

WHAT TO KNOW

About Homeowners Insurance

A homeowners' insurance policy protects you against certain losses your new home may experience. Coverage is generally required by lenders prior to closing. Some lenders collect the homeowners' insurance premium as part of your monthly mortgage payment, place it in an escrow account, and pay the insurer on your behalf.

Coverage exclusions:

There are two types of coverage provided by a homeowners' policy: 1) Named Peril coverage; and 2) "Open" Peril coverage. Coverage provided on a "Named Peril" basis responds and pays only if the damage is caused by a specifically listed peril (cause of loss) such as fire, wind, or other specifically named causes of loss. Coverage provided on an "Open Peril" basis pays when the damage is NOT caused by a specifically excluded event.

Coverage for damage to your house is most commonly provided on an "Open Peril" basis. However, coverage for your contents (your personal property) is often provided on a "Named Peril" basis.

Most insurance policies exclude damage caused by flood or earthquake. You may need to buy these types of coverage separately. If you are in a "high hazard" flood zone, you may be required by the lender to purchase flood insurance.

Dollar limitations on claims:

Even if you are covered for a specific loss, there may be a limit on how much the insurance carrier will pay. Articles subject to these **sub-limits** include money, jewelry, silverware and goldware, firearms and business property.

Replacement cost:

Your home is insured on a replacement cost basis. This means there is no deduction for depreciation due to the home's age or even condition. But you will never be paid more the amount of coverage you purchased, so be sure your limit is sufficient. However, endorsements exist that allow you to purchase additional coverage after a loss if unexpected events increase the cost of rebuilding.

Actual cash value:

Actual cash value applies depreciation to the insurance carrier's loss payment calculation. Coverage for your personal property is provided on an actual cash value basis. You also only get actual cash value on your house if it is destroyed and you choose to not have it rebuilt.

Your liability:

Generally, your homeowner's insurance covers your liability for accidents that happen to other people on your property, including medical care, court costs, and awards by the court. However, there is usually an upper limit to the amount of coverage provided.