Voice Over: Welcome to the R.E.I Diamonds Show with Dan Breslin, your source for real estate investment jewels of wisdom.

Dan Breslin: Welcome to the R.E.I Diamonds Show. I'm your host, Dan Breslin and this is episode 205 on avoiding rental property insurance pitfalls with Attorney Galen Hair, if you are into building wealth through real estate investing, congratulations, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show, and then draw out the jewels of wisdom. Those tactics mindsets and methods are used to create millions of dollars or more in the business of Real Estate. Today we are joined by New Orleans Attorney Galen Hair who is an expert in avoiding rental property insurance pitfalls. At any given time, Galen and his team are involved in helping several 100 people obtain full payment from insurance companies for catastrophic losses. A catastrophic loss would be considered a very large claim usually a fire in the context of us real estate investors. The thing is, many rental property insurance policies are actually designed not to pay out completely in those catastrophic events.

During this episode, Galen and I discussed the right process for purchasing a property insurance policy. I personally own dozens of properties and have flipped well over 1000 and I have never bought insurance with the level of due diligence coached by Galen on today's episode, you may not have the insurance protection that you believe you bought. Let's begin.

Alright, welcome to the REI diamond show. Galen, how are you doing?

Galen Hair: I'm great. How are you doing?

Dan: Nice. I am also great. We had like 60-degree weather here. It's December in Chicago, which is unique for us this time of year. So no one's complaining about the weather right now. Whereabouts are you recording in from and live and invest in that kind of thing?

Galen: Yeah, so our office is based in New Orleans. Essentially, that's where I live. Spend most of my time here. Unfortunately though, given my line of work, I kind of have to follow disasters where they are. So I will move around, probably head to the Midwest next week because of some tornadoes that just kind of blew through everything during hurricane season, I kind of moved from Hurricane to hurricane but most of my life and work are in New Orleans. And the weather is crazy in New Orleans if anyone follows that. So I think today, it's pretty good. It's like 65. But a couple of days ago we were in like the 30s. So it's just all over the place.

Dan: Yeah, it's not it's kind of like here. The tornadoes, my girlfriend's hobby is watching the weather. And she's got all these weather apps. And she's following all these to storm chasers. So she's actively looking forward to these tornadoes as they develop. She's getting alerts. And she's staying up all night watching the whole thing unfold. And I guess we had that occur, there was the tornadic activity last night. And that blew in from Kansas to us in Chicago, the smell of wildfires. So we could smell it like this morning and through the night. What is this smell? Is this weird? From all the crazy weather that occurred out here in the Midwest.

Galen: Oh, it's been so crazy in the last couple of years and kind of whatever you want to credit it to. Because what I've learned is it drastically depends on your political beliefs. But it's kind of like we're waiting on the locusts now. It's like the one thing missing, right? It's been absolutely insane. All over the country, wherever you are, you probably have seen record bad weather in the last couple of years. It's just absolutely wild.

Dan: Yeah, it's nuts. So just to kind of give people a little bit of background, if you would touch on maybe some of your real estate experience, and then kind of encapsulate what it is that you do in your business model now and how that fits in for real estate investors listening.

Galen: Yeah, so real estate-wise, I'm definitely an amateur. I do identify properties that make sense for us to pick up kind of in and around the New Orleans area. And what I'll do is buy those, fix them up and actively rent them out. I find that that's an easier model for me than flipping, although the markets are pretty good here. It produces revenue. So for me, as long as it's cash positive, it's an investment that I'm kind of interested in. But I don't do more than maybe two a year.

Dan: Nice. Yeah, I think it's smart for people. I mean, we have probably a lot of people who are doing it full time. I think I have run into a lot more people who are flipping houses and we do a lot of flips myself. But man over time, your rentals you hang on to them. They don't necessarily move the needle right on a monthly basis every month, especially early on. But like overtime, four or five years later, the rent goes up. There's just like compounding effect that happens in the background and like, you look up, you turn around, maybe you've got 10 or 15 of them like that, that makes a difference and moves the needle, especially if we look forward, I don't know, 10, 15, 20 years out to when retirement occurs. Now you're selling appreciated assets paid down that I mean, I'm preaching to the choir, I'm kind of saying stuff we already know.

So you brought a very interesting topic to the show here, which I was looking forward to myself, because it's something that is moving the bottom line for me, and that's insurance. And I think a lot of people probably saw the topic like, "Oh insurance, what is this?" Well, insurance is a real real estate investor's topic. So people who are like actually buying houses actually buying million-dollar, not commercial properties, are serious about insurance. And insurance is one of the greatest things, I think that we have, as real estate investors buying real estate, we are insuring against these catastrophic Black Swan event risks. If you buy a company and a company goes bankrupt, there's no real reinsurance that you have to cover that loss. But if the property is taken down by a tornado, you have some recourse to be able to reestablish and rebuild that investment going forward, right and moving the needle on paying attention to how to buy the right insurance and how to make the right claim, if God forbid, wherever and your experiences, 800 plus of these kinds of total losses that you've helped rebuild. So it does happen even though luckily, it doesn't happen to a lot of us very often. I'm sure that at some point, during the career of any high-volume real estate investor, they're going to deal with a loss. And they're going to be in a situation to have to do the things that we're going to talk about on today's show. So I figured maybe we could kind of start if I left anything out from our summary and my enthusiasm near gallon, fill in the holes on exactly what it is you do and where you fit into the insurance business with real estate investors.

