

Financial Recovery and Risk Management

As you attempt to restore your life and home after a disaster, you will face many decisions. In many cases, the decisions will involve large investments. Naturally, you will want to recover as much as possible through your homeowners insurance policy. Where insurance falls short of your needs, other types of assistance may be available, especially in a place the president has declared a disaster area. Uncovered claims are tax-deductible if they exceed 10 percent of your adjusted gross income. Part of your financial recovery involves making good business decisions when contracting for repairs.

Documenting losses and claims

Whether you are filing for insurance, seeking assistance or claiming a casualty tax deduction, you will need proof of your losses. Before you start cleanup, take pictures or video of the damage. If you cannot take pictures or video, describe the situation accurately, listing the specific items that have been lost or damaged. Keep damaged materials for proof of loss until your insurance adjuster authorizes their disposal.

Items may be moved from their original location to prevent further damage to the building, but do not throw them away without insurance company approval. Protect any salvageable items to prevent further damage. Many homeowners policies will not cover subsequent water damage even if the home is destroyed. This is particularly relevant to property below ground, where rainwater may collect and pool.

Remember to document the losses in your landscape and garden. Also, document the amount of debris you will have to remove, and whether it came from your property or elsewhere. Some homeowners insurance policies cover debris removal.

- Save all receipts for temporary lodging and food if your home is not livable. Some policies pay the difference between normal living expenses and the cost of living elsewhere.
- Save receipts for temporary repairs you made to protect your property from further damage.
- Save receipts for any materials you bought and for other items you needed to protect your building or its contents from further damage. You may be able to claim these on your homeowners insurance policy.

- Keep a copy of all letters and receipts that you send to insurance companies or relief agencies.
- Keep a record of all phone calls you made to get reimbursement or aid.

Filing for insurance

These tips are offered to guide you in filing insurance claims for damage to your home and loss of personal property:

- Call your insurance adjuster immediately, and provide a phone number where you can be reached. If phone service is not available, work through disaster assistance workers from the Federal Emergency Management Agency (FEMA) or the American Red Cross for assistance in reaching your insurance adjuster.
- If possible, wait for an adjuster to survey damage. Meanwhile, carefully document losses and begin cleanup and salvage to prevent further damage to your home. Keep damaged materials in an isolated spot as far from the building as possible.
- Follow up on your insurance call with a letter detailing your problems. Keep a copy of the letter.
- Leave phone numbers where you can be reached when the adjuster arrives.
- Ask the adjuster to assess damages. Sign the proof of loss statement. Report additional damage as it is found.
- Provide any other information the adjuster requests.

Be sure to file your insurance claim within the policy's imposed time limit. For homeowners policies, it varies. Review the settlement steps outlined in your policy. If you're dissatisfied with the proposed settlement offer, explain your position in writing.

The Missouri Department of Insurance can help if you feel you are being treated unfairly by your insurer. Examples of unfair treatment include the company not contacting you within 48 hours after the claim was reported and the company refusing coverage that is specified in your policy. For more information, call 800-726-7390.

Homeowners insurance

Many people are surprised about the extent of protection a homeowners insurance policy offers. Although your homeowners policy does not cover damage caused by rising floodwaters, it does offer some protection from loss caused by wind, rain, hail, snow, lightning and freezing temperatures. If you have experienced a loss or damage to

Written by
Brenda Procter, Consumer and Family Economics Specialist, Human
Environmental Sciences Extension

property, review your policy's provisions and contact your insurance agent to file a claim and to update your policy, if necessary, to include coverage you need for the future.

Be sure your coverage amount is at least 80 percent of the current replacement cost of your home. Otherwise, you will not be paid the full cost of replacing a partial loss. Also, many homeowners policies pay for losses to your contents, such as furniture, appliances and clothes, on an actual cash-value basis (replacement cost minus depreciation for age or wear and tear). A better option is to buy replacement-cost coverage that pays the full cost to replace your personal property at today's prices. Although the premium costs are a little higher, the extra protection is usually worth it.

