



Buy or Rebuild?

FAQs on replacing a dwelling after a total loss

If your home has been destroyed and you are thinking about buying replacement home instead of rebuilding, California law gives you the right to do that.

In order to buy instead of rebuild, you need to reach an agreement with your insurance company on the dollar amount it would *theoretically* cost *if you did* rebuild the exact same home that was destroyed. Generally, that is what the insurer owes you. If you want to collect the full replacement value of your destroyed home, the price of the house you buy should be close to what it would have cost to rebuild the old house.

If you choose to buy a house that costs more than your insurance settlement, you can kick in some of your own money. If you choose to buy a cheaper house, you probably won't get to pocket the difference. You may have to negotiate with your insurer over land values at the old and new home site to complete the settlement and purchase.

This tip sheet will give you guidance on how to maximize your insurance benefits if you choose to replace, rather than rebuild your destroyed home.

What is Replacement Cost Value Coverage (RCV)?

RCV insurance coverage gives you the dollar amount it would cost to replace or repair your home with one of like kind and quality to what you lost. Depreciation is only applied temporarily until you replace.

What is Actual Cash Value Coverage (ACV)?

ACV insurance coverage gives you the Fair Market Value of your home on the day before the loss (what a willing buyer would have paid a willing seller). Depreciation is applied.

What is Extended Replacement Cost Coverage (ERC)?

Extended Replacement Cost Coverage gives you extra coverage above your dwelling limit if you suffer a loss above that limit. It's usually provided through a "rider" or "endorsement" you paid extra for. The most common ERC comes in amounts of 25, 50, 75 or 100% above your dwelling limit.

When does the insurer pay ACV instead of full replacement cost?

Generally, the insurer pays ACV when an agreement has been reached on the repair/replacement cost of the insured home. The insurer sets the ACV by applying a depreciation formula to that cost.

When does the insurer pay full replacement cost?

Generally the insurer pays full replacement cost when an agreement has been reached on the replacement cost of the insured home. However, the money may get deposited into a supervised construction account and doled out in progress payments, or a temporary depreciation hold back may be applied until rebuilding is complete. If you're buying a replacement home, you should be able to collect full replacement cost as soon as you've given your insurer proof of the purchase and price.

Will I be able to get my full extended replacement cost coverage if I buy instead of rebuild?

Yes, According to the California Department of Insurance, you are entitled to the full benefit of all coverage extensions. This view is confirmed in a legal memorandum issued by the Department in 2008. A 2011 California Court decision supports this position saying: "an insured [is] required to "repair, rebuild, or [replace]" in order to collect full replacement cost. "If the policy requires the insured to repair, rebuild, or replace the damaged property in order to collect the full replacement cost, the insurer shall pay the actual cash value of the damaged property, as defined in Section 2051, until the damaged property is repaired, rebuilt, or replaced. Once the property is repaired, rebuilt, or replaced, the insurer shall pay the difference between the actual cash value payment made and the full replacement cost reasonably paid to replace the damaged property, up to the limits stated in the policy."

If I buy instead of rebuild, can insurers deduct from my replacement cost settlement an amount it determines to be the value of the land of my new home?

This is still an open question. There are several arguments you can make to avoid having your insurer deduct the value of the land under the replacement home you're buying:

If the policy doesn't authorize a land value deduction, the insurer is not entitled to take one; Land values are subjective. Why should the insurance company be entitled to its number?

If you buy a new home plus the land it sits on for the same amount you'd have to spend to rebuild your own home, it stands to reason that you would be buying a home that is lesser in value than the costs of replacing your own home.

The simplest approach is for your insurer to pay you the full amount, up to your policy limits including all extensions that you would have to spend to rebuild your destroyed home. This assumes that you have provided a reasonable scope of loss as well as proof of your intent to actually buy a different home.

Do I need to present the Insurance Company with a detailed estimate that compares what I lost to what I intend to buy?

It depends. Most insurers will require a detailed scope of loss and rebuilding estimate for the house you lost before they will agree to pay for the house you intend to buy.

How do building code upgrades factor in to this process?

Your estimate for rebuilding your destroyed home should specify all upgrades that would be required to comply with current building codes. If you don't have code upgrade coverage your insurer will most likely decline to include those costs in your settlement.

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