

PENNSYLVANIA HOMEOWNER'S GUIDE TO PROTECTING YOURSELF AFTER THE STORM.



**PA INSURANCE FRAUD
PREVENTION AUTHORITY**

KNOW THE RISKS. KNOW THE PENALTIES.

Information to help citizens be vigilant for fraudulent contractors who attempt to capitalize on hail and storm damage.

FRAUDULENT CONTRACTORS ARE TAKING PENNSYLVANIA BY STORM.

There's a new breed of storm-chaser rearing its head. Unlike the daring meteorologists depicted on TV who track storms in search of tornadoes, the National Insurance Crime Bureau (NICB) has been warning homeowners of corrupt home repair contractors who follow storm disasters from state to state with the intent of committing fraud.

With severe storm weather in our state trending upward in recent years, opportunities for these corrupt home repair contractors to commit fraud in Pennsylvania have increased. They prey on neighborhoods hit hard by hail and try to take advantage of the sense of urgency that homeowners feel as they struggle to have their storm-damaged homes repaired.

Going door-to-door, dishonest contractors entice homeowners in need of storm damage repairs with advertising that promises new roofs and siding will be entirely paid through homeowners' insurance policies. Wary homeowners find themselves persuaded to act quickly by contractors' offers of discounts equal to or greater than their policies' deductibles and by contractors' promises that they will help homeowners in negotiating claims with insurers.

TRACKING THE TREND OF CONTRACTOR FRAUD.

In 2010, the NICB issued warnings to insurers and consumers of a jump in suspicious hail damage claims, finding a 136 percent rise in suspicious claims over the years 2006 through 2009. As they cross the line between aggressive and deceptive business practices, the dishonesty of contractors is increasingly being reflected in the insurance fraud statistics of other states and Pennsylvania.

The Pennsylvania Insurance Fraud Prevention Authority (IFPA) found that from 2008 through 2011, property insurers in Pennsylvania saw a 13 percent growth in their homeowners insurance business, but a much larger, 94 percent, increase in paid claim losses. Claim losses increased from \$1.11 billion in 2008 to \$2.17 billion in 2011¹. Working with NICB data analysts, the IFPA also found that wind and storm damage claims in Pennsylvania rose from 12,758 in 2008 to 50,012 in 2011, where hail damage claims jumped from 1,040 to 15,894 a year.² Were heavy storms to blame for this increased activity or were more sinister forces at work?

Across the country, questionable contractor practices are causing consumers to increasingly take notice. The Better Business Bureau reports that for five straight years the most frequent inquiries are those regarding contractors.³ And according to a survey conducted by the Consumer Federation of America, complaints related to contractors were third on the list of the top ten complaints that state and local consumer protection agencies received in 2011.⁴

WHAT IS CONTRACTOR – OR HOME IMPROVEMENT – FRAUD?

Home improvement fraud occurs when:

- A contractor intentionally provides false or misleading information to convince a consumer to enter into an agreement for home improvements.
- A contractor receives payment and fails to provide the services or materials.
- A contractor damages a person's property in order to solicit an agreement for services or materials.
- A contractor alters a contract or other documents without the consent of the consumer.
- A contractor publishes false or deceptive advertisements.
- A contractor misrepresents material as special order material or misrepresents the cost of special order material.
- A contractor misrepresents himself or herself as an employee of a governmental unit or public utility.⁵

PREYING ON CONSUMER VULNERABILITY – AND THEIR INSURANCE COVERAGE.

When severe storms damage a home, time is of the essence. The homeowner wants his or her damaged house back to normal in the shortest time span possible. And unfortunate circumstances like these are exactly why they purchased their homeowners insurance in the first place.

There are many reputable contractors throughout the state that understand and respect the relationship between insured homeowners and their insurance company and will provide quality service to those in need. But opportunistic contractors often target homeowners who are so anxious to have their home repaired that they don't see the warning signs of a scam or stop to realize that they're being swindled.

SAFEGUARDS ARE IN PLACE – AND IN THE WORKS – TO BETTER PROTECT PENNSYLVANIA CONSUMERS AGAINST HOME REPAIR SCAMS.

Being taken advantage of by a less than reputable home repair contractor can lead to untold heartache and unanticipated financial costs. To protect consumers, Pennsylvania requires that home repair contractors be licensed and insured. In 2008, the Pennsylvania Legislature passed the Home Improvement Consumer Protection Act. This law requires that all contractors who perform at least \$5,000 worth of home improvements per year register with the Attorney General's Office. Contractor registration and other helpful information to help homeowners select contractors can be found on the Pennsylvania Attorney General's website at www.attorneygeneral.gov.

To refinance or sell a home, its owner must first satisfy mechanics' liens. Rogue contractors who stiff their suppliers appear to be a growing problem in Pennsylvania. In May 2012, the Honorable Senator Kim L. Ward of Westmoreland County's 39th Senate District introduced Senate Bill 1495 seeking to amend Pennsylvania's Mechanics' Lien Law. If enacted into law, homeowners who fully paid a contractor for home repairs would be protected from mechanics' liens where the contractor failed to pay his or her subcontractors.

