show Of Hands)



- 1. How many of you consider yourselves to be seriously under-insured?**
- 2. How many of you have already received 100% of your Coverage A (exclusive of replacement costs & code upgrades)?**
- 3. How many of you have paid off your mortgage?**
- 4. How many of you have looked into or are considering a construction loan?**

How The Money Flows: Insurance Payment Process...1

- ❖ **The adjuster prepares an initial estimate or secures a property appraisal to determine the “Actual Cash Value” of your property and issues an ACV payment**
 - ◆ The ACV payment names the homeowners and the mortgage company (if the home is not owned free and clear)
- ❖ **No additional payments are typically issued until the homeowner provides their rebuild bid/scope of loss, and the negotiation process is completed**
 - ◆ Wide variation in how different insurance companies handle this
- ❖ **The insurance company holds back 20%-25% of the initial payout for depreciation, and 100% of the code-upgrade costs, until the work is performed**

Ref #16: Depreciation basics

How The Money Flows: Insurance Payment Process...2



❖ Final payments (including the held-back funds) are issued at completion of construction

- ◆ This tends to end-load the flow (25% / 25% / 50%)

❖ Tips

- ◆ It is the homeowner's responsibility to notify their mortgage company at construction milestones
- ◆ The mortgage company may be willing to negotiate different increments to meet your builder's draw requirements
- ◆ There are built-in delays throughout this process; understand the delays and compensate for them
- ◆ Request overnight delivery of all payments from the mortgage company, and send all your checks overnight

Ref #17: The insurance settlement process

How The Money Flows: Mortgage Company Process



- ❖ **The mortgage company needs the following to start releasing insurance proceeds**
 - ◆ Insurance settlement documents & payment checks from the carrier
 - ◆ Copy of signed contract with your builder
 - ◆ The mortgage company's completed proprietary forms

- ❖ **Insurance funds are issued in thirds**
 - ◆ First third is issued at receipt of the above listed documents
 - ◆ Second third is issued at 50% completion of construction
 - ◆ Final third is issued at “substantial completion” (95% or greater) of construction (expect a 4-6 week delay in all payments!)

- ❖ **The mortgage company will send their inspectors to verify the phases of construction prior to paying**

Refs #18 & #19: The mortgage payment process

How The Money Flows: Builder Expectations



- ❖ **New-home builders expect funds to be issued on a “construction payment draw” schedule**
 - ◆ Make sure your builder understands how payments will be doled out by your mortgage company
 - ◆ Ask the builder to work with you and your mortgage company to request those disbursements
- ❖ **It is the homeowner’s responsibility to communicate with their mortgage company so that payments are made in a timely manner to their builder**
 - ◆ Builders must have funds to pay their subcontractors and suppliers, and if timely payment is not issued to them, construction may stop
 - ◆ If your builder abandons your project, it is very difficult to find another builder to continue the project due to liability issues

❖ **What if your builder's draw schedule and your mortgage company's payment schedule just cannot be reconciled?**

- ◆ Obtain a bridge loan (“gap” financing)
- ◆ Obtain a construction loan (next slide)
- ◆ Use your contents payout
- ◆ Use an outside source of funds

-
- ❖ **There are two basic alternatives: Keep your mortgage, or replace it with a construction loan**
 - ❖ **If you keep your existing mortgage**
 - ◆ Your mortgage-holder may still be very involved in the construction, since the goal for all is to ensure that the home is rebuilt
 - ◆ There will always be a responsibility on the homeowner for ensuring that payments to the contractor, his subs, and the materials suppliers are properly managed!

- ❖ **If you pay off your existing mortgage and obtain a construction loan (assuming that you can qualify)**
 - ◆ The construction-loan holder has a vested interest in the building process; they will work with the homeowner, builder and title company to assist in keeping the project moving forward
 - The lender (via inspections) ensure that the contractor is doing the work indicated in the disbursement requests, and lien-release documentation verifies that his subs are being paid
 - ◆ Interest rates for construction loans work differently than traditional purchase/refinance loans
 - Payments during the construction period are interest-only, based on the amount of the outstanding draws
 - The interest rate is tied to the prime lending rate plus a margin

