

# Property Insurance Basics

When shopping for home insurance remember this: Insure your house for *the cost to replace it* (i.e. construction costs), not its "market value, and don't factor in the value of your land.

Once you know the proper level of coverage, consider special add-ons for valuables such as jewelry, your computer equipment and other pricey possessions. You might also need additional coverage for earthquakes, flooding or windstorms, depending on where you live.

Lending institutions usually require mortgage customers to purchase home insurance. Don't rely on the coverage levels mandated by your bank or mortgage company. Those levels are designed to protect the house itself, but not necessarily your possessions. That's why it's important to check with your agent or insurance company to make sure you have adequate coverage.

Here are some dos and don'ts when insuring your home.

## **Basic policies**

The terms of standard home insurance policies have been defined by the Insurance Services Office (ISO), so standard coverage is generally not going to vary from company to company, although rates will. That's why it's important to shop around.

Each homeowners insurance policy provides a combination of property and liability coverage and covers loss of use resulting from damage. There are several basic types of home insurance policies:

### HO-1

- Note that HO-1 policies have been discontinued in most states.
- Basic homeowners policy.
- Covers your house and possessions against 10 different perils.

### HO-2

- Broad homeowners policy.
- Covers house and contents against 16 perils.

### HO-3

- Special homeowners policy.
- Covers all perils except those specifically excluded by the policy.

### HO-4

- Renters insurance policy.
- Covers 16 named perils and includes liability coverage. It does not insure the dwelling itself.

### HO-6

- For owners of co-ops or condominiums.
- Provides personal property coverage, liability coverage and specific coverage of improvements to the owner's unit. Insurance provided by the owner's association normally covers most of the actual structure.

## **Starting an application**

When you apply for home insurance, you'll provide a great deal of information. The insurance company will ask you about your current occupation and employment history, marital status, previous addresses, date of birth and Social Security number. The insurer will check your criminal, credit, and insurance history to see if you are a "good risk." The insurance company also will look at your "loss history" to see what kinds of home insurance claims you've made in the past.

## **Analyzing your home**

Many factors go into determining the premiums for a homeowners policy. The age of your home, the materials used to build it, where it's located, the square footage and its distance from a fire hydrant all generally play a role in rates.

The insurer will be able to give you an estimate for rebuilding your house in the event of a total loss.

## **Replacement cost coverage for your personal property**

The extent of coverage provided on a policy depends on the loss settlement clause. This clause identifies property that will be valued at actual cash value, and property that will be valued at replacement cost.

Before buying home insurance, understand the difference between "replacement cost" and "actual cash value."

Homeowners policies automatically cover household contents — furniture, clothes, appliances, etc. — up to 60 percent of the amount your house is insured for. This means if you insure your house for \$100,000, its contents are insured for up to \$60,000. You can get more coverage by paying a higher premium. This automatic coverage pays only the actual cash value of damaged, stolen, or destroyed household goods. Actual cash value is an item's replacement cost, minus depreciation.

Replacement cost policies give you more protection than actual cash value coverage. For example, what happens if a burglar steals your six-year-old television set? With actual cash value coverage, you get only what you would expect to pay for a six-year-old television set. With replacement cost coverage, the insurance company pays to replace your TV with a new set similar to the stolen one.

Guaranteed replacement cost coverage pays for the full cost of replacing or repairing a damaged or destroyed home, even if it is above the policy limit.

Extended replacement cost coverage pays a certain amount above the policy limit to replace a damaged home, generally 120 or 125 percent. It is similar to a guaranteed replacement cost policy, which has no percentage limits. Most homeowner policy limits track inflation in building costs. Guaranteed and extended replacement cost policies are designed to protect the policyholder after a major disaster when the high demand for building contractors and materials can push up the normal cost of reconstruction.

## **Take inventory**

Many people learn after a fire or storm they didn't have enough personal property coverage. Taking inventory will help you decide how much insurance you need. It also will simplify claims.

Your inventory should list each item, its value and serial number. Photograph or videotape each room, including closets, open drawers, storage buildings and your garage. Keep receipts for major items in a fireproof place.

The Insurance Information Institute has helpful free software that will help you make a home inventory at [KnowYourStuff.org](http://KnowYourStuff.org).

## **What other protections does my policy provide?**

Homeowners policies regularly provide other types of coverage, including off-premises theft protection and unauthorized use of your credit cards. Make sure you understand which provisions are included in the standard coverage you elect to purchase and which might require supplemental premiums.

### **Flood insurance**

Homeowners policies do not cover flood damage. The National Flood Insurance Program (NFIP) offers flood insurance through home insurance companies nationwide.

If a mortgage lender determines your home is in a special flood hazard area, you might be required to purchase flood insurance.

### **Earthquake insurance**

If you are concerned about earthquakes, you can get earthquake insurance as an endorsement to your policy.

### **Extra coverage (endorsements)**

Home insurance policies contain exclusions and limitations for some types of personal property that are particularly susceptible to loss. Some policies place a specific dollar limit on certain property such as jewelry or antiques.

You might want more coverage for certain items than your policy provides. For an extra premium, you can buy endorsements that expand or increase the coverage on these items. Some of the most common endorsements cover jewelry, fine arts, camera equipment, coin or stamp collections, computer equipment, and radio and television satellite dishes and antennas. To insure that these types of items are properly covered, look into a "scheduled personal property endorsement."

### **Personal umbrella liability insurance**

If you want more liability coverage than your home and car insurance policies provide, you can buy a separate umbrella insurance policy.

### **Higher deductibles, lower premiums**

Your home insurance deductible is the amount you pay for covered damage before insurance kicks in. You can choose a higher deductible in order to lower your premiums if you don't mind taking on the added risk. Ask your insurance agent to give you price quotes for a range of deductibles to see how much you'd save.

Usually a deductible is a flat rate, such as \$1,000. But many insurers are introducing percentage deductibles around the country, especially for policies covering earthquakes, hurricanes and windstorms. These policies make you liable for 1 to 5 percent of your home's insured value before the insurance company pays. So, if you have a 2 percent deductible and your home's insured value is \$250,000 (remember, that's the cost to rebuild, not your home's market value), you'd have to pay the first \$5,000 in damages.

Some homeowners are switched from flat-rate to percentage deductibles at renewal time and may not be aware of the change. Make sure to read special notices sent by your home insurer and your "declarations page" at renewal time, or call your agent to check on what kind of deductible you have.