Senator Ward's introduction of this legislation followed her office's reporting that at least 17 of her constituents had discovered that over \$64,000 in mechanics' liens had been filed on their homes after dishonest contractors failed to pay a roofing supply company.

THE BEST ADVICE – KNOW YOUR INSURANCE AND HOW IT WORKS.

Every homeowner should be familiar with his or her homeowner's insurance policy. If you have any uncertainties as to what your policy will or will not cover, and whether you have adequate financial protection, you should talk with your agent or insurance company before the unexpected occurs. When it comes to storm damage, an important thing to know is whether or not your policy will pay the full or depreciated cost of repairing storm damage.

Some things you should expect to encounter when making a storm damage claim on your homeowners insurance:

When you report a storm damage claim to your insurer, the insurance company's adjuster will inspect and estimate the costs of repairing the damage. Depending upon the language of your policy, you'll receive two sets of numbers from the adjuster, the depreciated cost and the full replacement cost of repairs. *For example*, if the adjuster finds that the damage requires a new roof, estimates that a new roof will cost \$10,000 to install and that the present roof, due to age, has depreciated in value by 20 percent, the insurance company will first issue a claim payment of \$8,000 **less your policy's deductible** as the depreciated cost of putting on a new roof. If your policy provides for payment of the "full replacement cost" of a new roof, the insurance company would be obligated to pay the remaining \$2,000 as the full replacement cost of the roof once the new roof is installed.

It is important for many homeowners to remember that when they financed their home's purchase, they agreed to maintain property insurance on the home and to have their lender shown as a "loss payee" on their insurance policy. This means that the mortgage lender has a financial interest in the property and insurers must issue claim payments as payable to both the homeowner and their mortgage lender.

In the above example, supposing that your policy deductible was \$500, you'd first receive from your insurer a \$7,500 check made payable to your mortgage lender and you as the homeowner. You must then contact your lender.

Expect your lender to require you to provide information such as a copy of the insurer's estimate and/or your contract with your chosen home repair contractor. They may require your contractor to also submit information.

Your lender may choose to hold the initial claim payment in escrow, disbursing funds as the contractor does the work, or your lender may choose to sign the claim check and release it to you to manage paying for the work. In either event, you'll use these funds to have your contractor begin work. Typically, one-third of the agreed upon cost of repairs would be given to a contractor to start work, a further one-third paid as work progresses, and the remaining one-third upon completion of work.

If your homeowners insurance provides "full replacement cost" coverage, once work is completed by the contractor, your insurance company will ask that you notify them of the contractor's completion of work. The insurance company may then have their adjuster inspect to see that work has been completed on your home. Again, depending upon the language of your specific policy, your insurer may require a final contractor's bill marked "paid in full" or accept the contractor's statement of the completion of work and final cost. Once satisfied, the insurer would then

issue its final claim settlement payment, in the example presented earlier a check for \$2,000 payable to you and your mortgage lender.

Once again, you'll need to contact your mortgage lender to obtain their signature on the check and release of the funds to you.

While this may seem more complicated than you'd expected, there are definitely pitfalls when homeowners don't follow the rules. Homeowners can go wrong by:

- Making repairs before notifying their insurer of their home's damage and their claim.
- Not getting work estimates and bids from at least three home repair contractors.
- Not asking for and checking contractors' references.
- Not checking to ensure that the contractor chosen to do the work is properly registered with the Pennsylvania Attorney General's Office.
- Not entering into a written contract with the contractor as to the work to be done, work start and completion dates, materials to be used, and the full cost of the work.
- Not requiring that the contractor provide with the written contract proof of the contractor's liability and workers' compensation insurance.
- Paying in full in advance of work, not disbursing payment to the contractor as the work begins, progresses, and is completed.
- Not informing the home's insurer when additional damage to the home is discovered by the contractor during repair work. If storm-related, it may also be covered by insurance. Otherwise, it may become the homeowner's responsibility to pay the contractor.
- Not having put into writing any agreements made with the contractor as to additional work to be done and costs added to the initial written contract.
- Failing to notify the homeowner's mortgage lender of the claim and claim payments received.
- Forging the mortgage lender's endorsement(s) to claim payment checks.
- Accepting the contractor's discount on the costs of work without disclosing that discount to the home's insurer.
- Failing to require, before final payment is given to the contractor, that the contractor disclose all suppliers and subcontractors involved in the work and certify that all have been fully paid.⁶

THERE IS A RIGHT WAY AND A WRONG WAY TO GO ABOUT REPAIRING STORM DAMAGE.

