The effects of Hurricane Harvey are going to linger for years, likely decades. According to the Consumer Federation of America, approximately 80% of those affected by flood damage do not carry flood insurance protection. If you have suffered damage and do not carry flood insurance or seek proceeds in addition to coverage, here are four options to consider.

Apply For Assistance Through FEMA (Yes, Even Grants)

Already, over $37 billion has been allocated to assist victims of this disaster and 68,000 applications approved. FEMA partners with the U.S. Small Business Administration to help disaster survivors secure funding. Low-interest loans to cover losses are available up to $200,000 for primary residences. Loans up to $40,000 are also available for personal property replacement, including renter losses. Interest rates on these loans generally tend to be less than 4%. The maximum loan term is 30 years. Unfortunately, interest is not tax deductible. **Secondary homes, pleasure boats, airplanes and recreational vehicles are not covered unless they?re used for business purposes**. Amounts for landscaping and backyard items like swimming pools are going to be limited at best. Remember the primary purpose of the money allocated is to get primary residences livable again. There are multiple FEMA grants available for victims. FEMA?s Housing Assistance program is available regardless of household income. Aid for other losses such as personal property, vehicle repair, replacement and moving and storage expenses is income dependent. A rule of thumb to consider is that grants may help recipients repair damage; an SBA disaster loan can return a home to pre-disaster condition.

Consider Home-Equity Lines Or Cash Value Life Insurance

If you have the ability to tap the equity in your home, using **an *existing* home equity line of credit** is an expedited source of funds, generally available through a check book or ?credit? card. With HELOCs, credit is utilized only when needed, and at interest rates much lower than those on credit cards. Credit line rates are variable over the life of the loan. Currently, interest rates tend to range between 4.25 and 5.24% but can change depending how long the loan is outstanding and moves in the Prime Rate. Also, interest on these loan types is tax deductible, which is a benefit over the SBA Disaster Loan option. If you were lucky enough to have a HELOC established on a primary residence, it still would be best to apply for the SBA loan, initially. Then, compare your SBA loan rate to the after-tax rate on the HELOC. If anything, you may ultimately use the fixed-rate SBA loan proceeds to pay off or reduce the home equity line obligation. Funds are quickly available through a HELOC which makes it extremely convenient. It can take 5 days at the quickest to obtain the first disbursement from the Small Business Administration, which may feel like an eternity to a displaced hurricane victim. **The cash value of permanent life insurance like whole or universal as examples, may be easily accessible recovery money.** Every policy?s loan provision varies ? generally proceeds withdrawn ?tax free,? are indeed loans (you?re borrowing against yourself, in essence), that are not required to be paid back. Your life insurance provider may offer interest rates that are lower than traditional institutions, like a bank. Some policies allow loans free of interest. As unpaid loans are deducted from a policy?s death benefit, it?s a good idea to use this option as a temporary bridge until additional funding is secured. **Once the dust settles *(no pun intended),* I would recommend a strategy to pay off the policy loan to ensure the full death benefit remains intact or your cash value is replenished for possible future needs such as retirement distributions.**

What About Loans Against My 401(k)?

You may be eligible to borrow up to 50% of your account balance up to $50,000 that requires repayment within five years. Interest rates are set by your retirement plan provider. Generally, they?re the prime rate plus 1%. **A few caveats ? Many Americans do not have enough saved for retirement in first place or lack job security which makes this a less than desirable option for hurricane relief.** Similar to permanent life insurance distributions, the money withdrawn is in essence, ?borrowing from yourself.? Access to the funds can be quick, and of course tax-free. Loans are typically paid through automatic paycheck deductions. Disadvantages outweigh the positives ? there?s the opportunity cost of a withdrawn balance no longer working for the end goal - retirement, interest is not tax deductible (unlike the HELOC), loan payments do not count as contributions therefore you may be frozen out of -contributing to the plan until the loan is paid off, and most important, changing employers or termination will accelerate the pay-off date. If not fully paid within 60 days of the official termination or change date, a loan will be classified a distribution thus taxed the same as ordinary income. Under 59 •? Be prepared to cough up an additional 10% in premature distribution penalties. Needless to say, only those confident of job security should consider this alternative. A 401(k) loan should be perceived as a temporary, immediate source of cash. Once SBA or conventional source payments are received, it?s highly recommended to retire the retirement plan loan (see what I did there?).

What About "Hardship Withdrawals" From 401k's?

This alternative is my least favorite but thought to share the details only because the IRS has provided "relief" to taxpayers affected by Hurricane Harvey through Announcement 2017-11. **Between August 23, 2017 and January 31, 2018, the IRS will allow victims of Hurricane Harvey to take hardship distributions from their employer-sponsored retirement plans such as 401(k), 403(b), and 457 plans.** Usually, hardship withdrawal options are restrictive. The IRS announcement allows rules to be broadened. However, other than that, I don?t see an advantage to this alternative as pre-tax distributions are considered taxable. **A 10% early distribution penalty will also likely apply.** Funding for Hurricane Harvey repair efforts is now top priority. Whether on the public or private level, it?s going to take money, lots of it, to get those adversely affected back to living their lives. However, weigh your options carefully before taking action, as sometimes the "cure" can be worse than the "disease" in the long-run. If you have questions or concerns about making the right decision, feel free to contact me by email.