



Free Roof, Too Good To Be True??



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Chapter 19 – WHAT EXACTLY IS A DEDUCTIBLE ANYWAY?

Your insurance company pays all claims minus the deductible **you selected** when you purchased your policy. The deductible is the self-insurance portion of an insurance policy. It works exactly like a co-payment does when purchasing medication at a pharmacy. With a prescription, a person goes to the pharmacy and pays their co-pay (ten bucks or whatever) out-of-pocket to the pharmacist. They actually take a ten dollar bill out of their pocket and hand it to the clerk at the counter in payment for their co-pay (deductible). This is **their contribution** toward purchasing the medication from the pharmacist - then the insurance company covers the rest.

Some of our clients are shocked when they receive their carrier's estimate of their loss and they have a huge deductible. They remember their deductible being \$1,000 or maybe only \$500. Most carriers have recently changed their deductibles to a percentage basis. Most are 1% and some are 2%. One percent of what? It is not 1% of your loss, it is 1% of the policy limits of the dwelling. Let's say your homeowner's policy has a residential dwelling policy limit of \$150,000. That means that they have calculated



that it will cost you \$150,000 to rebuild your home, in the event of a total loss by fire, back to its pre-fire condition, using materials of like kind and quality, for the same use and occupancy. So your 1% deductible, in this case, will be 1% of \$150,000, or \$1,500.

Deductibles work precisely the same way with property damage claims. You pay your contractor (out-of-pocket) your co-pay (the deductible) and the insurance company pays for everything else (covered losses), up to the policy limits that was purchased. The deductible is **your contribution** towards paying for the restoration project from your contractor and then the insurance company covers the rest. You actually have to come out-of-pocket - write a check and pay your contractor the deductible amount. Technically, the carrier owes you nothing until you pay your contribution – much like a pharmacist will not give you the medication until you pay him your co-pay first.

We have an entire chapter of contractors eating deductibles and other similar schemes. All of these are illegal – they violate statutory laws on the books. Read the chapter titled **AVOID THE FREE ROOF SCAM** for more information and links to the actual laws on the state website.

Chapter 21 - AVOID THE FREE ROOF SCAM LIKE THE PLAGUE

Level the Playingfield is here to help you, so we want to inform you of a widespread swindle that happens every time when out-of-town 'so-called roofers' (fraudsters) descend on an area where storm damage has occurred. We've likely all seen the yard signs (and sometimes billboards) touting 'Free Roof – Call for Details', "New Roof



- No Deductible' or 'Deductible Assistance', 'Deductible Reimbursement' and the like. The pitch is that you can get your roof replaced with nothing out-of-pocket. Is this legitimate or realistic? No it is not - It is unethical at best, is likely insurance fraud and definitely illegal, even if your insurance carrier does not push for prosecution against you or the roofer.

In case you didn't see this in the previous chapter, here is the law regarding insurance fraud and penalties:

www.statutes.legis.state.tx.us/Docs/PE/htm/PE.35.htm

Section 27.02 of the Texas Business & Commerce Code states the following

www.statutes.legis.state.tx.us/Docs/BC/htm/BC.27.htm:

Sec. 27.02. CERTAIN INSURANCE CLAIMS FOR EXCESSIVE CHARGES.

(a) A person who sells goods or services commits an offense if:

(1) the person advertises or promises to provide the good or service and to pay:

(A) all or part of any applicable insurance deductible; or

(B) a rebate in an amount equal to all or part of any applicable insurance deductible;

(2) the good or service is paid for by the consumer from proceeds of a property or casualty insurance policy; and

(3) the person knowingly charges an amount for the good or service that exceeds the usual and customary charge by the person for the good or service by an amount equal to or greater than all or part of the applicable insurance deductible paid by the person to an insurer on behalf of an insured or remitted to an insured by the person as a rebate.

