



Charting Your Course to Home Ownership

Insuring Your Home

Home owners insurance is important to help you recover from losses you could not afford. In fact, most lenders require home buyers to get and keep home owners insurance for the life of the loan.

Hurricanes Katrina, Rita, Gustav and Ike have brought the importance of adequate home owners insurance to our consciousness as we consider how any devastation, whether it is hurricane or fire, will affect our home. Many of us carry only the minimum amount required to satisfy our mortgage lender and are woefully under insured. Others of us are unaware of how much we actually need, and just renew our policy from year to year, regardless of how our home and circumstances have changed. One recent study cites 60% of homes in the United States are undervalued by over 20%. That can translate into big dollars if you lose your home or even part of your home. For example, if a home that is insured for \$150,000 is totally destroyed, it may cost \$180,000 to rebuild. The extra \$30,000 would come out of the home owner's pocket (see page 17 for further explanation).

Review your home owners insurance coverage each year. Before you write the check, review any changes in your home and its contents. If you have made any home improvements or additions, inherited Granny's autographed letter from George Washington, added a new computer system, or even indulged in a large new plasma TV, keep in mind your insurer needs to know these things to make sure you are adequately covered.

Most insurance companies offer similar types of coverage, but there are differences. The insurance agent can describe available options and their costs. This fact sheet will give you some basic information about common options and things you should consider when choosing your insurance package and company.

What Does a Home owners Insurance Policy Cover?

A home owners insurance policy is a package of coverage that protects you in two basic ways:

1. Liability Protection

Liability coverage protects you when you, your family or even your pets are responsible for injury to people or damage to their property. It pays for damages up to the limit of the insurance you purchased. It also pays for a lawyer to defend you if you need one.

Another type of coverage in the liability section of a policy is medical payments coverage. It pays the medical expenses for someone who is



accidentally injured on your property or injured by you, a member of your family or your pets. It pays up to the limit of medical payments coverage you bought. You are covered no matter who is at fault. It does not apply to your own injuries or those of family members living with you.

Liability coverage does apply to injuries or property damage to others if you are away from your home, but it doesn't apply to home business activities unless you buy special extra coverage.

Potential problems found during an agent's home inspection can make your rate higher or keep you from getting insurance at all. For instance, some companies will not insure a home owner who owns certain types of dogs.

2. Property Protection

Property coverage is the most complex part of your policy. It pays for loss or damage to your home, its contents and detached buildings on your property (like a garage or tool shed). It also covers damage to the lawn, trees and shrubs on your property.

You'll have to pay a deductible for each claim you make for a property loss. A deductible is the amount you agree to pay out of your pocket for losses before your insurance company begins to pay. The deductible is one way to lower your insurance premium. A policy with a \$250 deductible will cost more than one with a \$500 deductible.

Many insurance companies set a separate deductible for homeowner policies that apply to named storms such as hurricanes. This deductible reflects a percentage of a property's value — often from 2 to 5 percent. That could mean a deductible of up to \$5,000 for a \$100,000 policy.

Your policy will spell out when the damage to your property will be covered, usually by listing covered perils. A **peril** is an event that damages property. **Covered perils are usually those that are sudden, accidental and are not listed as exclusions in the policy.** The more perils covered, the more you pay for the policy.

Perils covered in a basic form policy include: fire, lightning, windstorm, hail, explosion, riot, vandalism, theft and damage from vehicles or aircraft. A basic form also covers removal of property endangered by these perils.

Additional perils covered in a broad form include: building collapse; falling objects; weight of ice, snow or sleet; freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a household appliance, or by discharge, leakage or overflow from within the system or appliance caused by freezing.

Special or comprehensive forms may cover all risks except earthquake and flood.

A condominium form covers broad form perils to protect personal property and the interior of the dwelling, but not the structure itself.

Some companies use their own names for these types of policies, so ask each agent which of these types is being used to figure the prices quoted.

Home owner property protection may cover your contents anywhere in the world. For instance, your policy could pay if your luggage is stolen while away from home. There may not be as much coverage on your contents if they are damaged or destroyed away from your home, however. Most policies have coverage for additional living expenses when you can't live in

your home because of damage covered by your policy. For example, it could pay limited hotel and restaurant expenses.

Other coverages that go beyond repair or replacement of the home may be part of some home owner policies. These may include: removal of debris, damaged property, damaged plants or lawn; fire department charges; and theft loss caused by fraud.

What Is Not Covered?