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- ❖ **When the rebuild is complete, the homeowner must refinance the balance of the construction loan into a permanent financing product**
 - ◆ One-step “construction-to-permanent” loans are also available
 - ◆ These allow the homeowner to have the construction completed, and then the balance of the construction financing is converted to the permanent loan financing

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16. [Depreciation Basics](#) (UP)
 17. [The Insurance Settlement Process](#) (Coffey Strong)
 18. [Getting Your Mortgage Company To Release Insurance Proceeds](#) (UP)
 19. [The Mortgage Payment Process](#) (Coffey Strong)

Rebuilding

Audience Questions (Show Of Hands)



- 1. How many of you have hired an architect or designer to upgrade their plans to new building code?**
- 2. Of those, how many want the same house plan as before?**
- 3. How many of you have signed a Letter of Intent (LOI)? Or a Builder's Contract?**
- 4. Of those, how many feel confident that your builder understands the overall process of rebuilding?**
- 5. How many of you are considering buying a home as opposed to rebuilding?**

❖ First critical step is to confirm your money supply

- ◆ Dwelling insurance payout
 - Final numbers in writing from your insurance company, including policy extensions, code upgrades, etc.
- ◆ Reallocate contents payout
- ◆ Mortgage payoff / Construction loans / New mortgage
- ◆ Other sources of funds

❖ Timeline

- ◆ Selecting a builder is a BIG decision; take your time!
- ◆ Yes, the ALE deadline is 24 months, but it's been extended in the past to 36 months, and it's likely to be again (current bills)

-
- ❖ **Three basic types of builders doing fire-rebuilds here**
 - ◆ **“Plan”** builders who offer only a variety of pre-designed floorplans. Most allow some customization, but some don't.
 - ◆ **“Design-Build”** builders who handle both the architectural design and the construction
 - ◆ **“Full-Scale Rebuild”** builders who can build a pre-designed floorplan OR a custom design plan, AND are able to coordinate with banks, insurance companies, architects, engineers, etc.

❖ **Many builders know how to construct a house, but few understand the complexities of rebuilding**

- ◆ Detailed rebuild quotes (scope of loss) in insurance co. format
- ◆ Insurance payout schedule vs. builder draw needs
- ◆ Dealing with multiple sources of money
- ◆ Getting approvals from the insurance company
- ◆ Reporting cost increases to the insurance company
- ◆ Cooperating with insurance & mortgage inspectors

❖ **If your builder isn't familiar with and willing to participate in all of the above, he may not be the right one for you**

- ◆ If his answer is “No problem!”, consider asking him to prove it
- ◆ Get to know your builder VERY well before you sign anything!

- ❖ **First figure out what you want overall in your new house (your “niche”) that fits your needs & budget**
 - ◆ Maximum allowable house width on your lot with setbacks
 - ◆ Exactly the same as your old house vs. minor/major modifications vs. an entirely custom new house
 - “Custom” can be almost as low cost as a “plan” house
 - ◆ One story or two stories
 - ◆ Floorplan requirements
 - ◆ “Must have” customizations

- ❖ **Once you’ve figured out your niche, you’ll be able to disqualify many builders by type, floorplans, willingness to customize, price range, etc.**

- ❖ **The process is really no different than selecting a realtor, doctor, lawyer, car-repair shop, etc.**
 - ◆ Personal referrals are a great starting point
 - ◆ Look for builders at trade shows & organizations, fire-rebuild sites such as [Coffey Strong](#), in advertising supplements, etc.
 - ◆ Builder websites are a primary source of information; you can usually discern the builder's niche (*and don't ignore your feelings as you look through their website!*)
 - Every builder has a niche
 - A builder without a website may be a red flag
 - ◆ Check the builder's online reputation (social media)
 - ◆ Once you have a "short list", **checking references** and **vetting the builder** are extremely important

❖ **Vetting the builder:** Homeowners must ensure that their builder is qualified to undertake the project

- ◆ After move-in fix process
- ◆ Build schedule
- ◆ Capacity
- ◆ Change-order process
- ◆ Design sources
- ◆ Dispute resolution process
- ◆ Draw schedule
- ◆ Home access during build
- ◆ Inspection process
- ◆ Insurance & bonding
- ◆ Licensing
- ◆ References
- ◆ Soft costs
- ◆ Subcontractor list
- ◆ Violations with the CSLB
- ◆ Warranty