(b) A person who is insured under a property or casualty insurance policy commits an offense if the person:

(1) submits a claim under the policy based on charges that are in violation of Subsection (a) of this section; or

(2) knowingly allows a claim in violation of Subsection (a) of this section to be submitted, unless the person promptly notifies the insurer of the excessive charges.

(c) An offense under this section is a Class A misdemeanor.

Added by Acts 1989, 71st Leg., ch. 898, Sec. 1, eff. Sept. 1, 1989.

This has been the law in Texas since 1989. Yes, yes we know that unscrupulous roofers violate this law all day long every day. But why run the risk of imprisonment and significant fines? People speed every day as well - This is actually illegal. Eventually just about everyone gets caught.

ALL THREE of the following schemes are Illegal!

There are three basic variations of this scam – they are **all illegal** (I have included the applicable part of the statute for each):

1. ‘Contractor eating your deductible’ scheme (Violation: *promise to pay deductible* 27.02 a1A),

2. ‘Inflated invoice’ scheme (Violation: *person knowingly charges amount exceeds customary charge* 27.02 a3), and

3. ‘Yard sign advertising reimbursement/allowance’ scheme (Violation: *rebate amount equal to deductible* 27.02 a1B).

Please take the time to read over the law, because you (and they) are definitely committing a crime if you agree to any of them. Besides, why would you want to do business with a criminal? Would you want to do business with a criminal that is persuading you to commit a crime?

IT IS ILLEGAL FOR A CONTRACTOR TO EAT OR REBATE YOUR DEDUCTIBLE – PERIOD!

IT IS ILLEGAL FOR A CONTRACTOR TO REBATE YOUR DEDUCTIBLE – WHETHER THEY DO IT THROUGH A YARD SIGN ALLOWANCE OR OTHER MEANS – PERIOD!

IT IS ILLEGAL FOR A CONTRACTOR TO INFLATE THEIR PRICE TO ABSORB YOUR DEDUCTIBLE – PERIOD!

IF A CONTRACTOR EATS OR REBATES YOUR DEDUCTIBLE, THEY ARE ENGAGING IN A CRIMINAL ACT.

DO YOU REALLY WANT TO HIRE A CRIMINAL TO RESTORE YOUR HOME?

MANY PROSECUTORS WILL PROSECUTE THE CONSUMER FOR PARTICIPATING IN THIS SCHEME - IT IS REFERRED TO AS EITHER COLLUSION OR CONSPIRING TO COMMIT A CRIME

WHY RISK PRISON TIME?

Contractors who enter into contracts with consumers where they agree to eat, rebate or absorb the deductible are committing a Class ‘A’ Misdemeanor in Texas (where we are based) and are likely committing a crime in other states as well. Likewise, a consumer who participates in this scheme is committing a crime as well. They both risk



being arrested for a Class ‘A’ Misdemeanor in Texas.

LET’S GO OVER HOW EACH IS PERPETRATED ON UNSUSPECTING CONSUMERS:

Eating Deductibles - A Different Twist for Penny Wiese to Game the System. Some contractors will agree to subtract the amount of a property owner’s deductible from their final

price so that the Insured is able to get the work done with no money out of pocket. Consumers jump at the apparent opportunity without thinking it through, believing that they are getting a deal and sometimes even believing that they are putting cash in their pocket in the process. This is the same con game that Penny Wiese involved herself in before (coming from a different angle) to get her to sign with them for the work and here's why:

Recalling Penny Wiese's claim, she's contemplating hiring a roofing contractor named El Cheepo's contracting. Again, Penny's adjuster has estimated the cost to replace her roof at \$10,000 and she has a \$2,000 deductible. Her depreciation is \$5,000. If Bruno with El Cheepo agrees to eat Penny's deductible (essentially, discount the price of her roof by \$2,000), then Penny would supposedly not be out-of-pocket for her deductible, right? She erroneously believes that she's getting a \$10,000 roof for \$8,000. Let's recap what Penny received from the carrier initially: \$10,000 (RC) minus \$5,000 (depreciation) minus \$2,000 (deductible) = \$3,000 (ACV payment). Penny believes that once the work is completed, she will recover her entire \$5,000 depreciation being held back to pay the contractor off and she will be out of pocket nothing. Let's see how things ACTUALLY play out for Penny.