Tips

The following items are usually covered but may vary according to the policy's provisions and up to the dollar amounts that you purchased:

- Your house, including rental units that are part of the building, and any attachments to the building such as a garage.
- Any structures on your grounds that are not attached to your house such as a garage, tool shed, pool cabana, gazebo or fences.
- Vacant land that you own or rent, with the exception of farmland.
- Cemetery plots or burial vaults that you own.
- Personal possessions that you or members of your household own or use anywhere in the world. This includes the contents of your house and any structures on your grounds. It also covers any possessions that guests bring to your house, but it does not include the possessions of any tenants you may have living in your home.
- Any items that friends have lent to you that you are keeping on your property.
- Your living expenses if your house is not fit to live in because of damage.
- Rental payments if you normally rent part of your house but no longer can because of damage.

Many policyholders may be unaware of the extent of the protection offered by their homeowners insurance. If you have experienced a loss or damage to property, review your policy's provisions and contact your insurance agent to file a claim and to update your policy, if necessary, to include the coverage needed for the future.

A standard homeowners policy does not cover cars, most recreational vehicles, watercraft, animals, birds or fish. While homeowners insurance does not cover losses from rising water, it usually does cover water damage from such things as leaking roofs, broken windows and broken pipes. Most policies do not cover sewer back up unless you purchase a sewer-backup endorsement.

If you are in a designated special flood hazard area and your structure is substantially damaged by any force — wind, water, fire — you may be required by the local permit office to meet the flood damage prevention requirements for new construction. For residential structures, this means

elevation. A structure is substantially damaged when the cost of restoring the structure to its predamage condition is 50 percent or more of its predamage market value.

Owners of structures in special flood hazard areas can partially insure themselves for the added expense of elevating a wind- or fire-damaged structure before repairs by purchasing a Code Compliance endorsement on their homeowners policy.

Flood insurance

Losses caused by rising floodwater are not covered under most homeowners insurance policies. If you have purchased coverage through the National Flood Insurance Program at least 30 days before being affected by a flood, you will be protected against property damage caused by such flooding. You also may be partially reimbursed for steps you take to prevent flood damage, even if the flood never reaches your building.

Flood insurance policies written or renewed on or after June 1, 1997, include an endorsement called Increased Cost of Compliance (ICC). This coverage will pay up to \$15,000 for elevating or relocating an insured dwelling so that it is above the flood-protection elevation required for new construction. For nonresidential structures, flood damage prevention using other methods also may be covered. The coverage may be used toward the cost of demolishing the flood-prone structure and building a new structure at the required elevation.

ICC coverage is available only for structures that have been substantially damaged by a current flood event for which a damage claim is being filed. In communities with cumulative substantial damage ordinances, the eligibility requirements for this coverage are less stringent.

The flood insurance adjuster may submit a damage assessment form to the flood insurance program indicating that substantial damage is suspected. However, final responsibility for determining whether a structure has been substantially damaged rests with the community. In most Missouri communities, the determination will be made by or through the floodplain administrator, who is usually the building or permit official.

Credit and other sources of relief

Victims of natural hazards whose losses exceed their insurance coverage may obtain loans or other financial assistance.

- The Red Cross helps with immediate building repairs and living expenses when no other immediate assistance is available.
- Merchants and dealers may extend credit for feed, equipment and rehabilitation of buildings and land.
- The U.S. Small Business Administration offers medium- and long-term loans for rehabilitation of nonfarm homes and small business if overall damage in the community meets certain criteria. Borrowers may obtain 20 percent over the damage-repair loan amount for mitigation (to protect the property from future damage by natural hazards).

- Commercial and federal land banks offer loans with moderately low interest rates for home repairs, improvements, land equipment and livestock.
- Insurance companies offer long-term loans at relatively high interest rates for home repair, improvements, land, equipment and livestock.
- Uninsured losses should be reported as an additional itemized deductions on federal income tax form Schedule A under casualty losses. To be deductible, losses must exceed 10 percent of adjusted gross income.

Federal disaster assistance

If an event is declared a major disaster by the president, numerous additional sources of federal assistance will become available. The Federal Emergency Management Agency (FEMA) will set up a disaster registration hotline and will usually work with the Missouri State Emergency Management Agency to establish local disaster recovery centers. The hotline and recovery centers will be sources of access to the various federal assistance programs.

In addition to the SBA loans mentioned in the *Credit and other sources of relief* section above, these types of assistance usually are available:

- Individual and family grants for those who do not qualify for a loan
- Temporary housing assistance
- Unemployment assistance
- Assistance with recovery planning and mitigation advice
- Legal services to low-income families and individuals
- Crisis counseling for disaster-related mental health problems
- Special income tax advice and treatment

Housing rehabilitation assistance for low- and moderate-income households also may be available in some communities through the U.S. Department of Housing and Urban Development (HUD) programs administered by local and state agencies.