Galen: No, that's exactly right. And the 800 Plus, I noticed you mentioned that, and I think you probably got that from our bio. I think that 800 numbers are so misleading. It's interesting, we probably at any given time, are helping about 800 policyholders. So over the course of the last 10 years, I don't know maybe I should find that number. Maybe it's impressive, maybe it's not impressive, but at any given time we're working with about 800 policyholders that's kind of what we consider a critical mass before we get uncomfortable, to help them recover from a loss or catastrophic loss. And I think it's just so crucial for real estate investors to be aware of because it's something that you usually don't really think about until it's too late. And despite the fact that every single person listening to this podcast is probably incredibly business savvy. The area where we tend to cut corners is with insurance. And it's just mind-boggling when you really sit back and think about it.

Dan: Nice. So I think we have like two major components that I really want to dive into, we kind of have the front end, which all of us are dealing with, right? Picking the right insurance company pricing and making sure we have the correct claim, hopefully, we have a broker who's knowledgeable enough to steer us in the right direction to get enough coverage on the front end. And then we have the maybe we're going to deal with but hopefully not the catastrophic loss kind of component. So why don't we dive into the property insurance purchase aspect of it first? And maybe we could start with like a few mistakes that investors who are buying real estate, make most often. Not shopping for coverage, getting the wrong coverage, whatever else is a big mistake that you've seen occur when buying insurance.

Galen: Yeah, so if you're kind of looking for the Cliff Notes, like what am I doing wrong? The couple of things you're doing wrong is you're not actually shopping around for insurance, you're kind of taking whatever you can find. And the other thing you're not doing, you're not doing right, that you probably don't even realize you could do differently is you're not actually reviewing the policies and what coverage is going to be provided prior to purchase. That's not your fault, because you don't think you can, but you can. And I would say that's the biggest thing that people really make a mistake on because it avoids a lot of heartaches later.

Dan: Can you dive into that a little deeper as far as like we're going over a policy right now. What are some of the numbers that I'm going to find there and what would they correlate to in terms of like the property there I'm looking at so maybe I'm buying a property that has, I'm paying... We'll use a real example. I'm paying $250,000 for a property that's all brick. It's a six-unit building And I think it's probably going to be like a 7 or $800,000 project if it were to completely burn to the ground and have to be rebuilt. What type of insurance, and what would the numbers look like on the policy for that building, example?

Galen: Yeah, so it's the matchstick test, right. As far as insurance is concerned, what you want to do is step back and say, if I set a match to this property, now, brick is probably the worst example for the match stick test. But if I said, if I set a match to this property, what would it cost me to get made hole, right. And that's how much insurance you purchase. As far as what coverages and what's available. That's a different discussion. But first, just coming up with that number. I'm always amazed at how many people say, "Well, I'm just going to insure the cash that I have on the property." That can actually trip you up for a ton of reasons, some policies, and love coinsurance requirements, so you may actually reach a penalty as a result of underinsuring the property, to begin with. You definitely don't want to be caught up in that, obviously. But really, what you're insuring is not the cash you have in the project, you're ensuring the value of the project, and that's different. And if you're going to flip this property, let's say and you think after it's all built up, while it's on the market, sitting there waiting, you're going to make cool 100,000. Well, the value that's 350, it's not 250. And it's not whatever your construction costs are, right?

So you want to make sure that you're restored to what we call your pre-loss condition, less deductible. That's the definition of indemnification in my field. But getting there is a little more difficult than it sounds. And the reason is, as far as the purchasing insurance side of things, we purchase insurance in a completely screwed up way in the United States. And in fact, all the way around the country. And look at these houses your example. I am willing to bet that before you purchase a property, you have some process where you do due diligence to make sure this is a good investment. Is that fair?

Dan: Oh, yeah.

Galen: Yeah. And anyone listening to this has something, I don't think there's a ton of people on here who say, every property, I purchase a sight unseen, I haven't even looked at a spec sheet about it, I don't know anything about it. I just put I just send someone money. And then they hand me keys to a home. And then I find out what that property looks like that probably is not the case with just about anyone here unless they inherited a bunch of property, right? So, but that's exactly what we do with insurance. We go and we meet a broker or an agent. And we say, "Yeah, I have a property or multiples. Here's the information about it. Here's what I think I need." Sometimes you don't even say what you think you need. They hand you some sheet with numbers on it, which are premiums and coverage, right, and it just has some blanket amount and then a premium. Usually, it's got three sets of those. And they asked you to circle one and say which one do you want, and you circle it, and you pay your premium. And what happens a couple of weeks later, you get a policy in the mail, and then you take that policy and you throw it away. Because you figure you can always get a copy from someone else. And if you're a homeowner, not so much for investors, but if you're a homeowner, you're like, "I don't even need the policy, if my house burns down, it's gonna burn, I don't need it. I'll get it from someone else." So you throw it away, you don't read it, you don't find out what's in it. You figure it's too late to negotiate it now you already bought it. And that's how we purchase insurance in the United States and frankly, around the world.

