

WHAT HURRICANE IRENE TAUGHT US ABOUT

Homeowners Insurance



DON BOWERS

When Hurricane Irene moved past the Outer Banks, many folks thought the barrier islands had dodged the bullet. Winds only gusted to 88 mph, making it a weak blow that barely bothered the oceanfront.

But the storm did its dirty work on the way out. Irene's southeastern winds had pulled all the water out of the sounds, and as the storm departed, the winds shifted to the southwest. The vast waters sucked out of the sounds and bays surged back with a vengeance. And the water kept rising and rising and rising like no one alive had ever seen before.

Hardly any property owner on the backside of the barrier islands was spared. Sound tide rose high into crevices, under doors, through windows, over precious items raised high on shelves above previous flood level. Entire downstairs areas were soaked with as much as four feet of water. Residents waded through waist-high floodwaters in attempts to salvage possessions and equipment.

STORY BY
Catherine Kozak

When the tide finally receded, thousands of property owners were shocked at the amount of damage the flood left behind. And then, as they went about the dreary business of recovery, they were even more shocked to discover how little of the damage was covered by their homeowners insurance.

Dare County suffered more than \$200 million of insured property damage from Hurricane Irene, second in the nation behind Suffolk County on Long Island, NY, according to Verisk Analytics, a risk assessment company. Dare received \$8.5 million in federal aid after the storm, and about 3,000 people in the county sought federal assistance. There was also about \$4.5 million in loans for the county provided by the Small Business Administration.

"Irene could have been our 100-year storm," says

Butch Snyder, a certified insurance counselor with Vogedes Insurance Agency in Kitty Hawk. "No one was prepared for a six, seven foot storm surge from the sound. It came up too quick."

According to the National Weather Service, the highest sound-side surge on the Outer Banks was 9.5 feet, recorded in Rodanthe, the location of one of two breaches torn open on Hatteras Island. Whatever tide came in was added to nearly 7 inches of rain on Hatteras Island and 5.6 inches in Kill Devil Hills.

Snyder says many properties lost decks and piers in the surge, structures that are not typically covered in homeowners policies.

In the aftermath of Irene, many homeowners learned the hard way that things they assumed were covered by their insurance policies were not actually covered. And even if they were, the unexpectedly huge deductible or the limits in their policy's terms of compensation made whatever was covered almost a moot point.

"You need to understand the difference between replacement cost and cash value," says Willo Kelly, government affairs director for the Outer Banks Home Builders Association and the Outer Banks Association of Realtors. "You might opt for a cash value policy because the premium is so much lower — everything is depreciated — if you've been in the house for 15 years. But you might end up getting nothing."

Between the so-called Beach Plan, National Flood Insurance Program policies and recent changes in deductibles, it's no wonder homeowners are confused about what coverage they should have and what coverage they do have.

But interpreting the best choices in a homeowners policy, not to mention flood insurance, takes skill and experience that most people don't possess.

"They need to find a knowledgeable and reputable agent," Snyder says, "who is ready and willing to answer their questions and give them good answers."

One mistake Snyder says consumers make in a quest to save money on premiums is purchasing a policy that just covers the bare minimum. Or they choose the highest deductible and opt not to buy coverage above the maximum covered by their flood policy.

"I get this a lot: 'Give me the best price,' he says. "I think that's where a lot of people go wrong... They're viewing insurance as the premium, not the value."

Some out-of-town property owners, Snyder says, get all of their insurance requirements met via e-mailing back and forth with their Realtor, and they end up having no clue — until a storm trashes their property — that they're not adequately covered.

"I think we as agents need to do a better job communicating with absentee owners," Snyder says.

Kelly says that considering the amount of storm-related loss a homeowner could be hit with, it is important to know at least the basics. "The insurance agent should be working to make sure that the policy holder understands what it is they're paying for and what it's going to cost to fix it," Kelly says.

