

# Homeowners Insurance Guide: A Beginner's Overview

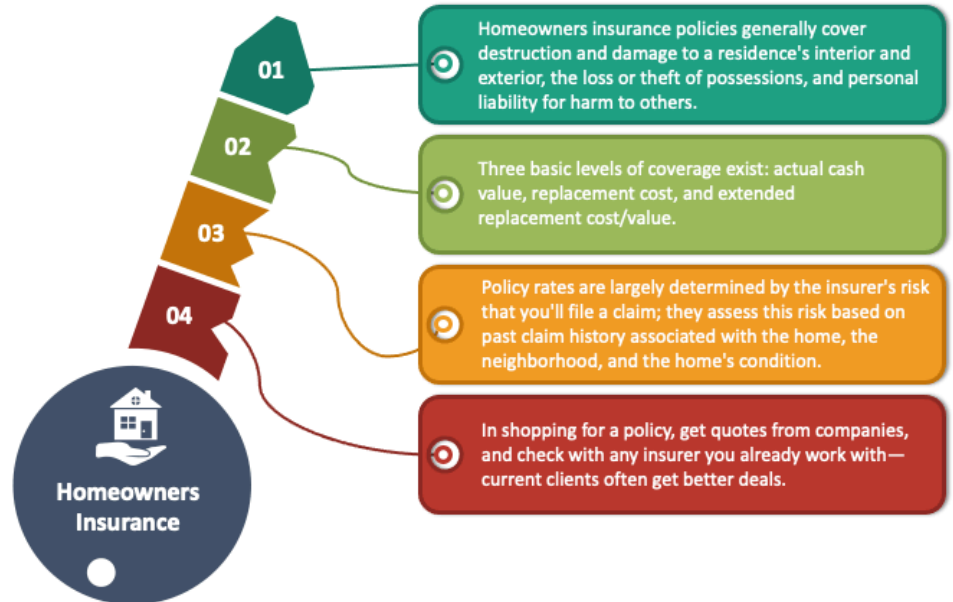
Homeowners insurance isn't a luxury; it's a necessity. That's not just because it protects your home and possessions against damage or theft. In this article, we'll walk you through the basics of homeowners insurance policies.

Virtually all mortgage companies require borrowers to have insurance coverage for the full or fair value of a property (usually the purchase price) and won't finalize a loan or finance a residential real estate transaction without proof of it. Through the mortgagee clause in your homeowner policy, the lender will receive a payment if your home is destroyed during the time you have a mortgage.

You don't even have to be a homeowner to need insurance. Many landlords require their tenants to maintain renter's insurance coverage. Whether it's required or not, it's smart to have this kind of protection.

## KEY TAKEAWAYS

- *Homeowners insurance policies generally cover destruction and damage to a residence's interior and exterior, the loss or theft of possessions, and personal liability for harm to others.*
- *Three basic levels of coverage exist: actual cash value, replacement cost, and extended replacement cost/value.*
- *Policy rates are largely determined by the insurer's risk that you'll file a claim; they assess this risk based on past claim history associated with the home, the neighborhood, and the home's condition.*
- *In shopping for a policy, get quotes from at least five companies, and definitely check with any insurer you already work with—current clients often get better deals.*



## What a Homeowner's Policy Provides

Although they are infinitely customizable, a homeowner's insurance policy has certain standard elements that provide what costs the insurer will cover. Each of the main coverage areas are discussed below.















### Damage to the Interior or Exterior of Your House

In the event of damage due to fire, hurricanes, lightning, vandalism or other covered disasters, your insurer will compensate you so your house can be repaired or even completely rebuilt. Destruction or mutilation from floods, earthquakes, and poor home maintenance is generally not covered and you may require separate riders if you want that type of protection. Free-standing garages, sheds or other structures on the property may also need to be covered separately using the same guidelines as for the main house.

Clothing, furniture, appliances, and most of the other contents of your home are covered if they're destroyed in an insured disaster. You can even get "off-premises" coverage, so you could file a claim for lost jewelry, say, no matter where in the world you lost it. There may be a limit on the amount your insurer will reimburse you, however.