But you don't have to purchase insurance that way. That's just the way the system is designed, you know? And it's like the car idea, right? Would you ever go purchase a car that you hadn't test-driven, hadn't read reviews? Hadn't at least seen it? Even if you don't see it with your own two eyes. Now we're purchasing cars online, right? We're at least looking at it. You're not even seeing the policy before you purchase it. And that's all available to you, you're going to get some pushback. But that's all available to you. And those numbers that you were given on that sheet of paper are misleading. Because all it tells you is the most you could possibly recover in an event and how much they're going to charge you. It doesn't tell you what's covered. It doesn't tell you what penalties apply, sometimes they'll tell you the deductible. It doesn't tell you about exceptions, exclusions limitations, there's all these things that a policy. I mean, most of you listening to this have read policies, at least at some point, or skimmed through them. And you see it's like one hand, give it the other hand, take it the first 30 pages says everything's covered. The next 30 pages change all the definitions and the first 30 pages, right? It's like a jigsaw puzzle. And the way we purchase insurance, we're setting ourselves up for failure, if that makes sense.

Dan: Yeah. So what is the best way to... I mean, are we just like calling one broker and shopping around? I mean, what's the correction to the mistake here?

Galen: Yeah, both. So we're talking to multiple brokers. We're not loyal to this one broker because they're our friends. Purchasing insurance where you're ideally mitigating your financial risk, based on a product you purchase should not really be bought based on loyalty. That's a bad business concept to let loyalty drive your financial risk. I'm all about loyalty, right? I'll go to the same grocery store all day because I like the company, I like who they are, I'll go to the same butcher because I like who they are. I will not purchase financial products for my law firm, simply because I like those people. S loyalty is the first thing you throw out. But even Whether you're shopping around brokers or not, what you need to be doing is going to your broker or your agent and saying, I want to see this policy, before I sign on the dotted line, they are going to look at you like you just said, "So I was in my car and an alien just landed." That's how they're gonna look at you. Because they're gonna be like," What are you asking for?" And you look at them and say, "I'm really serious, could you please go get me a copy of that policy?" And they can do it, they're going to have to make some phone calls because they're not used to getting asked that question. But they will get you a sample policy, they will get you the list of endorsements that will be included. And they can usually get you those actual endorsements, it's not going to be 100% identical to the eventual policy you get, there might be little changes. But fundamentally, you're going to get to read through what you're purchasing before you give them money. And that is mind-blowing to an agent or a broker. But that is just a good, solid consumer ship, anywhere else.

Every consumer says I want to know what I'm buying before I buy it. But for some reason, in insurance, we don't do that. And if you will just take the time, if you will buck the system, because right now the system just wants you to buy it and then find out what it is later, you will place yourself in such a better position. The states can only do so much. Some states do have regulations that say well, for instance, down in Louisiana, if you're going to have a wind exclusion, you need to sign something saying you acknowledge you're getting a wind exclusion, that's great. Did you know in Texas, with the pipe freezes, which is, by the way, the largest single weather event we have ever had, the pipe freezes that extended all the way up through Texas up into the next few states? The vast majority, of those policies, have exclusions, for pipes that froze that were subterranean, or underneath the home.

Dan: Wow!

Galen: No one was informed of that ahead of time. And guess what, no one asked to see their policy. So all these people had massive damage done to their homes and then found out that they had actually purchased a policy that did not provide coverage. But again, they had that same conversation that you have every day with your insurance agent, hey, I bought a property, here's how much it's worth. Here's what I need. Okay, here's a coverage amount. Here's a premium sign here, write me a check, good to go. Had they just slowed that process down? They could have looked at that and said, there are a lot of things that aren't covered here. Can you maybe find me a policy that does cover these things?

Dan: So can you push back on these endorsements? If you find one or more you don't like what would it be realistic for that insurance company says, "Yeah, okay, we'll do the frozen pipe thing here we want your business" Or is it going to be like shopping around for another insurer, at that point?

Galen: Yeah, you're usually looking at another insurer with some of like the Lloyds kind of policies and stuff, you can push back on individual endorsements. Because what'll happen is the broker will just have to go get a different group of underwriters that's writing that risk, right? But outside of Lloyds, like, for instance, and I'm not picking on anyone, this is a fake example. But if StateFarm isn't writing for frozen pipes in Texas, they're not writing for frozen pipes in Texas, it's going to be hard. There may be some additional packages or some additional products that you can purchase. But a lot of them decided we're not taking certain risks, but there will be a carrier that does do it. I will tell you insurance companies are just like anything else. And when one door closes a window opens, right? And some carrier will say Well, I'm gonna write this risk. Sometimes it's a little pricey. And then and then you're just making economic analysis, you may decide I don't think there's enough of a risk of frozen pipes. If we're using that example, then I'm willing to pay an extra $1,000 a year on insurance, that's fine. But you made that decision. You didn't just purchase something and find out later that it wasn't covered. See what I'm saying?

Dan: Yeah, and I guess my personal philosophy is that I'd rather pay a higher deductible say 10 grand because I know that like water intrusion issues in the basement of my rental. I'm not making the claim anyway. So if it's like 5800 bucks for me to get some drywall replaced and reseal that wall like I'm just paying for that I don't even want to deal with going through the insurance and I imagine it would make my rates higher to be Clint making claims anyway. So like when you mentioned the frozen pipes thing, I'm kind of of the same ilk. It's like well, I probably blew it in here in Chicago, if I didn't get my heat on, like, that's probably on me, and it's probably a $900 repair and like these are kind of the course of doing business. Is my philosophy screwed up in the higher deductible not making claims thing? Or is that probably good for me to stay economical with my premiums and I'm paying those premiums year after year after year. And in my mind gallon, I'm really insuring against catastrophic risk. If the place does burn down, that thing can be brick, but all six of those units could in theory that the building could burn, I could have to rebuild the entire thing where even a brick isn't worth saving. Do you know what I mean? So it's like, to me, it's like I'm insuring for that very, very big loss versus incremental losses along the way.