Again, once the work is completed and Penny writes her carrier requesting the depreciation being held back, her adjuster is naturally going to ask for a final invoice and maybe even want

to see copies of cancelled checks.

They definitely will ask for these items if they suspect that her contractor is playing the 'eating deductible scam.'

Carriers see the advertising out there after a storm just like consumers do and they

keep a pretty comprehensive list of contractors attempting to game the system by eating deductibles. Penny hadn't considered that they'd ask for proof of payment. Again, she's in a bit of a jam - If she sends them her contractor's invoice for what she paid for the roof (\$8,000), then that's all she's going to get – not the full \$10,000. Her deductible is subtracted out (the invoiced amount of \$8,000 minus her deductible of \$2,000) and she gets \$6,000 for her loss, not \$8,000. She is still \$2,000 short – the value of her deductible (her co-pay).

What Penny doesn't realize until it's too late is that the second she hired the roofer who charged \$8,000, the insurance replacement cost changed from \$10,000 down to \$8,000 and she **still** owes her \$2,000 deductible. In effect, she has saved her insurance company \$2,000 by taking \$2,000 of quality out of her roof job and she **still owes her deductible**. This is why the deductible is called **the Insured's contribution**, because that's precisely what you are doing – **actually contributing**. You must actually come **out-of-pocket** the amount of your deductible and pay it to your contractor.

Inflated Invoice Scheme

The way this scam works, the contractor offers to fraudulently



inflate his invoice the amount of your deductible. The consumer is tempted to send in a false invoice showing that she paid the full RC amount PLUS her deductible to the contractor - \$12,000 in Penny's case. In addition to violating Section 27.02 of the Texas Business & Commerce Code, this is also insurance fraud. If the amount exceeds \$1,500, it is a **felony**. That means that Penny could be doing time in the 'big house' - the penitentiary. The penalty for a 3rd degree felony (the lightest felony) in Texas is 2-10 years in the pen. In addition to imprisonment, an individual judged guilty of a felony in the 3rd degree may be punished by a fine not to exceed \$10,000. Penny could even get both, the prison time and the financial penalty. It simply isn't worth the gamble. Do what you've obligated yourself to do and pay your deductible out of pocket – it's what you have contractually obligated yourself to do anyway.



Using the previous example of Penny Wiese: **Replacement**

cost of the roof: \$10,000 – The amount it will cost to replace Penny's roof using materials of **Like Kind and Quality (LKQ)**.

Applicable depreciation: \$5,000 - If Penny has a roof with a 20-year life expectancy, and it's 10 years old, then the carrier will likely depreciate the roof 50% or \$5,000;

Actual cash Value: \$5,000 - The depreciated (ACV) value of the roof;

Deductible: \$2,000 - Penny's co-pay – her contribution for the work to restore her damaged property.

Initial check: \$3,000.

So, the contractor inflates their final invoice to \$12,000; \$10,000 for the roof and \$2,000 to reimburse you for your deductible. The contractor hasn't created a legitimate invoice for \$12,000 worth of work, they are simply inflating the price to whatever they want to make by the amount of your deductible.

This scam is not the same as a reputable contractor creating an invoice for \$12,000 of **legitimate work** for **legitimate damage** to repair \$12,000 worth of legitimate damage - when the carrier is offering a low-ball \$10,000 to settle the claim. In this scenario, their estimate has legitimate, reasonable line items and pricing that they can justify and Penny is still out of pocket for her deductible – \$2,000 in this scenario.