## WHAT DOES HOMEOWNERS INSURANCE COVER?

Homeowners insurance may help protect your house, your belongings and even you if the unexpected occurs. Typical policies include four key types of protection — dwelling, other structures, personal property and liability coverage. Not all policies are alike, and it's important to remember that coverage limits and deductibles may apply.

|  |  |
|--|--|
| <b>DWELLING COVERAGE</b>   | <b>OTHER STRUCTURES COVERAGE</b>   |
| <p>If your home is damaged, dwelling coverage may help pay to repair or rebuild the home. Some of the risks that are typically covered include:</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"><br/><b>FIRE &amp; SMOKE</b></div> <div style="text-align: center;"><br/><b>WIND</b></div> <div style="text-align: center;"><br/><b>LIGHTNING STRIKES</b></div> <div style="text-align: center;"><br/><b>HAIL</b></div> </div> | <p>Other structures coverage may help pay to repair or replace certain components that are not attached to your home after a covered loss. This coverage may extend to items such as:</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"><br/><b>A SHED</b></div> <div style="text-align: center;"><br/><b>A DETACHED GARAGE</b></div> <div style="text-align: center;"><br/><b>A FENCE</b></div> </div>  |
| <b>PERSONAL PROPERTY COVERAGE</b>  | <b>LIABILITY COVERAGE</b>  |
| <p>Personal property coverage may help reimburse you for the value of your belongings or pay to replace your belongings after a covered loss. Examples of what personal property coverage may help protect include:</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"><br/><b>FURNITURE</b></div> <div style="text-align: center;"><br/><b>ELECTRONICS</b></div> <div style="text-align: center;"><br/><b>CLOTHING</b></div> </div>   | <p>No matter how careful you are, accidents can happen. Liability coverage may help pay for costs resulting from an injury to someone else or damage to their property if you are found liable. For instance, liability protection may help cover:</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"><br/><b>A GUEST'S MEDICAL BILLS</b></div> <div style="text-align: center;"><br/><b>YOUR LEGAL EXPENSES IF SUED</b></div> <div style="text-align: center;"><br/><b>AN INJURED PARTY'S LOST WAGES</b></div> <div style="text-align: center;"><br/><b>COSTS OF REPAIRING DAMAGE YOU ACCIDENTALLY CAUSED TO SOMEONE ELSE'S PROPERTY</b></div> </div> |

According to the Insurance Information Institute, most insurance companies will provide coverage for 50% to 70% of the amount of insurance you have on the structure of your home. For example, if your house is insured for \$200,000, there would be up to about \$140,000 worth of coverage for your possessions.



If you own a lot of high-priced possessions (fine art or antiques, fine jewelry, designer clothes), you might want to pay extra to put them on an itemized schedule, purchase a rider to cover them, or even buy a separate policy.

## Personal Liability for Damage or Injuries

Liability coverage protects you from lawsuits filed by others. This clause even includes your pets! So, if your dog bites your neighbor, Doris, no matter if the bite occurs at your place or hers, your insurer will pay her medical expenses. Alternatively, if your kid breaks her Ming vase, you can file a claim to reimburse her. If Doris slips on the broken vase pieces and successfully sues for pain and suffering or lost wages, you'll likely be covered for that, too, just as if someone had been injured on your property.

## Hotel or House Rental While Your Home Is Being Rebuilt or Repaired

It's unlikely, but if you do find yourself forced out of your home for a time, it will undoubtedly be the best coverage you ever purchased. This part of insurance coverage, known as additional living expenses, would reimburse you for the rent, hotel room, restaurant meals, and other incidental costs you incur while waiting for your home to become habitable again. Before you book a suite at the Ritz-Carlton and order caviar from room service, however, keep in mind that policies impose strict daily and total limits. Of course, you can expand those daily limits if you're willing to pay more in coverage.

# Different Types of Homeowners Coverage

All insurance is definitely not created equal. The least costly homeowners insurance will likely give you the least amount of coverage, and vice versa.

In the U.S. there are several forms of homeowners insurance that have become standardized in the industry; they are designated HO-1 through HO-8 and offer various levels of protection depending on the needs of the homeowner and the type of residence being covered.

| Types of homeowners insurance |                      |   |   |
|-------------------------------|----------------------|---|---|
| Policy form                   | Property type        | What it covers  | Best for  |
| HO-1 (basic)                  | House                | Limited named perils for structure and contents               | Bare-bones coverage, where available                |
| HO-2 (broad)                  | House                | Greater number of named perils for structure and contents     | More coverage than HO-1 but less than HO-3          |
| HO-3 (special)                | House                | Open perils for structure, named perils for contents          | Most homeowners                                     |
| HO-4 (contents broad)         | Rental unit          | Named perils for contents                                     | Renters   |
| HO-5 (comprehensive)          | Higher-value house   | Open perils for structure and personal property               | Homeowners who want the most comprehensive coverage |
| HO-6 (unit owners)            | Condo or co-op unit  | Named perils for contents and certain structural items        | Condo or co-op unit owners                          |
| HO-7 (mobile home)            | Mobile home          | Open perils for structure, named perils for personal property | Mobile home owners                                  |
| HO-8 (modified coverage)      | Old, high-risk homes | Limited named perils for structure and personal property      | Homeowners who don't qualify for any other coverage |