Galen: I think most investors are insuring for the bigger losses, most homeowners should insure for every loss. And the reason is, that a homeowner knows their financial situation. But I've run into homeowners all day that just cannot afford to make even relatively small repairs. But investors know what their cash flow is like. They know what they have available to them. And they know what they're kind of I call it like, what they can stomach, right? They know that there's a certain number where they're like, "Oh if I have to put this into a property, I'll do it. But if I have to put any more into it, I'm absolutely going to lose it." So I don't think your philosophy is bad. My point is, that it needs to be an intentional philosophy, right? Like pipe freezing, that sounds like a minor thing. But in Texas, it was not. Because all the pipes in the Hope House froze. Right? Because they were without power for what was like a week, as it was beyond freezing, and all of the pipes froze. And then as soon as the pipes unfroze, we weren't talking about water intrusion in the basement, most Texas don't even have basements. We were talking about the whole house flooding as a result of the water. And then Ice Dams built up on the roof and the roofs collapsed. It was just wild.

So that was a catastrophic loss. And there's a different example that maybe will resonate more with the people that are looking at the catastrophic things. Look at California, the definitions that some carriers have applied to fire damage are now very, very narrow. They will cover fire because they have to, but only direct fire damage, they won't cover smoke damage, they won't cover things that maybe were warped by heat, it has to have burned. Why are they doing that? Because insurance companies are smarter than us. And they know exactly what the likelihood is of an event happening. And they're not going to charge you a premium where they are substantially certain to lose money. So I mean, Hurricane Ida down in Louisiana, that was a 150-year storm. The carrier didn't anticipate that storm happening, which is why they're losing so much money on those claims. But what you have to but I agree with you, I think one very meritorious philosophy is to say, "I'm going to figure out what my pressure point is in terms of dollars. And I'm going to take a higher deductible, so I can insure against the bigger losses and not really worried about the small stuff." There's nothing wrong with that.

Dan: So besides the direct fire endorsement, what would be one, two, or maybe three other endorsements that you see insurance companies sneaking in, that people should take a look should be on the lookout for as they're reading their policies?

Galen: Yeah, cosmetic exclusions, that's a big one. Sounds silly. Why do I care how the property looks? Well, you're not really arguing about whether the roof or the siding looks bad. And you're arguing about whether it was damaged, right? And what they're saying it gives the carrier an avenue to say, even though this roof looks like Swiss cheese, because of hail, we don't think it was functional, we think it's cosmetic, and they get some engineer to come out. I don't like cosmetic exclusions at all. Especially if you're buying properties that are a little higher, and maybe you have some copper up on that roof, maybe some slate, maybe some tile, I would really look at that. I'm starting to see some endorsements that talk about like kind of quality, saying they don't necessarily, "Oh, for like kind and quality, I'd be very careful about that, depending on what you're flipping or what you're buying." The reason for that is that kind and quality is an insurance concept in most states that says that you have to repair or replace the property with like kind and quality. It's why I chuckled at your couple of brick examples because I laugh and I say, "Well, I don't know if whatever happened damaged a couple of those bricks, I would probably say they need to rework the entire house, and they need to pay for that whole thing." So you're like, "I don't know if I would save the brick." And I'm like, "I wouldn't. I would throw it all the way and make the bricks." So it's a different philosophy altogether, right? But without a like kind of like quality, which is the normal definition. So if you add like exclusion in there like a kind of quality. Now they can just go replace those two or three bricks that are missing and it doesn't matter whether they match. It doesn't matter whether they look right It doesn't matter what the cosmetic effect of that is, right? So I would really watch out for like kind of like quality. And you're going to start to see, it just depends on the state. The other kind of general catch-all is wherever you live, wherever you're buying, imagine what tends to happen where you are, and watch out for exclusion or an endorsement about that down in the Gulf South, we're seeing a ton of wind and hail exclusions. Why? Because it happens. And it was expensive.

Dan: Yeah, as you mentioned it, talk through and walk through all these things I, over the past three years. So most of the stuff that we do the 300 Plus deals we did this year, it's all single-family stuff. It's two flat three flat, every single one of those properties was existing construction, not new construction. But almost a hobby that I've had for the past like three or four years, Galen is I will read the permits for new construction $500,000 or more, and demo to pay attention kind of in Chicago, like where demo happening, where people building new buildings, what kind of big projects are, being permitted. And one of the things I've taken away from that, as I'm talking with you is I really came to understand how much it would cost to replace the construction of the property. So like buying that six-unit for 250. At first, it would be like, "Well, if you insured for like you said, 350-400 cash into a project, what we think it's worth." Great. I'm insuring it for $826,000. Because I've done enough of them paying attention to new constructions and know that 800 should get me six units there. Regardless, if the building's not worth 800, because of the location, it probably is going to cost me $790,000 to rebuild that thing, brick, keeping the brick or not if we did have a total loss. And so I've taken away from that ensuring these properties, replacement values, almost a multiple 50% more, right, it's their numbers that are freaking egregious if I didn't have the background of looking at the new construction permits to see what it would actually cost for all that. And I think a lot of investors who are buying existing properties who haven't developed new construction would not really have that much insight into how much it costs to build new construction in a specific market neighborhood and building type property types. So it's kind of a side tangent there that I know you'd probably agree with me on. But it is what it is, right?

