

## January 27, 2025 – Wealth Planning Commentary

### The Impact of Wildfires on Insurance Claims and Mortgage Payments

The recent wildfires in Los Angeles brought attention to an important issue regarding insurance claims for homeowners with mortgaged properties. Many homeowners are surprised to learn that when their property sustains structural damage, the insurance check for the full insured amount is sent directly to the mortgage lender. The lender retains the funds in an escrow account and releases them to the homeowner in installments as repairs are completed.

This process is often more complicated than homeowners expect. Mortgage lenders are strict about releasing funds and require specific conditions to be met before disbursing money. If homeowners fail to follow the lender's instructions precisely, the insurance claim may remain in escrow and inaccessible for repairs. Therefore, clear communication with the lender, meticulous documentation of all interactions, and adherence to their requirements are essential to avoid delays.

Insurance proceeds may be distributed as a lump sum or in multiple payments. Lenders are required to release funds incrementally to allow repairs to begin. However, navigating this process can still be challenging, requiring homeowners to remain diligent and proactive.

Another critical aspect of repairing property is the ongoing obligation to pay the mortgage. Even if the home is destroyed, homeowners must continue to make monthly mortgage payments. Failure to do so can result in financial and legal complications, including the risk of foreclosure.

On a positive note, disaster relief programs may provide temporary support by deferring or pausing mortgage payments. Conventional loans up to \$766,550 may qualify for six to twelve months of relief, depending on the lender. For jumbo loans exceeding this amount, relief options are typically lender-specific, requiring additional inquiry and negotiation. Since many high-value homes are financed through jumbo loans, homeowners should contact their lenders to explore disaster relief options.

Insurance payments for personal belongings and additional living expenses are handled differently. These claims are paid directly to the homeowner, providing much-needed immediate financial relief to cover losses and temporary housing costs.

The aftermath of a natural disaster like the LA wildfires underscores the importance of understanding the claims process for homeowners with mortgaged properties. Effective communication with the mortgage lender, precise adherence to their requirements, and awareness of disaster relief options are critical to navigating this challenging period. Additionally, while homeowners may find some financial relief in personal property and living expense claims, they must remain mindful of their ongoing mortgage obligations.

Being prepared and informed can make a significant difference in managing the recovery process after devastating events.

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