## There are essentially three levels of coverage.

### Actual Cash Value

Actual cash value (ACV) covers the cost of the house plus the value of your belongings after deducting depreciation (i.e., how much the items are currently worth, not how much you paid for them). Some policies may contain a recoverable depreciation clause, which allows the owners to claim the value of the depreciation along with the ACV.

### Replacement Cost

Replacement value policies cover the actual cash value of your home and possessions without the deduction for depreciation, so you would be able to repair or rebuild your home up to the original value.

### Guaranteed (or Extended) Replacement Cost/Value

The most comprehensive, this inflation-buffer policy pays for whatever it costs to repair or rebuild your home—even if it's more than your policy limit. Certain insurers offer an extended replacement, meaning it offers more coverage than you purchased, but there is a ceiling; typically, it is 20% to 25% higher than the limit.

Some advisors feel all homeowners should buy guaranteed replacement value policies because you don't need just enough insurance to cover the value of your home, you need enough insurance to rebuild your home, preferably at current prices (which probably will have risen since you purchased or built). Guaranteed replacement value policies will absorb the increased replacement costs and provide the homeowner with a cushion if construction prices increase.

## What Isn't Covered by Homeowners Insurance?

Homeowners insurance policies typically include coverage for a wide range of perils and events that can cause damage to your property or belongings. However, there are also several common exclusions, which are situations or events that are not covered by the standard policy. If you want coverage for many of these specific items, you'll likely need to buy separate or private coverage.

There are several natural disaster occurrences that are not covered by standard coverage. Standard homeowners insurance usually doesn't cover damage caused by floods. Earthquake damage is typically excluded from standard homeowners insurance policies. While some policies include limited coverage for sudden and accidental sinkhole damage, extensive or gradual sinkhole damage is often excluded as well.

There are some home repair and maintenance type costs that are not covered. Many standard policies exclude damage from sewer or drain backups. Repairs or replacements due to the normal course of use are also generally not covered. Damage caused by termites, rodents, other pests, mold, and mildew may also be excluded, especially if prevention methods are not taken.

Last, there are many acts that do not constitute coverage. Damage caused by acts of war, terrorism, or civil unrest is usually not covered by standard homeowners insurance policies, nor is damage from nuclear accidents or radiation. If you intentionally cause damage to your own property, it is unlikely to be covered by your insurance policy. In addition, if you need to rebuild or repair your home to comply with updated building codes or laws after a covered loss, the additional costs might not be fully covered by a standard policy.

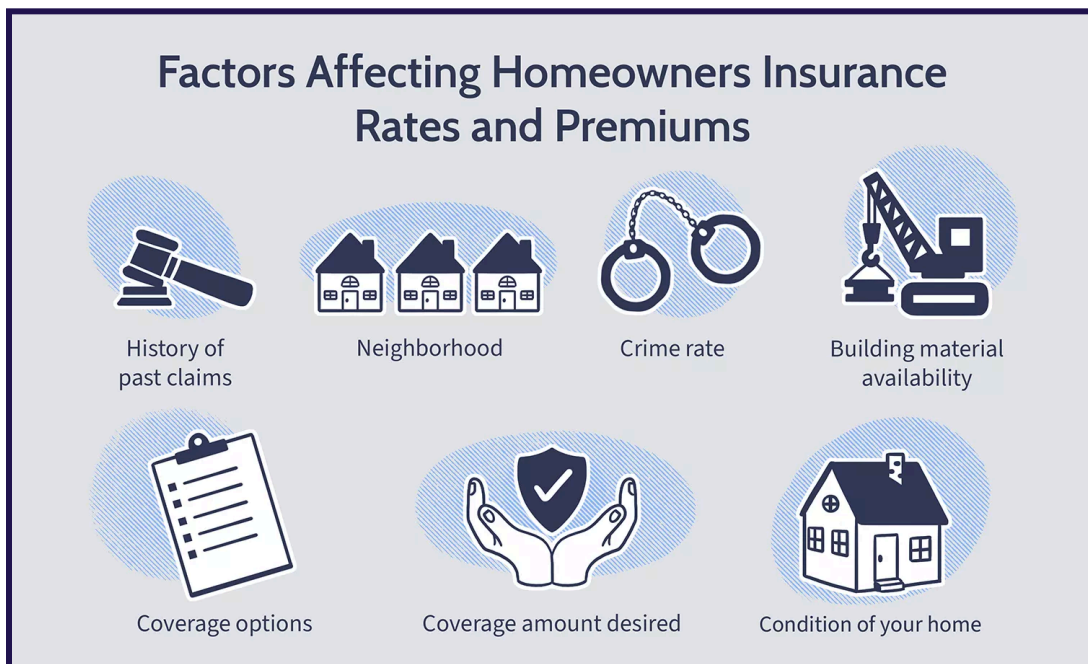
## How Are Homeowners Insurance Rates Determined?

