



NORTH BAY FIRE SURVIVORS **CONSTRUCTION & INSURANCE** SEMINAR

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Slide Deck 

<http://bit.ly/FVC-LBC>

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❖ 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, which may extend beyond 4 PM

❖ 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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- ❖ **Under-insurance**
 - ❖ **Maximizing structural insurance payout**
 - ❖ **Construction**

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

-
- ❖ **Fire recovery is a very complex and long process**
 - ❖ **Every insurance company and policy is different**
 - ❖ **There is no “one single answer” that fits everybody**

❖ **Matthew Grill Fire Victims Coalition**

❖ **Emily Rogan United Policyholders**



❖ **Kendall Jarvis Legal Aid of Sonoma County**



❖ **Linh Pham Scope Writing Services, LLC**



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
- ◆ 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

Emily Rogan, United Policyholders



❖ About United Policyholders

- ◆ A non-profit organization (Tax ID 94-3162024)
- ◆ A voice and an information resource for consumers in all 50 states
- ◆ A 25+ year track-record and subject-matter expertise in insurance and disaster recovery
- ◆ Funded by donations and grants, not by insurance companies
- ◆ A volunteer corps with personal and/or professional expertise in disaster recovery and insurance

❖ Contact information

- ◆ 415-393-9990
- ◆ emily.rogan@uphelp.org

United Policyholders Roadmap to Recovery™ Resources



❖ Wildfire recovery survey: www.uphelp.org/survey

❖ Insurance claim help

- ☑ Recovery resources: www.uphelp.org/NorthBayFires
- ☑ Claim help library
- ☑ Guides for overcoming obstacles
- ☑ Links to government and professional help
- ☑ Tips from past disaster survivors
- ☑ Sample letters and claim forms

Kendall Jarvis, Legal Aid of Sonoma County



❖ About Kendall

- ◆ Disaster Relief Attorney for Legal Aid of Sonoma County
- ◆ Provides legal services to fire survivors on a range of recovery-related issues, including FEMA, insurance, builder's contracts, employment, and more...
- ◆ Organizes monthly legal clinics to help fire survivors
 - FEMA Appeals Clinic
 - Insurance Clinic(visit the [Coffey Strong](#) website for updated information)

❖ Contact information

- ◆ 707-308-2512
- ◆ kjarvis@legalaidsc.com

Linh Pham, Scope Writing Services, LLC



❖ About Linh

- ◆ CA real-estate broker for family-owned real estate and mortgage loan company
- ◆ Residential real-estate appraiser
- ◆ 13 years of experience working as a property adjuster, starting with State Farm and ending with Farmers Insurance as a large-loss property specialist
- ◆ 13 years of insurance-restoration construction, while also opening my own consulting company

Linh Pham, Scope Writing Services, LLC



❖ About Scope Writing Services

- ◆ Residential & commercial property-damage evaluation experts
- ◆ Estimate-preparation services, specializing in insurance restoration
- ◆ Expert witness and damage-appraisal services
- ◆ Restoration-construction business-consulting services

❖ Contact information

- ◆ Linh Pham: 360-975-9989
L.phamstargaz2112@gmail.com
- ◆ Larry Izzo: 415-317-2468
Larryizzo@aol.com

Reminder

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Audience Questions (Show Of Hands)



1. Where was your destroyed home located?

- ◆ Coffey Park / Larkfield-Wikiup / Fountaingrove / Mark West / Glen Ellen or Kenwood / Other

2. Have you attended any other fire-recovery seminars?

3. Do you believe that you may be under-insured?

4. Have you started the process of selecting a builder?

5. If you have selected a builder, are you in contract?

6. How many of the 5,130 destroyed homes in Sonoma County will be rebuilt in the next 12 months?

- ◆ < 250 / 250-500 / 500-750 / 750-1000 / >1000

Under-Insurance

-
- ❖ **The cost to rebuild the same house significantly exceeds the total payout from insurance**
 - ◆ Coming up: Determining “cost to rebuild” & “total payout”