Galen: Yeah, it's not really a tangent. It's important. And that goes back to what I call the matchbook test. And I probably could have been more clear, it's about it's not about what will it cost to replace what I have right now. It's, I can't replace what I have right now, because I can't go back in time. What will it cost me to put up a new building that would be of the same size, the same general structure, right? And you even have to think about what you're building is built up. So we're running into a lot of asbestos roofs right now, as a result of all the storms we've had. Well, you can't do that anymore. And frankly, the probably suitable replacements for asbestos are really expensive, really expensive. So So you have to think about all that in terms of how much insurance you want. So I completely agree with your philosophy. And I think you're doing the exact right thing. It's gut-wrenching when an investor or homeowner for that matter, has such insufficient insurance, that I know that there's no way they're ever going to be able to rebuild with the funds. I mean, I guess at least an investor has some access to funds. But man, when a homeowner looks you in the eyes, and you know that you can go max out that policy, and it'll never be enough, nothing feels worse.

Dan: So what happens in a situation like that person owes $250,000, they bought the property for 300. They maybe they insured for 300. And it's a 400k to rebuild that thing. And I think one of the problems too is as time goes on, many homeowners don't increase their insurance always to keep pace with the rising cost of construction. We can leave that whole topic alone. But I'm curious when the homeowner whose eyes you looked into, and now have no house and it's a complete loss. What is the net result for them that you were able to get in that scenario where they had that big shortfall of insurance coverage?

Galen: Yeah, so I can probably get them to 300 pretty easily. If they have a coinsurance requirement in their policy, it's gonna get really nasty really fast, because then I can't get them the whole 300 as a very quick refresher. Coinsurance basically says if you underinsure the property by a certain amount, you might have a penalty deducted from your recovery.

So for instance, if you're required to have full value, and $400 is that full value, and you're only insured for $300, the carrier is going to figure out how much you're entitled to under the policy, and then they're going to only give you 75% of that. Because [crosstalk] it's 75%. So even that $300 quickly becomes only 75% of that I can't do math in my head. And suddenly...

Dan: It's less.

Galen: Yeah, it's less. I mean, I guess it's $75,000 less actually. So it's 225. So now I'm in an even worse situation. A barring coinsurance or anything like that, what I do is go get them the 300, now they got a problem, they owe 250, to the mortgage company, they could put all 300 in that last draft escrow and use that to rebuild, but then they're gonna have to take out an additional loan for 100 mortgage company might not let them do that, probably their cleaner way to do it is to go ahead and cash out, pay off that mortgage, they've got 50,000 left, they can use that maybe as a down payment and get a construction loan. That's probably their best bet. But then that family started over and they were $250,000 in debt. And now they're going to be $350,000 in debt as a result of being underinsured.

Dan: So in that scenario, would the homeowner have to pay for the demolition of that whatever existing structure clear the lot, and they own that vacant lot at the end of the day is that kind of the net result, they get probably 30 grand after the 20 has to go tear the house down, and then they're sitting on a lot, which may be the last worth 40 or 50 grand so they can get some of that money back out of it too.

Galen: Yeah. And that's the economic side of it. But the emotional side is, man, where are these people going to live? And it's just gut-wrenching. And I think you hit the nail on the head, you said a lot of people don't increase their insurance from year to year, some carriers do it for them. I don't know that they fairly do it for them, they just do it based on some number, which is not necessarily reflective of the real estate market. I mean, everyone listening to this knows real estate markets are so wild right now, that the insurance company giving you a modest like 10% increase year over year, is probably not sufficient to keep up with current costs, right. And construction costs are skyrocketing and have been for over a year. Now. There have been material shortages as a result of COVID that haven't helped. There have been labor shortages as a result of COVID as well, which has not helped. And now we've had so many large weather events that there are additional shortages in both labor and materials as a result of increased demand. Not to mention COVID has had this weird third-party effect as well, because it's increased actual construction costs, meaning, at least as far as insurance adjusting is going I think we all know that most sheet rockers are just showing up and putting up sheetrock. But some of the large contractors are charging for COVID protocols, frankly, and that's increasing the cost as well.

Dan: Wow. A scenario of a loss. Let's go with a six-unit building again. Where would the tenants who then are this place like where does that fall into the last policy if at all my responsibility?

Galen: Yeah, so hopefully you have like a loss of use or business interruption coverage. And you should, even if you're not actually occupying the property, like everyone that occupies the property themselves should absolutely have that. You should open your homeowner's policy right now for the home you live in. And you should make sure you have something called additional living expenses And if you do not have it, you should immediately call your agent and get that fixed, because that's what covers you personally if you have to vacate your home.