So what's the driving force behind rates? In general, rates are set based on the likelihood a homeowner will file a claim—the insurer's perceived "risk." To determine risk, home insurance companies give significant consideration to past home insurance claims submitted by the homeowner as well as claims related to that property and the homeowner's credit.

While insurers are there to pay claims, they're also in it to make money. Insuring a home that has had multiple claims in the past three to seven years, even if a previous owner filed the claim, can bump your home insurance premium into a higher pricing tier. You may not even be eligible for home insurance based on the number of recent past claims filed, notes Bank.

The neighborhood, crime rate, and building material availability will all play a part in determining rates, too. And of course, coverage options such as deductibles or added riders for art, wine, jewelry, etc.—and the coverage amount desired—also factor into the size of an annual premium.

What else affects your rates? Generally speaking, almost anything that impacts potential risk may impact your rate. For instance, a home that is not well-maintained may increase the necessity for major damages. Another example is a home with a specific type breed of dog may be more susceptible to damage. At a high-level, rates are set based on the likelihood of the insurer paying out damages. The more variables that contribute to that risk, the higher your rates.





## Cost-Cutting Insurance Tips

### Maintain A Security System

A burglar alarm monitored by a central station or tied directly to a local police station will help lower the homeowner's annual premiums, perhaps by 5% or more. In order to obtain the discount, the homeowner must typically provide proof of central monitoring in the form of a bill or a contract to the insurance company.

Smoke alarms are another biggie. While standard in most modern houses, installing them in older homes can save the homeowner 10% or more in annual premiums. CO detectors, dead-bolt locks, sprinkler systems and in some cases even weatherproofing can also help.

### Raise Your Deductible

Like health insurance or car insurance, the higher the deductible the homeowner chooses, the lower the annual premiums. However, the problem with selecting a high deductible is that claims/problems that typically cost only a few hundred dollars to fix—such as broken windows or damaged sheetrock from a leaky pipe—will most likely be absorbed by the homeowner. And these can add up.

### Look for Multiple Policy Discounts

Many insurance companies give a discount of 10% or more to customers who maintain other insurance contracts under the same roof (such as auto or health insurance). Consider obtaining a quote for other types of insurance from the same company that provides your homeowners insurance. You may end up saving on two premiums.

### Plan Ahead for Renovation

If you plan to build an addition or adjacent structure to your home, consider the materials that will be used. Typically, wood-framed structures will cost more to insure because they are highly flammable. Conversely, cement- or steel-framed structures will cost less because these are less likely to succumb to fire or adverse weather conditions.

Another thing most homeowners should, but often don't, consider are the insurance costs associated with building a swimming pool. In fact, items such as pools and/or other potentially injurious devices (like trampolines) can drive the annual insurance costs up by 10% or more.

### Pay Off Mortgage

Obviously this is easier said than done, but homeowners who own their residences outright will most likely see their premiums drop. Why? The insurance company figures if a place is 100% yours, you'll take better care of it.



## Regularly Compare Policies and Coverage

No matter what initial price you're quoted, you'll want to do a little comparison shopping, including checking for group coverage options through credit or trade unions, employers, or association memberships. And even after purchasing a policy, investors should, at least once per year, compare the costs of other insurance policies to their own. In addition, they should review their existing policy and make note of any changes that might have occurred that could lower their premiums.

For example, perhaps you have disassembled the trampoline, paid off the mortgage, or installed a sophisticated sprinkler system. If this is the case, simply notifying the insurance company of the change(s) and providing proof in the form of pictures and/or receipts could significantly lower insurance premiums.

To know if you have enough coverage to replace your possessions, make periodic assessments of your most valuable items, too. According to John Bodrozic, co-founder of HomeZada, a home maintenance app, "Many consumers are under-insured with the contents portion of their policy because they have not done a home inventory and added the total value to compare with what the policy is covering."