The Yard Sign Advertising Allowance/Reimbursement Scheme

In this scam, a roofing contractor will bill the consumer for the full replacement value cost (RVC) of the roof, and charge you a



retail price for the work without subtracting out any of your deductible. The twist is that the contractor promises to reimburse you (give you a discount for an advertising allowance) for your out-of-pocket expense (the deductible) in exchange for an advertising fee for placing a sign in your yard advertising their services. Once you've paid your contribution, the deductible, the carrier pays the balance, the contractor writes you a check for an amount equal or close to your deductible. Another variant, is that they bill for the full price and once the carrier has paid, they use a 'change order form' (a legitimate construction form) to carry out an

illegal act. After the carrier has been billed, they change the amount of your final bill, using the change order form, to an amount equal or near to the RC payment minus your deductible. Sometimes they simply subtract the deductible and give you one invoice and the carrier a fraudulent one. In the end, the consumer doesn't have to come out of pocket anything to pay their deductible, and the carrier will receive an invoice which does not reflect **your actual cost** to replace your roof. In this insurance fraud, the insurer foots your deductible costs. This deductible rebating scheme is obviously insurance fraud and is illegal – click the link below and read what the law says regarding rebating a deductible.

www.statutes.legis.state.tx.us/Docs/BC/htm/B C.27.htm

If you'd like to see if the **yard sign reimbursement offer** is legitimate or not, ask the contractor if they'd pay you (or your neighbor) an advertising fee (equal to your/their deductible) for the placement of their yard sign without you hiring them to replace your roof. They understandably will decline. So obviously, simply placing a yard sign in your front yard is not worth what they claim to be paying for their advertising – it is a scam and it is illegal.

There is actual a **legal** variant of the 'marketing fee deal' that a few legitimate contractors do. For the process to be legal, the contractor enters into a **separate contract** with you (with separate paperwork from the work contract) agreeing to pay you a contractually agreed dollar amount for every referral that contracts with them. You still pay your entire contribution (the deductible) up front and are not rebated

any of it. You will be paid the agreed dollar amount for each referral, typically after your referral has had all the work completed on their property has paid the contractor in full for the work. The referral fee is rarely the same as your deductible. You would likely have to send them two or three referrals to collect enough referral fees to break even for your out-of-pocket expenses. Again, for this to be legal, there has to be a separate marketing/advertising contract (with actual, physical paperwork), and the referral fee cannot be the same as your deductible, it cannot have **ANYTHING** to do with your deductible whatsoever. If this is a legitimate offer, they will be happy to pay **anyone** the same referral fee for one or more referrals whether they are performing any work for them or not. They will obviously want to place their sign in your yard if they are performing work for you, but the sign is of no consequence regarding the advertising/referral agreement.

THIS IS IMPORTANT – READ THIS - How would you like to be in the roofing business (an honest contractor) and have to compete with so-called roofers (con men) that are eating, rebating or absorbing deductibles, illegal or not? It's like trying to compete with a business competitor

and they are offering a 'no-out-of-pocket' incentive that you cannot offer? This is very difficult on honest contractors and some even give in and eat deductibles themselves to keep food on the table.



They do everything else honestly and reliably, but they succumb to the pressure, **imposed by**



consumers, to match the con artist's offer to eat their deductible. **Yes, imposed by consumers! This is a shakedown.** The con artist comes knocking on a consumer's door and offers to eat their deductible and they don't contract with anyone yet. When they're talking with the honest contractor, they mention that they have another contractor willing to eat their deductible and they expect the honest guy to match the offer to win their business. What unethical pressure – the consumer is trying to force an honest businessman into conspiring with them to commit a crime – knowingly or not. It is **unethical AND illegal** – remember, ignorance of a crime is no excuse! If the honest



contractor is hungry enough, they may very well relent.

Realize, the relationship between you and your contractor is a two-way street –

honesty goes both ways! Unscrupulous consumers are the source of this scam – the scam roofers wouldn't make the offer if consumers refused to participate in illegal activity. P.T. Barnum used to say that he can con any man except for an honest one. An honest consumer isn't expecting something for nothing. He understands that there is no such thing in this world. **PLEASE DO NOT DO THIS TO HONEST, HARD-WORKING PEOPLE!**