How Did We Wind Up In This Situation?...1



- ◆ CA law says it's the consumer's responsibility to determine the amount of insurance needed, NOT the insurance company's
- ◆ The average homeowner has no practical method of determining the rebuild costs, so the agent calculates an "estimated replacement cost" using proprietary software that typically underestimates the cost, resulting in a gap
- ◆ **Question:** Would you mind paying a few hundred dollars more per year to close that gap and get the proper coverage?
- ◆ United Policyholders (UP) did a survey for a Supreme Court case and found that nearly 75% of disaster victims were under-insured
 - This has been an issue since the Oakland Hills fire in 1991
- ◆ Under-insuring appears to save the insurance companies billions of dollars, just in this year's disaster alone (*personal perspective!*)

How Did We Wind Up In This Situation?...2



- ◆ When the recent fire-victims bill package was announced, the CA Insurance Commissioner said that it was NOT retroactive, while Senator McGuire said that his portion IS retroactive
 - If some can be retroactive, then it all should be

- ◆ It **IS** possible to convince an insurance company to pay over the policy limit in a disaster, but it often comes with a non-disclosure agreement that prevents the homeowner from talking about it
 - That's why you don't hear much about over-the-limit payouts

- ◆ Fire Victims Coalition intends to get to the bottom of this!
 - We need your help and your voices
 - We want to be your voice to our elected officials
 - Please go to our website [FireVictimsCoalition.org](https://www.FireVictimsCoalition.org), join our coalition and sign our petition

How Did We Wind Up In This Situation?...3



❖ An adjuster's view of under-insurance

- ◆ Insurance agents often lack knowledge of (and need training on) local construction costs, valuation of Other Structures, and Code Upgrade costs – all of which are a moving target!
- ◆ Information on square-footage, quality of construction, and the level/grade of finishes must all be accurate
- ◆ Homeowners must inform their agent about remodeling, additions & upgrades
- ◆ Agents should increase the policy limits every year in today's market

Under-Insurance

Strategies

Strategies For Overcoming Under-Insurance...1



- ❖ **Take control of the process, and don't give up!**
- ❖ **Negotiate for over-the-limit payout (it **does** happen!)**
 - ◆ A Santa Rosa fire survivor had called his agent in May 2017 and asked about his coverage
 - ◆ His agent said the coverage was fine, and the agent resisted changing the policy
 - ◆ After the fire, the survivor advised his adjuster of that phone call and was put into an appeals process
 - ◆ Three appeal-levels later, the survivor received an additional check for \$74,000 on his dwelling and \$24,000 on his contents
- ❖ **Moral of the story: Don't take “no” for an answer, be persistent (but nice), and don't give up!**

Strategies For Overcoming Under-Insurance...2



❖ If you qualify, take on additional traditional debt to fill the gap. Two examples...

- ❶ Pay off your existing mortgage (if you can) and obtain a new construction-to-permanent mortgage, which has additional advantages that will be explained in the “Construction” topic
- ❷ Apply your contents payout towards the cost of rebuilding, then take out a line of credit against the house once it is rebuilt (if you qualify), to actually replace the lost personal property

❖ Talk with someone who knows ALL the options

Strategies For Overcoming Under-Insurance...3A



❖ If you qualify, take on additional non-traditional debt to fill the gap. Two examples:

① FHA 203(h) loan in declared disaster area

- ◆ Available to owners & renters
- ◆ Up to \$200K for rebuilding, if you qualify
- ◆ No down payment
- ◆ Exclusion of mortgage payment from your debt-to-income ratio
- ◆ No tax returns required for W2 employees
- ◆ Mortgage insurance required
- ◆ Can purchase anywhere in the USA
- ◆ Must submit within one year of the disaster
- ◆ You do NOT have to pay off your mortgage

Strategies For Overcoming Under-Insurance...3B



❖ Second non-traditional example:

② SBA loan

- ◆ Can apply through FEMA if registered there, or directly
- ◆ Up to \$200K for rebuilding, if you qualify
- ◆ Lower interest rates and longer terms than traditional loans

