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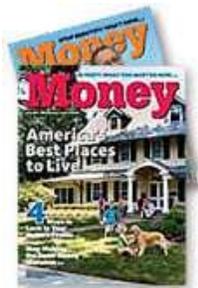
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Money

In the Line of Fire

by Paul Keegan

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Emily Martin is nine years old and quite sure of herself. So when she saw the news on television that wildfires were spreading across the San Diego area, not far from her family's home in Rancho Bernardo, she instructed her seven-year-old sister Haley to pack a bag. The girls scampered into their rooms and placed their dolls and clothes into backpacks. When their parents saw what their daughters were up to, they laughed. Kevin and Nicole Martin had been following the news too and told the girls not to worry. The fire was not headed their way.



At four o'clock the next morning, Kevin's mother, who lived with the family, woke up. Lynn Martin, 64, still does not know why—perhaps it was "divine guidance," she says. She turned on the news, saw that the fire was heading their way, and ran to wake up her son. They looked outside and saw the sky was glowing red.

"Nicole, go get the girls!" Kevin yelled. They threw on clothes and grabbed what they could—a terrifying real-life version of the old parlor game, What would you take if your house was on fire? Kevin reached for his wallet, his cell phone and the family's passports. Nicole got water and snacks. Lynn took a photo album, clothes and four paintings by her father, the artist Frank Soltesz. The girls had their backpacks. In all it took 17 minutes for the family to wake up, dress and evacuate.

They piled into three cars. Suddenly, Kevin remembered Luna, their springer spaniel puppy, and ran back into the smoke-filled house to grab her. As the caravan pulled away, Lynn turned and saw that the back of the house was on fire.

The Martins had just spent three years renovating their four-bedroom home; the property, including the land, had recently been appraised at \$1.4 million. It burned to the ground in less than 2½ hours. The family escaped safely but lost most of their possessions, as well as Emily's cat, Trina Tree Stump. The date was Oct. 22—Kevin and Nicole's 13th anniversary.

How does a family bounce back from such a catastrophe? Like so many victims of last fall's California wildfires—which destroyed at least 1,500 homes from Santa Barbara to the Mexican border—the Martins were devastated. In the weeks immediately following, Kevin and Nicole couldn't eat, Emily had nightmares, and Haley, the baby of the family, suddenly didn't want help from anyone.

TWO WEEKS AFTER THE FIRE, THEY GOT \$785,000 FOR REBUILDING. THE LIKELY REAL COST: \$1.35 MILLION

The Martins are also facing severe financial repercussions. They were initially euphoric at receiving \$1.1 million from Farmers, their insurance company, just two weeks after the fire (\$785,000 of the total was earmarked for rebuilding the house). But they've since learned that the settlement probably won't come close to covering the cost of rebuilding, replacing their belongings and living in temporary housing until the work is completed.

The fire also exposed the cracks in the solid financial foundation the couple thought they stood on. They earn a comfortable living: Kevin, 38, an industrial engineer with Qualcomm, and Nicole, 37, who runs a home-based window-treatment business, make \$145,000 a year. But the couple had borrowed heavily against their house, in part to pay for a risky real estate venture, leaving them with loan payments that eat up more than two-thirds of their net income. And while they do save steadily for retirement, they have little cash on hand for emergencies. As Hal Schweiger, a financial planner in San Diego who reviewed the family's finances, put it, "They're right on the brink."

- **Whenever the Martins leave** the rented two-bedroom apartment where they now live to visit the ruins of their old house, they're reminded of the arbitrary nature of fate. The home just to the right of theirs sustained very little damage. Of the 271 houses in their subdivision, just 41 were destroyed. The likely cause of the fires: sparks from downed power lines.

The couple had moved to the area in 2003. It was a homecoming of sorts, since they'd met in San Diego while both were in college. After they married in 1994, they moved to Fort Collins, Colo., where the girls were born, then to Santa Rosa, Calif. Four months after they arrived in Rancho Bernardo, the area was hit by the largest wildfire in California's history. The Martins were unfazed. Says Kevin: "You think it's never going to happen to you."

Shortly after buying their home, the couple began a major renovation. They'd gotten a great deal on the 4,500-square-foot house, knocking the price down from \$870,000 to \$710,000, because it was run down. Kevin did most of the work himself, putting in a patio, dividing one large bedroom into two for the girls, adding a guest bathroom and remodeling the kitchen and master bath. Cost: \$100,000. To pay for it, the Martins tapped their home equity, boosting their mortgage from \$650,000 to \$800,000 (they used the other \$50,000 to pay off their credit cards and a car loan).

As the Martins were renovating, they made a \$100,000 profit by flipping a house they'd bought as an investment in Santa Rosa. That whetted Kevin's appetite for more real estate deals. So he used part of the proceeds to help buy a \$523,000 suite in the upscale Hard Rock Hotel, a condominium hotel that opened in downtown San Diego in November. To complete the purchase, they refinanced their home mortgage again, taking out \$200,000 more in equity, and then got a \$230,000 mortgage on the condo for the balance.

But the Hard Rock deal put a big strain on the Martins' finances. The \$5,000 a month they pay on their home mortgage eats up most of the \$7,750 they take home after taxes and Kevin's contributions to his 401(k) and stock-purchase plans. (The Martins already have \$200,000 set aside for retirement and another \$100,000 in individual stocks.) Now they have to start paying \$1,700 a month on the Hard Rock mortgage as well. Kevin is confident that bookings at the hotel will more than cover those payments. But since the hotel just opened, its occupancy rate is uncertain.

Going out on such a limb actually may have saved the Martins, however. Before approving the refinancing, the bank required them to increase their home-owners policy to cover the appraised value of the house, excluding the land (\$813,000). To satisfy the requirement, the couple boosted their insurance from \$450,000 to \$652,000, with extended-replacement coverage that would pay up to 25% over the policy limit for unforeseen costs, bringing the maximum benefit to \$812,500. The Martins say they believed that would cover the total bill for rebuilding, even in the unlikely event that their home was ever completely destroyed by fire.

- **The day after the wildfire**, Kevin returned in a police cruiser to assess the damage. When he saw what was left of the house—the concrete front steps, part of a wall and a staircase now leading nowhere—he broke down sobbing.

Over the next few days, all they'd lost began to sink in: the baby videos and photos; original paintings of Kevin as a child by his artist grandfather; Emily's special baby blanket and her cat. Nicole had been assembling a slide show to honor her mom, who'd died a year earlier. All those photos are gone. "That breaks my heart," Nicole says.

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