

Wednesday Minute - What is a Storm in the Box?

“Storm in the Box” sounds like the proverbial “Pandora’s Box waiting to explode, but it is actually a common occurrence in areas where there are threats of hurricanes or extended severe weather – like right now! With hurricane Ike passing by, you would think that you could close that sale you waited on so long but not necessarily so and here is why:

The term “storm in the box” (“SITB”) is used by underwriters of conventional loans and by insurance carriers. These underwriters and insurance carriers proclaim “Storm in the box” when they are not willing to close and fund a loan timely because property insurance can’t be issued or would not be in force at the closing date. The “box” is actually an “invisible” circle around the eye of the storm that is equal distance on all sides, such as 300 to 500 miles in diameter. or the same distance on each leg of a box with the storm’s eye in the center of the box, depending on the definition of the insurance carrier.

While the postponing of the closing is at the discretion of the mortgage underwriter and insurer issuing a policy on the property, there are some general guidelines for what constitutes a “SITB”. First, the storm must have been named by the National Weather Advisory Service or NOAA. The storm must be within a given distance from the property that is to be funded, and this distance can vary by insurer from 100 to 500+ miles. Each insurer establishes his own “distance from the eye of the storm” so there is no standard that applies to every carrier. However, these distances must be on file with the Office of Insurance Regulation in Tallahassee.

The simplest solution is for the buyer to purchase his insurance before the closing to avoid this problem. However, even if the insurer has issued an insurance binder on the property, the lender still does not have to close because the storm could hit and cause extensive damage that would have to be fixed and the lender would have an insurance claim to pursue. The property could be uninhabitable and the new owner may not want to, or be able to, live in the property.

What about hard money lenders and a SITB? Generally, hard money lenders have the same attitude as conventional lenders and do not close until the storm threat has passed and an insurance coverage has been issued. Hard money lenders have “special” policies for unoccupied properties that can be bound immediately over the telephone. However, the insurer always has a “SITB” clause to stop someone putting a policy in force, or increasing the coverage, in the face of a storm threat.

So whether you are an investor or a homeowner, your closing will be delayed by a SITB. If you are buying a property and the closing agent agrees to close in spite of a storm threat, you are much better off to wait for the storm to pass and review the damage before finally closing. It is in your right not to have to close in the face of a storm, especially if you can’t get wind-storm coverage. The previous owner’s policy lapses as soon as he sells the property. So if you buy and close you will not have any insurance except what you purchase yourself, and the carrier is probably not willing to issue coverage after the damage has occurred. In summary, be careful and don’t get frustrated at the closing agent if you can’t close timely!

Dave Dinkel

Don’t forget to take a look at these important software programs:

www.ExcelRESoftware.com (Failure-proof your real estate investing)

www.RequiredFLDocs.com (Must-have disclosure documents for every Florida investor)

www.FSBOAutopilot.com (For Sale by Owner Professional selling system to sell any home in one weekend)

www.StopMyForeclosureMess.com (32 Ways to Instantly Stop Foreclosure)