But on the commercial side when you're talking about investing if you're going to have tenants, again, not as big a deal so much if you're flipping but if you're going to have tenants, you should have loss of use and business interruption, right, because you're going to need to relocate those tenants or you're going to want to now talk to your talk to a lawyer in your specific state. Because you may have some options available to you, you may be able to just cancel the lease if the home is not habitable. So you can kind of get them out and worry about finding new ones and then your business interruption insurance will pay the last rents essentially. But depending on the state, you may even have a duty to house those people. And that's a nightmare. And that's a cash flow nightmare because now you're trying to fix the property and you're paying for these people to live somewhere they would still have to pay rent. Not every state is like that. But know the rules because the last thing you want to get caught doing is wrongfully evicting someone because that's a nightmare as well. And there's a lot of lawyers that go take those wrongful eviction claims because they can take that from like a minor. My landlord was mean to me until like a huge six-figure judgment, right so so do not get caught on the wrong side of that at all. No matter what you do.

Dan: It sounds like if you are in a state where you have a duty to house them, you're suddenly paying three grand at the Red Roof Inn and you're collecting $900 in rent. So you're like negative to put them in this temporary housing situation to I imagine the end of the lease, right?

Galen: Oh, yeah. Well, at least until you get it habitable. If you can get habitable during the term of the lease, you can move back. But if the tenants are in a comfortable living situation, they're in no rush. So yeah, true. They're not your best friend necessarily. So I would definitely say most states aren't necessarily going to require you to house them, they would let you avoid the lease. But of course, that has its other issues, which are now you're without tenants. So you need to get that.

Dan: Yeah, makes sense. So it's a bit of a dance, I'm renter's insurance, would that cover those tenants? In that instance, if I were like a landlord and said, "You know what? I'll get renters insurance." Does that cover them if there was a total loss? And hopefully, I never have a loss. So I'm just kind of curious, like if I had a landlord policy in place for like my daughter, and they terminated a lease and those kinds of situations we just covered? Is there some help for them on their renter's policy? Or is that pretty much a contents only kind of thing?

Galen: Yeah, so there could be so you hit the nail on the head, he said contents only. By default, a lot of interest policies are contents only, they don't cover the structure. They don't even cover the appliances, they just cover the stuff that the tenant lost as a result of the casualty. Before I get into the loss of use, keep in mind, that there's a subrogation risk there. Which is if whatever happened is your fault that renter's policy is coming after you. So make sure you've got a good liability component of your insurance as well. And what I mean by your fault, house burns down because it's bad electric and you should have had it fixed, you may or may not be okay. So this is like, I talked to investors every once in a while who go, "Oh, I don't really get property insurance, because I'm just building it up real quick and flipping it." So what's the what's the likelihood that something's going to happen. But especially if you've got tenants, like, have property insurance, and make sure there's a liability component there. Because if your tenant sues you, you really don't want to be out of pocket at all, because it could, depending on how you've structured your estate as well, it could make your other assets toxic, so you don't want to do that. But back to renter's insurance, because I realized that was a tangent. When you're getting when you're getting renter's insurance, or you're getting your tenants to first of all, every landlord, tell them to get it and ideally should put in the lease that they're required to get it. But I would identify someone that can get it for them and even introduce them when they come in. And the reason for that is a decent renter's insurance policy will include an additional living expense or loss of use component if you get a good one, and that will cover the cost of temporarily housing them while they cannot reside in the property. And that's amazing.

Dan: Yeah, they're cheap. They're like 500 or 400 bucks a year.

Galen: Yeah, renters policies like nothing. I mean, but still, for some reason, renters don't want to get them.

Dan: Well, yeah, it's easier to say it won't happen, I think for a lot of people,

Galen: I guess. But in my experience, most tenants can't afford to replace all of their contents. So it's just so unfortunate.

Dan: Yeah, I agree. So let's shift gears. And let's say the loss occurs, right? If anyone's listening right now, and we're very hopeful that none of us have to deal with that. But the loss occurs. So like, what are my next steps? I'm going to make these three phone calls, I'm going to engage this person, that person, that person, I'm going to start following these steps. What should I do in the event of a catastrophic or even a minor loss?

Galen: Yeah, so in the typical case, what most people actually are going to do is there's going to be a loss, they're going to call their insurance company, they're going to wait for their insurance company to come out. They're going to let their insurance company tender a payment, and then they're going to complain and complain and complain that they didn't get enough money. And they're going to go away, and they're going to wash, rinse and repeat the cycle the next time they have a loss. That's like, what 99% of the country does, okay? I think that claims are underpaid, over 90% of the time, maybe as much as 99% of the time, which is crazy when you think about it. But there's a system in place designed to minimize the amount of money you make. And you know this implicitly because insurance companies spend a lot of money advertising to tell you that they'll be fair to you. If they naturally were fair to you, they wouldn't need to convince you that they would be fair to you, right? It makes no sense. But they spend billions of dollars trying to convince you that they will treat you well. So you know inherently that it's designed not to treat you well. And that's not a conspiracy theory. It's just that they have certain software. They have people who have quality control that always goes down but never up. And they find every single thing that they should not pay for. And they have their own internal guidelines that are not the insurance policy, that tell them what they should and should not pay for.