Ref #22: How to check a contractor's license

Ref #23: How to hire a licensed contractor

Refs #24 & #25: Contractor vetting questions

Step-By-Step Rebuilding Process...1



- 1. Confirm your money supply**
- 2. Figure out your niche**
- 3. Choose a builder
(Plan vs. Design-Build vs. Full-Scale Rebuild)**
- 4. Pre-build activities (“soft costs”)**
 - ◆ Finish debris cleanup if necessary
 - ◆ Lot survey
 - ◆ Geotech soils report
 - ◆ Infill to replace soil removed during US-ACE cleanup
 - ◆ Grading for water-flow
 - ◆ Building permits
- 5. Construction activities (next slide)**

Step-By-Step Rebuilding Process...2



❖ Construction activities

- ◆ Dig & pour foundation
 - ◆ Utilities connections
 - ◆ Floor
 - ◆ Framing & roof trusses
 - ◆ Sheathing on walls and roof
 - ◆ Windows and exterior doors
 - ◆ Roof covering
 - ◆ Siding & trim (house is now “sealed” from weather)
 - ◆ Plumbing & sprinkler
 - ◆ Electrical
-
- ◆ HVAC
 - ◆ Insulation
 - ◆ Sheetrock
 - ◆ Interior trim
 - ◆ Interior paint
 - ◆ Finishes & flooring
 - ◆ Appliances
 - ◆ Concrete flatwork
 - ◆ Landscape & fences
 - ◆ Occupancy permit

Where Do Code Upgrades Fit In?



- ❖ **“Code Upgrades” is an example of a specific bucket**
- ❖ **This is everything that must be upgraded in your old house to meet current building codes (lots of detail!)**
 - ◆ **Sprinklers** may be the biggest item at \$10K and up
 - ◆ More earthquake resistant foundation is a moderate example
 - Code upgrade is the difference between the cost to reproduce your exact original foundation, and the cost to build the same foundation to current codes (e.g., more & deeper piers, \$5K?)
 - ◆ Temperature-controlled shower valve is a minor example
 - Your original house used a standard shower control valve (\$30)
 - Code now requires a temperature-controlled shower valve (\$80)
 - Code upgrade amount is $\$80 - \$30 = \$50$

Ref #26 thru #28: Information for code upgrades in City & County

-
- ❖ **The most important advice:** Always have your builder's contract reviewed by a lawyer before signing it!
 - ◆ The homeowner can do an initial review themselves (see Refs #29 thru #31)

 - ❖ **If you have the opportunity to suggest a base contract, use one of these:**
 - ◆ [American Institute of Architects agreements](#)
 - ◆ AIA agreements are very balanced for both contractor and homeowner

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20. [Builder Comparison](#) (Coffey Strong)
 21. [Smaller, Custom & Modular Builders](#) (Coffey Strong)
 22. [Check a Contractor's License](#) (CA Contractors State License Board)
 23. [How to Hire a Licensed Contractor](#) (CA Contractors State License Board)
 24. [Contractor Vetting Questionnaire](#) (Coffey Strong)
 25. [Questions to Ask a Rebuilding Contractor](#) (UP)
 26. [Santa Rosa City Building Code Upgrades](#) (City of Santa Rosa)
 27. [Sonoma County Building Code Upgrades](#) (Sonoma County)
 28. [California Building Code History 1981-2016](#) (California Building Standards Commission)
 29. [A Consumer Guide to Home Improvement Contracts](#) (CA Contractor State License Board)
 30. [Contracting For Success](#) (CA Contractor State License Board)
 31. [12 Tips for a Healthy Building Contract](#) (Coffey Strong)

Wrap-Up

Key Takeaways



- ◆ Take control of the interaction with your insurance company
- ◆ Follow the rebuild strategy to calculate & maximize your payout
- ◆ Realize that there is upside potential at the end of the long rebuilding road
- ◆ Understand how the money flows (insurance, mortgage, and builder)
- ◆ Don't reject the possibility of a construction loan without investigating it first
- ◆ Figure out your “niche” in order to select a builder
- ◆ Take your time selecting a builder – it's a crucial decision!
- ◆ Understand the rebuilding process to feel more confident
- ◆ Treat your builder's contract as an important legal document

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[Seminar Survey](#)

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 - ❖ **Please alternate questions between the left and right microphones**

Thank You!

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