Serious trouble awaits contractors who take the dishonest route. Here are a few cases:

- In December 2010, a 32-year-old Red Hill, PA man was arrested in Montgomery County by special agents of the Pennsylvania Attorney General's Office. Charged with Insurance Fraud, it was alleged that as a representative of a New Jersey-based contracting company, the man distributed flyers to Pennsylvania homeowners after storms occurred, promising new siding at no cost through insurance claims and that prior to the arrival of adjusters from the homeowners' insurance companies the man created additional damage to the homes.
- In April 2011, Lehigh County law enforcement officials, working with Pennsylvania Attorney General special agents and assisted by NICB special agents and New Jersey law enforcement officers, arrested two men, both age 34, of Sellersville, PA and Quakertown, PA on charges of Insurance Fraud and Corrupt Organizations. It was alleged that from April 2009 through 2011, the pair operated a criminal scheme to defraud insurers through fraudulent hail damage claims. Flyers left at area homes promised homeowners free inspections for storm damage as well as new roofs and siding at no cost through insurance claims. Homeowners were also told that by placing the contractor's sign in their yards after work was done, that their policy deductibles

would be returned to them. Before adjusters from insurance companies arrived to inspect the homes, the pair and several inspectors employed by their contracting firms would create damage to the roofs and siding of homes to make it appear that they had been damaged by hail. Unsuspecting property insurers paid out millions of dollars. Unsuspecting homeowners found that mechanics' liens had been placed on their homes as contractors had not paid roofing and siding suppliers.

- In June 2012, detectives of the Delaware County District Attorney's Office charged a 33-year-old Media, PA contractor with Attempted Insurance Fraud and Theft by Deception. A representative from the contractor's firm had called, unannounced, upon a Lansdowne, PA couple after a June 2010 hailstorm passed through their neighborhood. Informed that their home had been damaged by hail, the couple reported a claim to their home's insurer and hired the contractor's firm to make repairs. The couple received several thousand dollars from their home's insurer to start repairs. Repairs were not started quickly. As repairs were made, the couple and contractor disagreed about the quality of work. The home was reportedly further damaged by water leakage and mold. It was alleged that after the couple refused to pay the contractor the remaining money due without full repairs being made, the contractor gave the couple's insurer a false certification that work had been completed in an attempt to obtain the additional thousands of dollars due. The insurer's final claim payment check was sent to the couple, but was not released to the contractor by the couple as needed repairs were not complete by October 2011.

THERE ARE ALSO CONSEQUENCES FOR HOMEOWNERS WHO FALL VICTIM TO THE TEMPTATION TO EXPLOIT STORMS AS A PAYDAY OPPORTUNITY. HERE ARE A FEW EXAMPLES:

- On October 21, 2008, a 52-year-old North Huntingdon, PA woman was arrested in Westmoreland County by Attorney General Insurance Fraud special agents and charged with filing a fraudulent claim on her Allstate Insurance Company homeowners insurance. Reporting to Allstate that her furnace was damaged by a power failure during a wind and hail storm, the woman altered a repair order form, changing the cost of a replacement circuit board for her furnace from \$150 to \$750. The alteration was caught by Allstate claim representatives.
- On September 22, 2009, a 38-year-old Titusville, PA woman was arrested in Crawford County by special agents of the Office of the Attorney General. According to the Criminal Complaint, the defendant added collision and comprehensive coverage to her existing automobile policy with the Unitrin Insurance Company following a hailstorm that occurred on July 26, 2008. There after, she filed a claim for damages caused to her vehicle by the hailstorm by allegedly misrepresenting the date of the storm's occurrence in an attempt to bring it within the newly obtained coverage period. She was charged with Insurance Fraud and Criminal Attempt/Theft.
- On January 30, 2012, special agents of the Office of the Attorney General filed a Criminal Complaint in Fulton County charging a 38-year-old Needmore, PA man with Insurance Fraud and Criminal Attempt/Theft by Deception. It was alleged that after the defendant's car was damaged by hail, he purchased auto insurance with GEICO Insurance Company and then filed a hail damage claim, misrepresenting that the damage happened after his purchase of insurance. On May 1, 2012, the defendant was granted Accelerated Rehabilitative Disposition (ARD) with 12 months probation and was ordered to pay all court costs.

Sources:

- ¹ IFPA analysis of Annual Statutory Financial Statements filed by Pennsylvania property insurers with the National Association of Insurance Commissioners, 2008 - 2011. Note: NAIC does not endorse any analysis or conclusions based on use of its data.
- ² IFPA analysis of ISOAllClaims reported by property insurers for Pennsylvania loss locations, 2008 - 2011.
- ³ Consumer Insurance Guide, "Summer Storms Invite Fraud," July 17, 2012.
- ⁴ Consumer Federation of America, 2011 survey.
- ⁵ Pennsylvania Office of the Attorney General, Home Improvement Consumer Information.
- ⁶ Pennsylvania Office of the Attorney General, Home Improvement Consumer Information; and Pennsylvania Department of Insurance.