So you're kind of fighting an unfair fight. And investors all the time telling me, "I can handle insurance. I'm a businessman." That's great. And I assume you also built that house yourself with no help. And I assume you also purchased insurance yourself. You didn't go to an agent or broker, you went directly to the underwriters. And I assume every aspect of what you did you didn't talk to anyone? And they're like, "Well, no, I did all these things." Well, then why are you handling your claim yourself, it goes back to the billions of dollars spent convincing you that you don't need help, right? And even when you get help, by the way, some adjusters will call you right away and say, "Oh, you shouldn't have a lawyer, you shouldn't have a public adjuster, it'll just slow it down." Fascinating question. Why in the world would having help slow down recovery? Are you telling me you're going to intentionally slow down paying me because I got help. That's a little weird, right.

So in an ideal world, the way it works is this, you have a loss, you have someone that you trust that you already know, exists, whether it be an attorney or a public adjuster, that's going to vary a little bit from state to state, you call them and tell them you had a loss, they assist you in reporting the loss to the carrier. And they separately value what you need in order to be made whole. That way you have your own independent opinion as to what you should get paid. Because right now, when you think about just how messed up buying insurance is, insurance claims are just as messed up your call the person that owes you money, they come out, they tell you how much money they owe you, and then they pay you what they say they owe you, right? Would you do this in a car accident? If someone rear-ended you and you were hurt in your car, and your car was damaged? When you go to them, you're holding your back and you walk back there, "Oh, man, you really hit me." And he goes, "Yeah, what do you want to do about this?" And you say, "You know what? You seem really honest. Why don't you tell me what it's going to cost for me to get my back fix and my car fixed? And why don't you just write me a check?" You wouldn't do that. You would want to find out, you'd go to the doctor, you'd find out how much your bills are going to be, you'd find out, you'd go to the body shop, find out what it's going to cost to fix your car. And then you would tell him, let's say he doesn't want to use insurance. "Hey, man, I understand, you don't want to do insurance, my doctor says it's going to be like three grand, and the body shop says it's going to be a grand, I need you to write me a check for four grand." You would do that. That's common sense. But you don't do that in insurance. So all you have to do if you really want to be successful in a claim is use common sense. Get someone to tell you how much the insurance company owes you. So you're not relying on the insurance company.

Dan: So your first call is going to be to your attorney or your public adjuster, not the insurance company.

Galen: I always make that call first. But I do not delay, I'm still going to inform the insurance company usually within 24 hours.

Dan: So that's the second call, probably. Second calls the insurance company,

Galen: But I get the attorney or the public adjuster working on my loss just as fast as I get the insurance company working on it. And there's a reason for that. The reason is that in most states, deadlines start to take for an insurance company, once they know about a claim, and then a second deadline certs to take for the insurance company once they know from you how much they have, right? So I don't want to delay that process. A lot of people say, "I'm going to let the insurance company pay me first. And then I'm going to see how I feel about it." But things have happened by then. The insurance company has documented your file in a way that might make it harder for you to recover, they may have gotten you to say something you didn't intend to say they're looking at the claim through a completely different magnifying glass. So I get that process started right away by getting my independent evaluation while the damage is fresh. And then I let the insurance company work parallel with my representatives.

Dan: Okay. So in theory or on their insurance laws, that part, it almost sounded like it said like the insured is bringing this amount of the claim to the insurance company in a sense, whereas I think common knowledge would be while the insurance company is paying out or determining what it is, I don't even think anyone because I certainly didn't realize, "Oh, this is my job to figure out what the number is." And like a sort of open the negotiation with them first. And now they're trying to fight us on that with the adjuster or my attorney who's representing us in that claim. Did I have that right?

Galen: Yeah, you're exactly right. So if you read your policy, you actually probably have a duty to tell the insurance carrier what they owe. Now, they're not getting enforced that duty in 90% of circumstances because they don't want you to tell them how much they owe. But if you look, you probably have a duty in the policy. Now, some states have said, you don't actually have that duty, the carrier just needs to pay something fair. So it's not like you're gonna get in massive trouble for failure to do that in some states. But still, you have a duty to do it. But more more importantly, whether it's in your policy or not, you have a common sense obligation to figure out what you're owed. Because otherwise, how can you enter into negotiation if you don't know what your goal is, right? I love talking about negotiation all the time because we negotiate all day, every day, not just when we're buying a house, or whether we're dealing with a claim, everything we do is a negotiation. So one of the things you need to know is what your goal is before you enter into a negotiation. And an insurance. It's fascinating because the average policyholder never knows what their goal is.

Dan: Yeah, this is interesting, man. It's funny like I don't think I certainly probably would have come to an insurance conversation with so many questions if it wasn't really for me. And I could probably go on for like, another two or three hours here. Going back and forth with all the different examples that you have, um, but I got an eye on the clock here. And I know we're winding down here. So I'm gonna ask I guess one more question. Your role, I'm assuming Galen, as an attorney, you are representing these 800 insured folks or companies in the process that are going with? Would you mind kind of giving us sort of the outline of who these folks are? We talk in single-family houses, there's a price point where it makes sense. Are there certain states where you operate where you don't operate? Just so if anyone's listening, and you're like, "Wow, I could really use this guy, should I save his number?" I feel like it would be good for you to kind of paint a picture of who your clients are, and where you would be able to help.