Look for changes in the neighborhood that could reduce rates, as well. For example, the installation of a fire hydrant within 100 feet of the home, or the erection of a fire substation within close proximity to the property, may lower premiums.



## How to Compare Home Insurance Companies

### Compare Statewide Costs and Insurers

When it comes to insurance, you want to make sure you are going with a provider that is legitimate and creditworthy. Your first step should be to visit your state's Department of Insurance website to learn the rating for each home insurance company licensed to conduct business in your state, as well as any consumer complaints lodged against the insurance company. The site should also provide a typical average cost of home insurance in different counties and cities.



## Do a Company Health Check

Investigate home insurance companies you're considering via their scores on the websites of the top credit agencies (such as A.M. Best, Moody's, J.D. Power, Standard & Poor's) and those of the National Association of Insurance Commissioners and Weiss Research. These sites track consumer complaints against the companies as well as general customer feedback, the processing of claims, and other data. In some instances, these websites also rate a home insurance company's financial health to determine whether the company is able to pay out claims.

## Look at Claim Responses

Following a large loss, the burden of paying out-of-pocket to repair your home and waiting for reimbursement from your insurer could place your family in a difficult financial position. A number of insurers are outsourcing core functions, including the handling of claims. Before purchasing a policy, find out whether licensed adjusters or third-party call centers will be receiving and handling your claims calls.

## Browse Current Policyholder Satisfaction

Every company will say it has good claims service. However, cut through the clutter by asking your agent or a company representative the insurer's retention rate—that is, what percentage of policyholders renew each year. Many companies report retention rates between 80% and 90%. You can also find satisfaction information in annual reports, online reviews and good old-fashioned testimonials from people you trust.

## Get Multiple Quotes

How many quotes should you get? Five or so will give you a good sense of what people are offering and leverage in negotiations. Before collecting quotes from other companies, request a price from insurers you already have a relationship with. As previously mentioned, in many instances, a carrier you're already doing business with (for your auto, boat, etc.) may offer better rates because you're an existing customer.

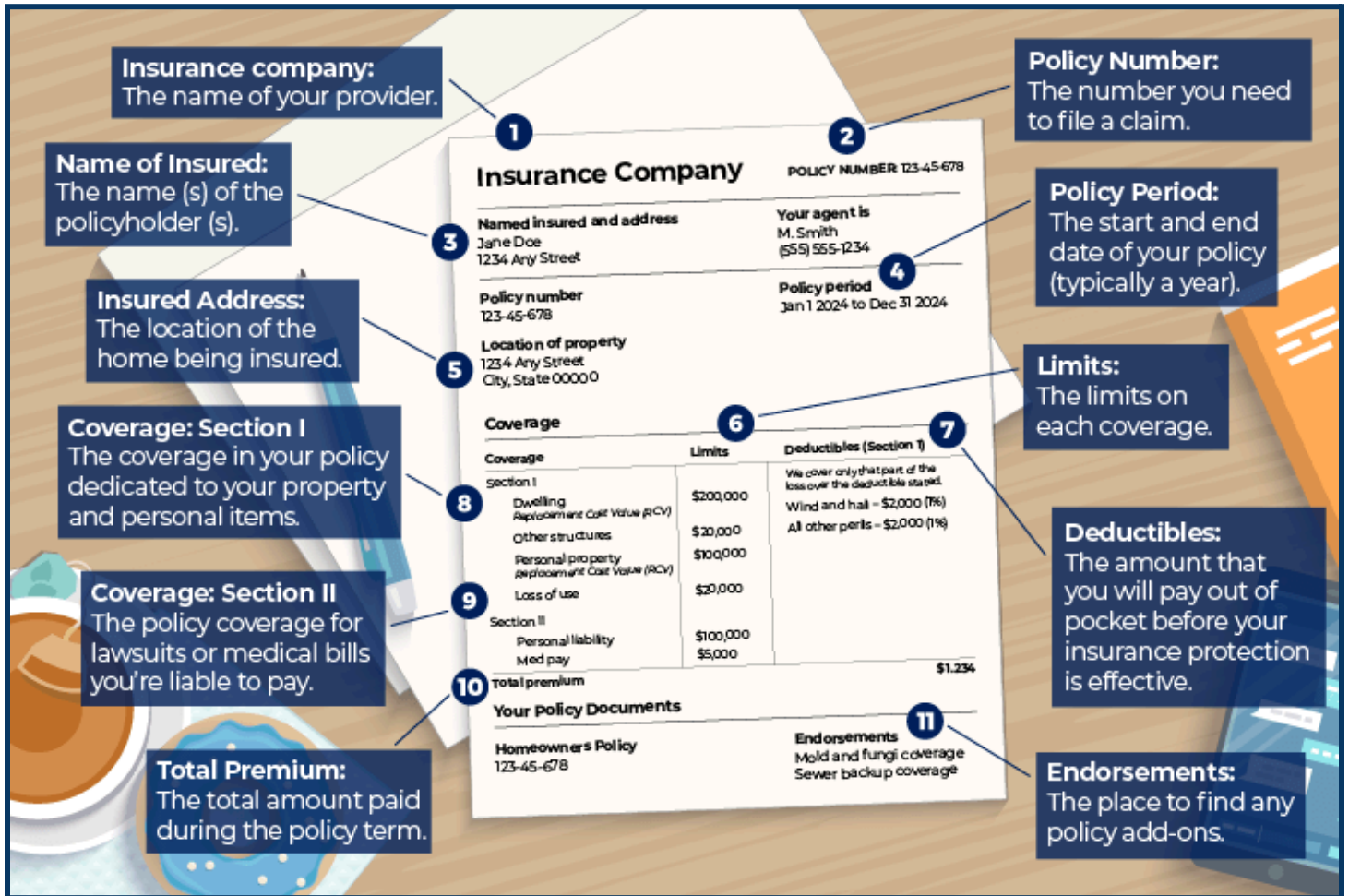
Some companies provide a special discount for seniors or for people who work from home. The rationale is both these groups tend to be on-premises more often—leaving the house less prone to burglary.