Exclusions are situations that are not covered. Some are not covered because they should be covered by another type of policy. For instance, a standard home owners policy does not cover your cars, recreational vehicles, watercraft, animals, birds or fish.

Other exclusions are not covered because they are not sudden or accidental. Damages caused by an intentional act of the insured or by wear and tear, aging, rotting and lack of maintenance are usually not covered.

Typical home owners insurance policies do not cover catastrophic perils like, earthquakes, floods, wars and nuclear disasters. Most policies also do not cover damages from surface water (floods) and water backed up from sewers and drains, but you can buy added coverage for many of these exclusions and limitations. In some coastal areas, some policies may exclude hurricanes.

Most policies in Louisiana do not cover mold remediation, but may cover water damages from covered perils.

Additional Coverage to Consider

Flood Insurance

Though not included in a home owners policy, flood insurance covering damage from rising water is offered by the federal government's National Flood Insurance Program (through licensed insurance agents) if your community participates in this federal program. Mortgage lenders require their borrowers to have flood insurance if the home is in a flood hazard zone (which includes much of Louisiana) according to the latest Flood Insurance Rate map. An elevation certificate of the property may be required. Since flooding patterns change, it is often wise to get flood insurance even if it is not required. Do not wait until a flood is coming to buy flood insurance. There is a 30 day waiting period before the coverage takes effect.

What is flood insurance?

Unlike a standard home owners policy, flood insurance covers losses to your property caused by flooding. The standard flood insurance covers

- Structural damage
- Furnace, water heater and air conditioner
- Flood debris clean up
- Floor surfaces such as carpeting and tile

You also can buy additional flood coverage on the same policy to cover the contents of your home, such as furniture, collectibles, clothing, jewelry and artwork.

Policies are available in three forms: Dwelling (most homes), General Property (apartments and businesses) and Residential Condominium Building Association (condominiums).

It is important to know that if you have a federally backed mortgage on a home located in flood hazard area, federal law requires you to purchase flood insurance. Also, if you have received a federal grant for previous flood losses, you must have a flood insurance policy to qualify for future aid.

What are the benefits to flood insurance?

Buying flood insurance is the best thing you can do to protect your home, business, family and financial security from flood losses.

When you are a flood insurance policyholder:

- Flood insurance compensates you for all covered losses.
- Coverage is relatively inexpensive.
- You can depend on being reimbursed for flood damages, even if the President does not declare a Federal disaster.
- You do not have to repay a loan, as you might have to with many Federal disaster relief packages. Your covered losses are paid in full.
- You can count on your claim being paid in the event of a flood loss because the National Flood Insurance Program (NFIP) is backed by the Federal government.
- Your agent can help you handle your claim quickly, so that you will not have to put your life on hold if a flood damages your property. You can even request a partial payment immediately after the flood, which can help you recover even faster.

The cost of flood insurance is based on a rating given the property. The rating depends on the location and elevation of the home in relation to flood zones and other factors about the property. The flood insurance premium (cost) for a given rating is the same from any insurance agent. The higher the home above the base flood elevation, the lower the premium cost.

Endorsements

Endorsements are written forms attached to a policy that add to or change the policy's original terms. Added coverage generally involve added costs. Examples of commonly selected endorsements include the following:

- Personal property endorsements (also called floaters or riders) cover expensive possessions such as jewelry, furs, coins, computers, antiques, artwork or silverware which may not be fully covered in your home owners policy. Be sure to tell your agent if you want to include these special items in your policy.
- Sewer back-up endorsements cover damages caused by the back-up of sewage in your home and (usually) water overflowing from a sump pump.
- Watercraft endorsements can provide coverage for small sailboats and outboard motor boats.
- Inflation guard endorsements automatically raise your coverage limits each year to adjust for rising prices in building materials and labor.

How Much Insurance Coverage Do I Need?

Coverage on the Dwelling

Since your home is usually your largest single investment, you should fully protect it. Mortgage lenders may require that your home be insured for at least the amount of the loan. Home owners insurance coverage equal or close to its **replacement cost** is recommended. Replacement cost is the cost to rebuild your home (not counting the cost of land) with similar materials, without subtracting (depreciating) for age or wear and tear. Most policies require you to rebuild at the same location, but your company may consider other options.

Replacement cost is not the same as “**market value,**” which is a real-estate term for the current value of your home if you were to sell it. Market value also includes the price of your land.