On the Outer Banks, homeowners have to buy wind and hail coverage from the North Carolina Underwriting Association,

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better known as the Beach Plan. Flood insurance, which covers a maximum of \$250,000, must be purchased through the National Flood Insurance Program.

What many homeowners discovered after Irene is that deductibles for claims from a named storm are based on a percentage of the value of a dwelling, not what it actually would cost to rebuild. For instance, a home insured for \$250,000 with a 2 percent deductible would require the homeowner to pay a \$5,000 deductible before insurance coverage kicked in.

And although property owners may not be aware of it, insurance companies

expect them to take necessary steps to secure their home after a storm.

“Insurance is one of those things that we’re really not meant to understand,” Kelly says. “It’s not in layman’s terms.”

But planning ahead is important to fill gaps in coverage or make up for deductible costs.

“If you knew you needed \$6,000 to cover a loss,” Kelly says, “maybe you would put that away somewhere.”

First created in 1969 for people living on barrier islands who could not buy insurance elsewhere, the Beach Plan expanded in 1973 to include coverage of wind and hail losses in 18 coastal counties.

Although it was intended to be a policy of last resort, the Beach Plan has over time become the only affordable option available to coastal homeowners needing insurance from wind damage. But it has been fraught with controversy over rate increases that many believe unfairly penalize coastal residents, despite the fact that densely populated inland counties, where standard homeowners policies

cover wind, have had higher losses in storms.

“There is a disparity on rates statewide,” Kelly says. “We pay the maximum rate allowed and we pay a surcharge on top of that.”

Kelly says that over three years, costs of the Beach Plan, officially known as the Coastal Property Insurance Pool, have almost tripled, but policy holders have paid nearly four times more than the cost of the losses. The problem, she says, is that much of the premium has gone toward re-insurance investments by insurance companies and has nothing to do with paying losses.

“We have nowhere else to go,” Kelly says. “This is a racket because you have to have insurance if you have a loan.”

The fact is, Outer Bankers don’t have much choice in hurricane insurance, unless they’re willing to pay exorbitant prices for a policy with Lloyd’s of London or other high-risk underwriters.

“The frustration for homeowners and for agents is the small number of options we have,” says Chad Honeycutt, president of Outer Banks Insurance Agency. “North Carolina is one of the last states that has a rate bureau. We have a very small number of companies that are willing to write policies.”

Honeycutt says that independent insurance agents are not as restricted as most corporate insurance companies in what they can offer homeowners, simply because the corporations may lack certain types of coverage for coastal properties.

State Farm, Nationwide, Allstate and Farm Bureau in particular have limitations on writing homeowners insurance on barrier islands.

A good independent agent understands the area and will be able to explain what type of coverage a homeowner needs to be protected, Honeycutt says. With a standard homeowners policy, coverage is provided for wind-driven rain, which he says is the No. 1 reason for claims on the Outer Banks. But cheaper fire policies don’t cover that damage.

There are also significant differences in

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coverage of contents, Honeycutt says, with the less expensive policy paying only the depreciated value rather than replacement costs. The homeowners policy, which costs about 15 percent more annually, also covers liability, crime, theft and rental income.

After the flood

One lesson Irene drove home was the need for flood insurance. Honeycutt says that homeowners without flood insurance tried to say that wind caused the water to rise, but he says rising water is always considered flooding, no matter the cause.

“People were caught off-guard by Irene,” Honeycutt says. “Everyone kind of let their guard down. We didn’t have adjusters waiting because we were thinking Cat 1 . . . but 90 percent of the damage was caused by flood.”

In some cases, it took weeks for insurance adjusters to inspect the properties. But unless the home was secured in the meantime, mold and additional weather damage could have wreaked havoc.

“You need to call a qualified contractor to do emergency

services,” says Pat Broom, president of Phoenix Restoration in Kill Devil Hills. “Not only are homeowners allowed to; they’re encouraged.”

With a storm like Irene, Broom says, a contractor would use moisture meters and sometimes infrared cameras to check for water penetration. Wet insulation is a particular risk for mold growth, she says.