Strategies For Overcoming Under-Insurance...4 & 5



❖ If you can't take on ANY additional debt, consider downsizing your new house

- ◆ At \$300 per square foot, a reduction from 2,000 to 1,500 square feet saves \$150,000

❖ As a last non-litigious resort, consider cashing out

- ◆ Sell your lot (consult with a realtor to determine its value)
- ◆ You still **MUST** go through the entire insurance-payout process in order to maximize your payout (next topic); if you give up and take a lower % payout, you're leaving money on the table!
- ◆ Buying a home instead of rebuilding is definitely possible but we're not covering it here today (see [Buy or Rebuild?](#))

Strategies For Overcoming Under-Insurance...6

❖ Consider joining a lawsuit against your carrier specifically targeted at under-insurance

- ◆ Example: Group of 10 homeowners suing USAA for fraud (See <http://www.pressdemocrat.com/business/7792591-181/10-north-bay-fire-victims>)

❖ There are significant downsides

- ◆ Very hard to prove fault due to limited ways in which a carrier can be held liable
- ◆ May suspend all insurance payouts, and may prohibit the homeowner from being able to obtain a review of their situation by the CA Insurance Commissioner
- ◆ Likely to take a number of years

Note that joining a lawsuit is different than hiring an attorney to handle your insurance claim

- ❖ **Potentially a viable means to compensate individuals for outstanding unmet needs**
- ❖ **Homeowner must first understand what it entails**
 - ◆ Very complex process that can take significant time and resources
 - ◆ PG&E has the resources to fight this for the foreseeable future, but you may not want to dedicate more of your life to reliving your loss
 - ◆ Even if the homeowner receives a cash award, they still must pay the litigation costs, their attorney's percentage of the recovery, their insurance company to reimburse them for what they previously paid, and taxes

Award	\$2,000,000
Litigation Costs	\$250,000
Contingency Fee (30%)	\$525,000
Reimburse Insurance	\$600,000
Taxes (30%)	\$188,000
Net Recovery	\$438,000

A contingency fee of 50% yields \$192,000

Maximizing Structural Insurance Payout

Best Practices For Managing Your Structural Insurance Claim...1



- ❖ It's never too late to start getting organized
- ❖ Learn the lingo
- ❖ Keep a claim diary and follow up everything **in writing** with your insurance company
- ❖ Confirm any agreements made on the phone or in person via email or USPS letters
- ❖ Be **Politely Assertive** even if it hurts – this is a business negotiation, even though it is extremely personal!

Best Practices For Managing Your Structural Insurance Claim...2

- ❖ **Documentation is the key to resolving disputes**
 - ◆ Is an item not included due to error, lack of coverage, or low amount?
- ❖ **Ask, “*Please show me where it says that in my policy*”**
- ❖ **Does your adjuster have the authority to write that check?**
- ❖ **Remember that you are working towards documenting your home’s pre-loss condition...**
 - ◆ Even if you are re-building a different floorplan!
 - ◆ Even if you are considering buying a home instead of rebuilding!

From An Adjustor's Viewpoint...1

❖ **Managing your relationship with your carrier**

- ◆ Your carrier is unlikely to change their standard procedures or requirements for you
- ◆ The more data you can provide to your carrier on the details and quality of your home in its “pre-loss condition”, the more accurate their estimated rebuilding cost will be
- ◆ If the format of your builder's estimate on your home is rejected by your carrier, you may need to provide the estimate in a format that better matches their internal estimate (e.g., Xactimate)
- ◆ Your adjuster may be really nice, but they are subject to their internal rules, guidelines and adjustment practices, so they don't have full autonomy to settle your claim

From An Adjustor's Viewpoint...2

❖ **Managing your relationship with your carrier** *(continued)*

- ◆ Your adjuster may change multiple times in the future; you will need to bring each new adjuster up to speed on the details of your claim
- ◆ Big decisions always go to upper management, so get to know your carrier's chain of command
- ◆ Learning your adjustor's rules of engagement, and providing him with lots information to document your claim, makes it easier for him to say "yes"
- ◆ ***"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, at a UP seminar on 1/15/18

Best Practices

From Legal Aid's Viewpoint



❖ Your first line of defense: Follow a process!