## Look Beyond Price

The annual premium is often what drives the choice to purchase a home insurance policy, but don't look solely at price. "No two insurers use the same policy forms and endorsements, and policy wording can be very different," says Bank. "Even when you think you're comparing apples to apples, there's usually more to it, so you need to compare coverages and limits."



## Understand Your Policy Documents



**Insurance company:** The name of your provider.

**Policy Number:** The number you need to file a claim.

**Name of Insured:** The name (s) of the policyholder (s).

**Policy Period:** The start and end date of your policy (typically a year).

**Insured Address:** The location of the home being insured.

**Limits:** The limits on each coverage.

**Coverage: Section I**  
The coverage in your policy dedicated to your property and personal items.

**Coverage: Section II**  
The policy coverage for lawsuits or medical bills you're liable to pay.

**Deductibles:** The amount that you will pay out of pocket before your insurance protection is effective.

**Total Premium:** The total amount paid during the policy term.

**Endorsements:** The place to find any policy add-ons.

**Sample Policy Document:**

**Insurance Company** POLICY NUMBER 123-45-678

**Named insured and address** Jane Doe, 1234 Any Street  
**Your agent is** M. Smyth (555) 555-1234

**Policy number** 123-45-678  
**Policy period** Jan 1 2024 to Dec 31 2024

**Location of property** 1234 Any Street, City, State 00000

| Coverage   | Limits    | Deductibles (Section I)  |
|--|-----------|--|
| Section I  |           | We cover only that part of the loss over the deductible stated.<br>Wind and hail - \$2,000 (1%)<br>All other perils - \$2,000 (1%) |
| Dwelling (Replacement Cost Value (RCV))          | \$200,000 |  |
| Other structures                                 | \$20,000  |  |
| Personal property (Replacement Cost Value (RCV)) | \$100,000 |  |
| Loss of use                                      | \$20,000  |  |
| Section II                                       |           |  |
| Personal liability                               | \$100,000 |  |
| Med pay  | \$5,000   |  |
| <b>Total premium</b>                             |           | <b>\$1,234</b>   |

**Your Policy Documents**

**Homeowners Policy** 123-45-678

**Endorsements** Mold and fungi coverage, Sewer backup coverage

## Create a Home Inventory for Insurance Purposes

Creating a home inventory helps catalog your belongings, simplifies the claims process, ensures accurate valuation of your possessions, and helps you receive fair compensation in case of covered losses.

## The Bottom Line

Homeowners insurance provides financial protection against damage to your home and belongings caused by covered events like fires, theft, and storms. It includes liability coverage for injuries or property damage to others. Policy types vary, each offering different levels of coverage. Having homeowners insurance helps safeguard your investment, cover unexpected expenses, and provide peace of mind in case of unforeseen incidents.