But property owners are not allowed to make permanent repairs before filing a claim. “Get somebody to help you to at least get your home stabilized, and then you can stop the process there,” Broom says. “We call it ‘stopping the bleeding.’ You need to do triage.”

Before anything is thrown out, Broom recommends that a homeowner take a picture of any damage.

Broom says that some insurance adjusters who came out after Irene had undervalued — and sometimes overvalued — claims by as much as 50 percent. Proof of loss statements were so off kilter that FEMA extended the deadline twice to address discrepancies.

6 QUESTIONS TO ASK ABOUT YOUR POLICY

- Am I insured at 100 percent of replacement cost?
- What is my deductible for fire, wind and hurricane?
- What is my liability protection?
- Do I have coverage for wind-driven rain?
- Do I need additional wind, hurricane or flood coverage?
- What does flood insurance cover?

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“We’re dealing with some that still aren’t resolved,” Broom says.

When homes get flooded in an event like Irene, time is of the essence in dealing with the water damage, according to Danny Teachey, president of Servicemaster Clean, a water-removal service based in Elizabeth City.

“Once the interior of a home gets wet, it’s crucial to get somebody in there as soon as you can,” he says. “The longer it stays wet, the more damage it does. Within 72 hours, mold activity can begin.”

Teachey says that after Irene, many structures had to have the entire first floors torn out, not only because the flooding was so extensive, but also because it was contaminated “black water” that requires everything, including hardwood floors, to be removed.

The first thing his service does is remove any standing water. A special water extraction machine, which works like a vacuum, is used to dry furniture and rugs. Then if the floodwaters were contaminated, anything the water touched has to be removed — drywall, flooring, insulation.

Next, large commercial de-humidifiers and air-moving machines are placed in the building to dry out sub-floors and framing. Anti-microbial disinfectant is sprayed on the structure to prevent growth of mold spores; Teachey says his company sprays it a second time for good measure. Moisture meters are used to tell when the job is complete and the structure is dry enough to rebuild.

Typically, a residential clean-up after a storm like Irene could cost \$10,000 to \$25,000 and be completed in about a week, Teachey says. His most expensive job after the storm, he says, was a commercial facility that cost \$400,000.

Since many victims of Irene’s high water lacked flood insurance, their water cleanup was not covered by insurance. Even those who had flood insurance, Teachey says, would only have about \$5,000 coverage for a service like Servicemaster Clean.

“And that’s about a day’s work for us,” he says.

Teachey says that many homeowners policies being written now are not including any coverage of water removal services, which means homeowners would have to buy additional coverage to include the service in their policy.

Unfortunately, all the damage from Irene brought in lots of out-of-town crooks who took people’s money and disappeared, says Maxine Rossman, executive director of Outer Banks Homeowners’ Association.

“Homeowners have lost a boatload of money by giving these people advances,” she says. “After storms, they’re pros at it. Always ask for references.”

One of the best assurances a property owner can have is a record of their property. But, surprisingly, few think of it until it’s too late.

“So many people, even in their primary home, don’t know what’s in it,” says Steve Keller, owner of Cottage Comforts in Kitty Hawk. “The majority of stuff, most people don’t even have receipts for it.”

Keller’s company offers to provide a digital photographic inventory of a house, he says, starting at the front door and going room to room. Square footage, location and type of material are noted. Serial numbers, makes and models of electronics are also recorded.

The inventory, photos and descriptions are provided to the homeowner in printed booklet and CD formats and can be updated.

Currently, the service, which starts at \$500, is offered to clients who use the Cottage Comfort’s housewatch service, where weekly inspections of non-rental properties are done for non-resident homeowners.

Considering the rash of winter break-ins in unoccupied homes up and down the Outer Banks, Keller says, the inventory makes it much more likely that a homeowner can recover stolen items, especially electronics that are the favorite target of thieves.

“Here I’ve got a complete record of everything that’s in the house,” Keller says. “To me, that’s probably more valuable to the homeowner than an alarm.” ●

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