- ◆ Put your request in writing to your insurance company
- ◆ Explain what you are requesting and why you believe that your request is **reasonable**
- ◆ Ask your insurance company to comply with your request or provide you with a written explanation as to why they are refusing to do so
- ◆ Insurance companies don't like to sound **unreasonable** in writing

❖ If that doesn't work: Your second line of defense

- ◆ File a complaint with the CA Department of Insurance (DOI), again explaining why your request is **reasonable** and why your insurance company's refusal to comply is **unreasonable**

Maximizing Structural Insurance Payout

Structural Claim Basics

- ❖ **Your carrier’s only obligation is to “make you whole” by bringing you back to your “pre-loss condition”**

- ❖ **You need two separate bids from your builder**
 - ◆ One bid to replace your old house exactly as it was; this determines how much payout you will get from insurance (up to your limit)
 - This is your “Scope of Loss” document

 - ◆ A second bid for the new replacement house that you’re going to build; this determines how much your new house will cost
 - This bid does NOT figure into your insurance payout!

- ❖ **If your builder's bid for rebuilding your original house far exceeds your carrier's estimate, you will need a more detailed cost estimate (Scope of Loss)**
 - ◆ The dollars are in the details; the more details you provide, the more dollars you can get
 - ◆ The format of your builder's bid may be rejected by your carrier for lack of detail; if so, you may need to consider hiring an outside expert to prepare the Scope of Loss in a format that the carrier can accept – but only as a last resort (exhaust all of your options first)
 - In certain circumstances, the carrier may pay this cost as a “claim expense”, which are funds outside of coverage limits
 - ◆ Your adjuster, restoration contractors, building consultants, and public adjusters can all provide you with detailed Scopes of Loss

❖ **The Scope of Loss on your original home construction should be as detailed as possible (excludes contents)**

- ◆ Ceiling materials, soffits, beams, panels, vaults, coffers, domes..
- ◆ Rounded corners, arches, alcoves...
- ◆ Cabinets, drawer pulls, countertops, tile, mirrors, built-ins, closets...
- ◆ Doors, doorknobs, trim, baseboards, mantels, ornaments...
- ◆ Drywall, texture, paint, flooring, HVAC system...
- ◆ Lighting fixtures, plumbing fixtures, surround-sound system, security systems, wall-switch plates, AV cabling...
- ◆ Custom window coverings...
- ◆ Landscaping including irrigation, lighting, ground-cover, plants...
- ◆ Attached appliances, special items...
- ◆ And MANY more!

❖ A story from a fire survivor...

- ◆ Carrier priced a jet-tub at \$1,200 (“China.com price”)
- ◆ Owner went to a home improvement store and found a similar jet-tub (bare) for \$4,000
- ◆ Owner didn’t want a jet-tub in his new house (remember, that’s irrelevant!) but he went to a jet-tub dealer and got a quote for a fully-installed tub (\$15,000)
- ◆ Carrier accepted the quote

❖ **Should I go to all this trouble to create a detailed Scope of Loss, even if I'm grossly under-insured?**

❖ **Yes!**

- ❶ You may be paid out over your policy limit, and you need to be able to prove how much the carrier owes you to rebuild to “pre-loss” condition
- ❷ You need an estimate to quantify your loss for income taxes, and if you decide to join a PG&E lawsuit and file a claim for the amount in excess of your limits

Additional Resources For Navigating Your Structure Claim



❖ Guidance available in the UP Claim Help Library at uphelp.org

- ◆ The scoop on Scope of Loss
 - ◆ Guidelines for reviewing adjuster's and contractor's estimates
 - ◆ Xactimate demystified
 - ◆ Questions to ask before hiring a contractor
 - ◆ Samples: Trade summary breakdown, room-by-room estimate, commonly required code upgrades, and more...
- ❖ <https://www.uphelp.org/resources/library/fire>
- ❖ <https://www.uphelp.org/blog/north-bay-fires-insurance-claim-help>

Maximizing Structural Insurance Payout

Strategy

Payout Maximization Strategy:

Part 1 – Analyzing Your Policy...1

- ❖ **Start by getting a copy of your policy, from the year it was issued**
 - ◆ CA law doesn't require the carrier to give you a *certified* copy, but they **MUST** give you a copy of YOUR policy with YOUR riders, not the current general form
- ❖ **Calculate the maximum possible payout from each individual bucket; add them up and that's your maximum possible payout (policy limit)**
- ❖ **Negotiations on Contents and Structure insurance must be handled separately to get them right**

Payout Maximization Strategy: Part 1 – Analyzing Your Policy...2



- ❖ You can get a free legal review of your policy in an individual appointment with an attorney

Insurance Clinic

California Rural Legal Assistance

March 17, 2018, 10AM - 1 PM
1660 N. Dutton Ave., Suite 105
Santa Rosa

Limited space
Call 707-528-9941

Insurance Clinic

Legal Aid of Sonoma County

March 31, 2018, 10AM - 1 PM
144 South E St., Suite 100
Santa Rosa

Appointments required
kjarvis@legalaidsc.com



California
Rural Legal
Assistance



Payout Maximization Strategy:

Part 2 – Maximizing Each Bucket...1



- ❖ **Think of maximization like a challenging game...**
- ❖ **Take control of the process! (key concept)**
 - ◆ Winning means getting >90% of every bucket
 - ◆ Your carrier's initial estimate could be as low as 50%-60%
- ❖ **The carrier only pays you money if they believe that you are owed it**
 - ◆ Don't accept denials on claims for any of the buckets; keep trying
 - Ask the carrier in writing for the documentation supporting their denial
 - Send the carrier (in writing) logical arguments why your claim should be accepted
 - ◆ Remember, if the carrier pays a claim after several denials, you were owed it!

Payout Maximization Strategy:

Part 2 – Maximizing Each Bucket...2



- ❖ **The first objective is to remember as much as possible about your pre-loss home (even though it hurts!)**
 - ◆ Draw the most detailed, annotated floorplan possible of the house and the lot, preferably based on a set of plans for the original construction
 - ◆ Get photos of the home's interior & exterior from friends & family
 - ◆ Sit down with friends who have been in your house to remember exactly what it looked like
 - ◆ Go to an appliance store and get updated prices on what you had
 - ◆ Look online for old property appraisals, listing information & photos from previous sales on Zillow, Google "Street View" photos, etc.
 - ◆ Draw on every possible resource...

Payout Maximization Strategy:

Part 2 – Maximizing Each Bucket...3



- ❖ **Work first on the buckets that must get to 100% before additional buckets kick in**
 - ◆ Remember that the objective is to get back everything that you had in dollar terms
 - ◆ Whatever you want to change in your rebuilt house, it's **irrelevant** for this part of the process
 - ◆ You can even get paid for rocks that you had around your house!
 - ◆ Even the tiniest details such as rounded corners on the drywall add dollars into the bucket!

Payout Maximization Strategy:

Part 2 – Maximizing Each Bucket...4



- ❖ **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 $\$80 - \$30 = \$50$

Construction

- ❖ **Fire recovery is a marathon, not a sprint**
- ❖ **Rebuild pace is determined by**
 - ◆ Builder capacity
 - ◆ Labor availability
 - ◆ Materials availability
- ❖ **Keith Woods, CEO of [North Coast Builders Exchange](#)**
 - ◆ Estimates that about 3,500 (~70%) of the 5,130 destroyed homes in Sonoma County will be rebuilt in the next 6 years
 - ◆ Estimates that 300-700 (~10%) will be rebuilt in the next 12 months
- ❖ **This pace may make you think differently about your rebuild**

Selecting A Builder...1



- ❖ **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!*)
 - Every builder has a niche
 - A builder without a website may be a red flag
 - ◆ Check the builder's online reputation (social media & review sites)
 - ◆ Once you have a "short list", **references** and **vetting** are the key

❖ **Vetting:** 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

❖ [Contractor Vetting Questionnaire](#)

- ❖ **It's difficult to select a builder if you haven't figured out exactly what you want (your "niche")**
 - ◆ Exactly the same house vs. an entirely custom new house?
 - ◆ Floorplan requirements?
 - ◆ "Must have" customizations?