Recipients of federal assistance for flood damage are required to purchase and maintain flood insurance on their property. Owners of that property may not receive federal assistance in future floods unless the property is protected by flood insurance during those future floods.

Contracting for repairs and rebuilding

Selecting a contractor

As you attempt to restore your life and home after a storm, you may find only a few local companies and individuals that perform the necessary services, and they are likely to be very busy. Depending on the damage, you may want to make temporary repairs and wait for local contractors who will be there to guarantee their work long after the storm is over. If the repairs cannot wait, however, take care to ensure you receive good quality work or major deterioration may appear later.

After a disaster, out-of-town contractors and companies will enter the area to offer their services. Some are honest and will do an adequate job, but take precautions when working with outside contractors.

- If possible, check with the Better Business Bureau, either in Missouri or in the state and city where the company or person is located. It also is advisable to check with others for whom they have worked in Missouri. Determine if they have performed in a timely and adequate manner.
- Ask for proof of insurance. The contractor must have disability and workers' compensation insurance, or you may be liable for accidents occurring on your property.
- Do not let the contractor begin work until you have a signed contract.
- Do not pay in advance. When the job is complete to your satisfaction, pay by check or credit card — do not pay cash.
- Before making the final payment, ask the contractor for proof that all suppliers have been paid. Otherwise, unpaid suppliers can legally put a lien on your property for settlement of bills if the property is sold.
- If you cannot find a contractor willing to accept these basic terms, strengthen the patches and wait patiently until you can be sure of a good job. Even under critical emergency conditions, complete, high-quality repairs must be done or damage and deterioration will appear later.

Contract essentials

A contract is the offer and acceptance (agreement) to do specific things in a specific manner. State clearly, simply and completely all that is to be done. If beginning and finishing dates are involved, state them in the body of the contract. A home rebuilding contract should also state that materials and procedures used will follow the minimum standards of the current building code.

Guarantees. Include what is guaranteed and for how long. Also include who is responsible for the guarantee (contractor, dealer or manufacturer).

Permits. State who is responsible for obtaining and paying for any required building permits.

Parties. Parties involved must be at least 18 years of age and mentally competent. All parties must sign the contract.

For a consideration. Something of value changes hands, usually money. The amount to be paid and schedule of payments should be included in the contract. The payment schedule should be based on progress toward completion, not on the passage of time. Exercise your right to inspect all work or to hire someone to inspect the work for you.

Change orders. The contract should specify procedures to be used to change the original work order.

Keep a copy of the signed contract and all change orders.

Withhold full payment until:

- The building contractor or person hired has paid for all building supplies used. Require receipts for all paid bills for all materials used.
- Everything has been completed on the job to the full satisfaction of the contract and to the satisfaction of you or your inspector.
- The contractor has provided you with releases of lien from him- or herself, from suppliers and from labor subcontractors.

Buyer beware

- Is the contractor offering you a special deal? Using your home as a model for his or her work? Shy away.
- Is the offer too good to be true? Be sure the quality is there before you agree to buy.
- Does the contractor want cash only? Find another contractor.

- Did the contractor solicit your business or did you initiate the call?
- Were you pressured to sign a contract? Federal law gives you three days to cancel such a contract after you sign it. Send your notice of cancellation by registered mail.
- Do you think you've been had? Have you tried to resolve your problem with the contractor but been unsuccessful? Don't be embarrassed to call the Consumer Protection Section of the Attorney General's Office at 800-392-8222.

Adapted from *Financial Recovery and Risk Management*, LSU AgCenter.

Special thanks to Calvin Call, executive director of the Missouri Insurance Coalition, who reviewed this publication.

ALSO FROM MU EXTENSION PUBLICATIONS

EMW1011 *Family Disaster Plan*
EMW1012 *Disaster Supplies Kit*
MP904 *Resources for Your Flooded Home*

extension.missouri.edu | 1.800.292.0969

UNIVERSITY OF MISSOURI
 **Extension**

■ Issued in furtherance of the Cooperative Extension Work Acts of May 8 and June 30, 1914, in cooperation with the United States Department of Agriculture. Director, Cooperative Extension, University of Missouri, Columbia, MO 65211
■ an equal opportunity/ADA institution ■ 573-882-7216 ■ extension.missouri.edu