Your coverage amount (the limit of what your policy would pay) should always be at least 80% of the current replacement cost of your home. If your home is insured for less than 80% of its replacement cost when you file a claim, you will not be paid the full cost of replacing a partial loss. In fact, most companies will not sell a home owners policy for less than 80% coverage. Some may require you to insure your home for 90% or 100% of the replacement cost, but do not let anyone persuade you to exceed 100% coverage.

If you want the most protection you can buy, ask about guaranteed replacement-cost coverage (also called extended replacement-cost). When you pay extra for this optional coverage, you will get the full cost to replace your home if destroyed by an insured peril, even if it is more than your policy's limit. Some companies will pay no more than a certain percentage above your policy's limit (for example, 20%). Companies may also set special terms (such as a building age limit) to qualify for this coverage.

Other Coverage Amounts

The amount of coverage you carry on your home (the dwelling structure) affects other coverage. Your dwelling limit generally sets the coverage limits for your contents, other structures on your property and additional living expenses; although arrangements can sometimes be made to change these coverage limits.

Maximum coverage for structures set apart from the house (called “appurtenant private structures”) such as a detached garage, tool shed or guest house is usually 10% of the dwelling coverage amount.

Coverage for additional living expenses may be 10% to 20% of the dwelling limit.

Coverage on the Contents

Coverage on your contents is usually limited to 50% of the coverage amount on your dwelling. So, if your dwelling is covered up to \$100,000, your contents coverage limit is \$50,000. With some companies, the limit can be higher.

Most home owner's policies pay for losses to your contents on an actual cash value basis (ACV). ACV is replacement cost minus depreciation for age or wear and tear.

A better option is **replacement cost coverage** that pays the full cost to replace your personal property at today's prices. You must tell your agent if

you want this option. Although the cost is higher, the extra protection is usually worth it.

For instance, suppose you paid \$500 for your sofa a few years ago. Today, because of its age, it's worth only \$300 (its actual cash value). If a fire destroyed your sofa today, it would cost \$800 to buy another one like it. If you have replacement cost coverage, you would receive the full \$800 to replace your sofa. Without replacement-cost coverage, you would get the actual cash value (\$300).

You must also subtract your deductible from any payment you receive. If you decide not to replace the item (the burned sofa), your company may pay you only the actual cash value (\$300) even if you have replacement-cost coverage.

Replacement-cost coverage may not apply to all of your contents. Remember that items like art, antiques, photos and collections are often excluded.

What Sets the Premium?

Home owners insurance rates vary from company to company (except for flood insurance which is set by the federal government). Some factors that affect your costs include:

- Type of building construction: Wood-frame homes may cost more to insure than masonry homes because of more risk of damage by fire.
- Fire protection in your area: How far away and how good it is affects your cost.
- Location: You can expect to pay more if you live in an area where crime, fires or natural disasters are common.
- The type of policy and amount of coverage limits you choose: The more coverage you have, the higher the premiums.
- The amount of deductible you choose: The higher it is, the lower the premium you pay.

How Can I Get the Most for my Money?

Get Discounts

Some companies offer discounts for the following to lower your premium:

- Protective devices: fire extinguishers, smoke alarms, dead-bolt locks on all outside doors, a fire sprinkler system, some security alarm systems.
- Mature home owner: age 55-and-retired discount if both the insured and spouse are not employed.
- Non-smoker.
- More than one policy with the same company: such as home owner and car insurance.
- New home: brand-new home or home less than nine years old.
- Fire-resistant building materials.
- Wind resistant features such as wind rated shingles.

Comparison Shop

Compare quotes from several agencies. Make sure you look at exactly the same type of policy and limits. Keep in mind, the higher your deductible, the less you pay. Ask about discounts each company gives.

When shopping for an agent, think about such questions as:

- Can the agent explain your coverage in terms you can understand? Do the agent and staff seem polite and want to help?
- Is the agent interested in your insurance needs or just interested in making a sale?
- Will the agent inspect or photograph your home? This benefits both you and the company.
- What types of finance plans does the company offer? How much do you need as a down payment? Most companies add a service charge when you pay your premium by the month instead of by the year.

If you have a mortgage loan, however, your monthly house payments will probably include an added amount (above the loan payments) to cover the cost of your home owners and flood insurance, taxes and other items. That portion of your monthly payment is held in escrow by the lender and used to pay the annual premiums and tax bills. This way, you do not need a finance plan with its added costs, and the lender makes sure your insurance premium and taxes are paid.

Consider the insurance company's financial rating and complaint ranking. You can find out about complaints filed by phoning the Louisiana Department of Insurance toll free at (800) 259-5300 or by writing the Consumer Affairs Division: P.O. Box 94214, Baton Rouge, LA 70804-9214. You may find more information at your local public library.