- ❖ **For many fire survivors, a selecting a "design-build" team is the best bet due to lack of building experience**
 - ◆ Large or medium "turnkey" builders
 - ◆ Builder with an in-house architect
 - ◆ Architect with a preferred builder

❖ **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; start with these two guides from the CSLB:

- ① [A Consumer Guide to Home Improvement Contracts](#)
- ② [Contracting For Success](#)

❖ **If you have the opportunity to suggest a base contract, use these:**

- ◆ [American Institute of Architects agreements](#)
- ◆ AIA agreements are very balanced for both contractor and homeowner

❖ There is a lot of good advice online about what should be in a builder's contract

◆ Here is a sample of six articles:

[Contract Review Checklist](#)

[Nine Steps to Signing a Successful Construction Contract](#)

[Six Questions Owners Should Answer Before Entering a Construction Contract](#)

[Ten Things to Think About Before Signing a Construction Contract](#)

[What to Look for and Avoid When Signing a Home-Building Contract](#)

[What You Need to Know About California Residential Remodeling and Construction Contracts](#)

◆ And be sure to read this: [12 Tips for a Healthy Building Contract](#)

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



- ❖ **The adjuster prepares an initial estimate/Scope of Loss 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 issued until the homeowner provides their builder’s bid/Scope of Loss, and the negotiation process is completed**
- ❖ **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**

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

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**

How The Money Flows: Builder Expectations...1



- ❖ **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 the mortgage company
 - ◆ Ask him if he is ready to work with you and your mortgage company to extract those payments

- ❖ **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 will stop
 - ◆ If your builder abandons your project, it is very difficult to find another builder to continue the project due to liability issues

How The Money Flows: Builder Expectations...2



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

- ◆ Obtain a bridge loan
- ◆ Obtain a construction loan (next slide)
- ◆ Use your contents payout (as mentioned previously)
- ◆ 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 won't be very involved in the construction; they mainly care about the end result (the completed house)
 - This puts much greater responsibility on the homeowner for ensuring that payments to the contractor, his subs, and the materials suppliers are properly managed!

 - ◆ Homeowners must notify their mortgage-holder and get approval before signing a construction contract
 - Failure to do this could result in problems paying your contractor on time and wrapping up the project

- ❖ **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 ensure that the process goes smoothly and that the contractor is doing the work and his subs are being paid
 - Some homeowners may benefit from the construction-loan holder's oversight, even if they don't need additional funds
 - ◆ Downside: The interest rate will be higher than on the mortgage
 - But, no mortgage payments during construction!
 - ◆ When the rebuild is complete, the homeowner generally has two years to shop around and obtain a new mortgage
 - One-step "construction-to-permanent" loans are also available

Builder-Homeowner Communications

Major Pitfalls...1

❖ Lien releases

- ◆ Your contractor, his subs or their material suppliers can file a “mechanic’s lien” on your property if they aren’t paid
- ◆ Liens are **bad news**: Possible foreclosure, double payments, clouded property title, etc.
- ◆ There is well-defined process for managing the flow of payments to everyone, involving *Preliminary Notices*, and *Conditional & Unconditional* lien releases, but the homeowner must manage it!
- ◆ Read this guide from the SCLB:
[A Homeowners Guide to Preventing Mechanic's Liens](#)

Builder-Homeowner Communications

Major Pitfalls...2

❖ Change orders

- ◆ A change order is a change in the scope of work.
It describes:
 - The scope of the change
 - The cost to be added or subtracted from the contract
 - The effect of the change on the schedule
- ◆ Change orders can be a costly addition to a project
- ◆ Change orders must always be in writing, and they become part of the contract once they're signed by both parties
- ◆ When the original contract is clear and well defined, it makes managing change orders much easier

❖ **Written communications and clear expectations are essential to avoiding problems**

Wrap-Up

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- ❖ Please give us your feedback on this seminar by clicking this link:

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