

Home insurance is one of those things that you hope will never have to use. But when disaster strikes, home insurance is often the difference between saving a home and being forced to walk away. Use our tip sheet to help you understand the insurance process as well as protect yourself and your home.

Beware of Scams

Unfortunately, scam artists seem to crawl out of the woodwork when a disaster strikes. They know homeowners are overwhelmed and often preoccupied with many different issues and scammers capitalize on that. Being aware of some types of scams can help you recognize them early on – before any financial damage occurs. Some common scams include:

- **Lump-Sum Payments.** A scam artist may offer a lump-sum payment now if you will turn over your insurance money when it comes in. These “advances” are sort of like pay-day advances – and they are very costly. This may seem appealing to a home owner who has waited a long time for their insurance claim to be processed but the amount you receive as a lump-sum will usually be significantly less than what your insurance company will pay.
- **Title-trade or Tax refund Loans.** In this scam, while waiting for the insurance pay-out you are offered a loan using your auto title as collateral or the promise of your tax refund. This type of loan is usually a very high interest loan and could cost you more than you are willing to pay. The scammer always makes money and sometimes gets a car as part of the deal, while the homeowner is left with a short-term loan that cost them dearly.
- **“Direction to Pay.”** This is a form that a contractor may try to get you to sign that allows your insurance company to pay the contractor directly. Many homeowners have their plates full after a disaster and one less thing to deal with may seem attractive but this is a bad idea. It is standard practice to withhold the final payment to the contractor until all the work is completed to your satisfaction. If the insurance company has paid the contractor in full, you are left with no recourse.

The best rule of thumb is to never sign away your rights to your insurance claim. If you feel you have no other option, be sure you know exactly what you are signing and what it will ultimately cost you.

Understanding the Claims Process

Working with your insurance company after a disaster is a multi-step process and can be a little confusing. Many insurance companies send representatives to disaster areas to help their homeowners with the claims process. See if your insurance company has done this – if it has, these representatives are great resources – use them!

Filing The Claim

- **Know what’s covered.** It’s important to look at your policy and see what it covers – and what it doesn’t. Most standard homeowner insurance policies don’t cover floods or earthquakes so if you are in a region prone to either of these, hopefully you have an additional policy specifically for this type of coverage.
- **Call your insurer.** Ask what forms need to be complete and if there are deadlines for them.

- **Ask for help.** Most insurance companies have an “immediate assistance” policy that provides financial assistance for living expenses after a disaster/
- **Complete the Forms.** You will be required to complete claim and proof-of-loss forms. Be sure to fill these out completely. Photocopy all the forms before you provide them to your insurer. Make sure your temporary contact information is with this documentation.
- **Check for mold!** If your property was flooded or a sprinkler system soaked the walls be sure to check for mold. Just because you can’t see it doesn’t mean it isn’t there. Mold can hide in the walls.
- **Know how to handle disputes.** Contact your state insurance department if you are having problems with your insurance company. Get more than one independent estimate for the needed repairs. You are not required to accept an insurance company’s first offer. Present them with your research on the cost of repairs. If you can not get resolution with your insurance company, write a formal complaint to your state insurance department.

The Insurance Pay-Out

It sometimes takes time for an insurance claim to be processed, especially in a large disaster with regional damage. However, if you feel it is taking too long for your insurance company to process the claim, call them. Be sure to keep records of when you called, who you spoke to and what was said.

Once the insurance company has approved the claim they will issue the pay-out. Depending on the type of insurance you have, you may receive two checks. One check is for the repairs to your home and one is for repairs (or replacement depending on the insurance) to the contents.

If you have a mortgage, the check for the repairs to the house will probably be made payable to you and your lender or loan servicer. If the check is greater than the amount you owe on the mortgage, you are entitled to that balance.

The second check, which is for repair (or replacement) of your personal belongings will be made payable only to you. There are times when insurance companies mistakenly make this check payable to you and your lender. Call your lender immediately and make them aware of the mistake – they should issue you a check for the full amount.

In large-scale disasters such as hurricanes or earthquakes, lenders may make a portion of the insurance money immediately available. This option is made at the discretion of the lender on a case-by-case basis. Factoring in deciding if, and how much of, the repair check is immediately made available to you include

- your mortgage payment history and whether it was current at the time of the disaster,
- the amount of the insurance pay-out and
- the extent of the damage to your house.

Making the Repairs

Most contractors are legitimate but it pays to do your research when selecting a contractor to handle the repairs to your home. Some do's and don'ts include:

- Ask for references and check the Better Business Bureau
- Don't arrange financing through your contractor – it is usually significantly more expensive than what you could arrange through a bank or with your insurance company.
- Don't pay the contractor in full until all the work is done to your satisfaction.
- Have a schedule and payment plan where you pay invoices based on the work completed, not work *schedule* to be completed.

For more information on contractors, see our Contractors Tip Sheet.