Do Your Homework

Read your policy. Know what it covers and what it doesn't. Your policy is a contract between you and the insurance company. Both parties must comply with it. Don't assume anything about your coverage. Ask your agent to explain if something isn't clear.

Make an inventory of your contents, and keep it up-to-date. Write a list or, better yet, videotape or take pictures of your belongings. Keep receipts and keep one copy of your inventory in a safe place away from your home. In the event of a loss, you may need to show proof of the value of items lost or ruined.

Pay your premiums on time and maintain your property. Insurance companies are not required to give you a grace period to pay your home owners insurance. In fact, insurance policy periods end at 12:01 a.m. on the listed expiration date, so the property is no longer insured on the expiration date. Also, insurance may be revoked if your home is not properly maintained and kept in a safe condition. Remember, not having adequate home insurance means you are taking a huge financial risk, and it can also be considered a default on a mortgage loan.

Review your coverage each year and update it as needed.

What If I Can't Find a Company to Insure My Home?

The **Louisiana Citizen's Property Insurance Corporation** was established by the Louisiana legislature in 2003 to operate the high risk property insurance pools. This includes the Coastal and FAIR Plans.

The **Coastal Plan** serves consumers in certain designated parishes along the Louisiana coast. It was established to assure availability of essential property insurance to property owners unable to secure insurance in the voluntary insurance market.

The **Fair Access to Insurance Requirement (FAIR) Plan** does the same for areas throughout the state.

If you are unable to buy coverage from the private insurance companies you call, ask licensed agents to help you fill out a FAIR or Coastal Plan application. If your application is accepted, a one-year policy is issued from the state program which functions as an insurance company.

An inspection of the premises will be conducted. The findings of the inspection will determine the issue of un-insurability as well as the rates that will apply. Property owners who keep their property reasonably maintained within reasonable standards may qualify.

The FAIR/Coastal Plans offer coverage for dwellings and contents against these perils: fire (including damage from lightning), wind, hail, aircraft, vehicles, smoke and explosion.

Glossary

Actual Cash Value. In many states, this means that in the event of a covered loss, you'll be paid the current replacement cost of whatever you lost, minus depreciation. (This generally includes the estimated wear and tear on the item damaged or the loss in value of that item because of aging and use). The total amount you'd be paid would be subject to the terms of your particular policy, including applicable deductible and coverage limits.

Claim. A formal notice to an insurance company requesting it to make payment according to the terms of the policy.

Contents. Personal property, such as your furniture, appliances, clothes, jewelry and bikes.

Deductible. The portion of a covered loss that you agree to pay before the insurance company becomes responsible for payment under the policy. A larger deductible usually means a lower premium. For example, if the covered claim is \$1,000 and your deductible is \$250, you pay \$250 and your insurance company will pay \$750.

Depreciation. The decrease in home or property value caused by age or wear and tear after it was built or purchased.

Endorsement. A written form attached to a policy that adds to or changes the policy's original terms.

Exclusion. A situation not covered by the insurance policy. Some exclusions in a standard policy may be purchased as a buy back endorsement if you pay higher premiums.

Floater/Rider. Additional coverage for items such as jewelry or antiques not otherwise included in a home owners insurance policy (a personal property endorsement).

Liability Protection. This typically provides coverage if you, as an insured person, are legally obligated to pay damages due to bodily injury of others or for damage to their property arising out of a covered loss. For example, you're playing catch with your friends, you throw the ball and it inadvertently crashes through a neighbor's window and breaks something. The property damage you accidentally caused may be covered here.

Named Storm Deductible. Many insurance companies set a separate deductible for homeowner policies that apply to named storms such as hurricanes. This deductible reflects a percentage of a property's value — often from 2 to 5 percent. That could mean a deductible of \$5,000 for a \$100,000 policy.

Premium. The amount of money charged for your insurance.

Protection for Other Structures. Protects an insured's structures which are separated from the dwelling by a clear space. Examples may include a detached garage, storage unit, fence or gazebo.

Real Property. Includes land and anything permanently attached to the land (buildings, fences, etc.).

Replacement Cost Coverage. In the event of a covered loss, you may be reimbursed for the cost you incur to replace many of your damaged contents with new property of like kind and quality. The total amount you would be reimbursed is subject to the terms and conditions of your particular policy, including applicable deductible and coverage limits.

Rider. Refer to floater.

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