Galen: For sure we have offices in seven states. But we work pretty much nationwide, we have lawyers that are licensed all over the place. As far as value, it really comes down to a value that makes sense for you. It's got to be significant enough damage that you really do need help using your example, if all you're talking about is thrown up some sheetrock, you really don't want the time and effort of even dealing with a lawyer much less like we're just charging a percentage of the claim. And we're trying to get that money for you anyway, on the backend. So it's not really an economic analysis. But it is a hassle analysis. Like do you actually want the process of fighting an insurance company over five grand? Probably not. You're too busy. Your time is worth more than that five grand, right? So but as far as types of properties we do, we do a mall, we do a lot of single-family homes. We also do multifamily, and we do commercial, I mean, I've worked on everything from churches to skyscrapers, but we do a lot of single-family homes.

Dan: Okay, yeah, good to them. If someone has a loss, and it's 225 grand, then you might be worth getting involved there, especially if it's a total loss, and it's gonna be 300 to rebuild the 225k house, right?

Galen: 100%. And depending on your state, we may be able to even recover additional funds for you beyond the cost of repair. So that's also something that's helpful.

Dan: Okay, are there upfront fees people would expect when reaching out to you or someone else?

Galen: Not from us, I think most of my competitors also would not charge you an upfront fee. But I use competitor very, very specifically because you got to watch out in this industry. lawyers get a bad rap, and sometimes it's deserved. And I always laugh because after a disaster, every lawyer in that region after disaster suddenly becomes a property insurance lawyer. Storm lawyers, the new one I'm hearing I'm hearing storm lawyer. I don't know what a storm lawyer is, but it sounds like a superhero. It's awesome. It sounds really cool. I'm going to start calling myself a storm lawyer. But I've been doing this for a decade, right? And that's not that long, but long enough to learn some things. After every disaster, I go into a neighborhood or a state I help people we always feed people and house people first and then we worry about making money and signing them up and helping them with their claims. And I watched the TV ads the radio ads the billboards for come up and those people were chasing car accidents or divorces a week for three months. So if some of the things I'm saying are not gelling with what you're being told, really find out what their experience is and make sure they're actually experienced before you hire them.

Dan: Yeah, it's funny to hear you say the storm lawyer concept and I'm sure you were Hurricane Katrina. I'm sure you were in the business for Katrina.

Galen: I wasn't in the business for Katrina. I was here and I was doing physical labor and helping out. That's kind of what got me into this.

Dan: How about that? So I had a friend of mine, his name is Shane. He's from New Orleans and I met him because he checked hail storms and tornadoes we had that were in Philly. And we hung out the whole time he was there chasing that storm and I got this kind of look under the hood of the storm chasing an insurance claim business. And so it kind of opened my eyes to that. And he was describing those guys mobilizing armies of contractors to rebuild after Katrina. And that was where he got into the business. They were running, running around doing roofing, exclusively during that time. So it's interesting to hear you kind of describe the same business and even with the tornadoes and the frozen pipes, it's these very large weather events and these situations where I'm sure there's a lot of homeowners who didn't get paid what they're supposed to get paid. And they've gotten roofs that fail three years after the storm because of the damage they didn't know about. And the list could go on and on and on. Jalen, as we wrap up here, are there any books or a book recommendation or two that you would make to our real estate investor slash business owners slash real estate agent, audience, or even to me?

Galen: Yeah, so not about this. But I do have books that I love that I recommend all the time. The first one is Never Split The Difference by Chris Voss. Now, as I mentioned, I love negotiation a lot. So I think that's a great one. And the other one that I've been really into lately is called Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail, and it's by Ray Dalio. And it's really interesting, because I'm very much of this mindset that if you're in business, you need to constantly be thinking about what's next, and what could make you fail. And I think that books really good at getting you in that mindset of what's the thing that takes my business out tomorrow? And how do I insulate myself from that?

Dan: Nice. Yeah, and I think Ray, really, really blew it early in his career to the tune of like a billion dollars or something like that. And when he thought, I forget if it was interest rates are gonna go this way, or bonds and it went completely the other way and took them out. And I think that was a big part of where the seed came for the rest of his successful career and also the book.

Galen: Absolutely.

Dan: Good stuff. Cool. So let's talk about the crown jewel of wisdom as our final question here. If you could go back and share with yourself let's say, Katrina is going on. You're the labor you're looking around at this new world of insurance claims and repairing after storms, what will be the crown jewel of wisdom you would go back and share with yourself then knowing what you know now?

Galen: So what I would say to myself is that competition is not based on the people around you. It's based on what the people around you could be and what I mean by that is and I emphasize this with all my senior leadership, we're not competing with other law firms. We're competing with Apple we're competing with Google we're competing with Amazon. So, if you're out there investing I don't want you looking at other investors in your area. I want you to look at what the absolute best anyone in your field could do. Even if they're not in your field yet. And I want you anticipating that so you can beat them out now.

Dan: Yeah, a great way to generate some good ideas their listeners want to get some more Galen Hair, engage your services, get some more information, where should they go?

Galen: You can hit us up on our website, www.insuranceclaimhq.com and we are on all of the social media. We even are on TikTok, but I will be honest, I am not on TikTok. So I will not be the one answering you if you hit us up there.

Dan: Nice, good stuff. Cool. I got a couple of pages of notes, a ton of value a whole bunch of more questions that we'll have to save for another day. And I appreciate you coming to the show. And thank you for all the wisdom and knowledge, Galen.

Galen: Thanks, I had a blast.

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