

The Consumer's Guide to

HOMEOWNERS INSURANCE

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The Consumer's Guide to Homeowners Insurance

Whether you are a first-time home buyer, a veteran of many years of mortgage payments and house upkeep, a condo owner or an apartment dweller, your household is one of some 90 million in the United States. Chances are your home is your single most expensive budget item and—for the home or condo owner—your most valuable investment. Homeowners insurance* is a “package” policy that covers both property—structures and personal possessions—and liability.

Because it is comprehensive, your homeowners insurance policy may include coverage you are not even aware of. If your luggage is stolen from a motel room while you are a thousand miles away from home, for example, you will of course want to notify the police. You will also want to check with your insurance agent about coverage for loss under your homeowners policy. And if your house burns down leaving you without a place to stay, your policy provides living expenses as well as reimbursement for damaged property.

Your insurance agent can explain your policy in detail. To get you started, this guide from Trusted Choice® outlines the key areas of coverage as well as any exclusions or limits that might apply. More than any other line of coverage, homeowners insurance is substantially standardized throughout the United States. The questions and answers in this guide are based on the most commonly purchased homeowners insurance policy (called HO3 in the industry) offering the widest protection.

You may be interested in knowing that claims can consume 80 cents or more of every premium dollar (the exact amount varies from year to year). The rest of that dollar goes to taxes, marketing and administrative costs, dividends and profits. It is in your best interest to understand your protection so that you may select the insurance that best meets your needs.

* Throughout this guide, the term “homeowners insurance” is used. However, for renters and condo owners, the coverage for personal property and liability is similar. The main difference, of course, is that you do not need to insure the building. Therefore, almost all the information contained in this guide should be useful whether you own or rent, live in an apartment, a condominium or a home.

Questions on specific concerns about condominiums and renting an apartment or dwelling are answered after the general questions.

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Q: **Do I really need insurance for my home?**

Insurance is your protection against the uncertainties of day-to-day living. For most people, a home is their single most valuable possession—and their biggest investment. Homeowners insurance protects your investment as well as you, the members of your family and your household possessions.

If you were to suddenly lose your home due to fire or a tornado or have the contents damaged or stolen, like most of us, you probably could not afford to replace everything all at once. And if somebody sued you for an injury or damage caused by you or your property, the cost of defending that suit could run into thousands of dollars just for legal fees—regardless of the outcome of the suit.

All of these situations are covered by the homeowners package policy. And while it may be unpleasant to think about fire, theft, and other uncertainties of life, they are there and things happen.



Yet another reason you need to carry homeowners insurance is that mortgage lenders require it. No mortgage company will lend the large amounts of money needed to finance homes at today's prices without requiring an insurance policy to protect that investment.

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Q: My homeowners insurance is part of the payment I make each month to the mortgage company. Who decides what insurance to get?

You do—it is your home and your insurance policy. As a means of protecting their investment, the mortgage company collects a set amount from you each month, puts it in escrow and then pays your insurance and taxes when they fall due. However, the policy is still yours and you may select the insurance you feel offers the best coverage at the best rates. In fact, if you allow the mortgage company to choose, you might well end up paying more for your homeowners insurance.

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Q: I know I have that homeowners policy in a drawer somewhere. What exactly does it cover?

“Exact” coverage is hard to define because there are different policies and about 900 insurance companies writing most of the property-casualty business in the United States. However, 80 percent of homeowners policies are based on a standard form, which is described in this guide. All homeowners policies cover two important areas: property and liability. Remember that you have to have protection against the proverbial thief in the night and the person who slips on your sidewalk by day.

What this means in insurance terms is that your homeowners policy has two basic components. It covers your structures and possessions—**property** insurance—and it furnishes protection against **personal liability**. Personal liability, as its name implies, means you are legally obligated to pay money to another person for actions caused by you, your family or your property. That liability extends to medical payments to others for injuries caused by you or your family.

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Q: What kinds of perils am I protected against?

Remember that policies vary, but homeowners insurance usually covers damage to both structures and personal property caused by:

- Fire or lightning
- Windstorm or hail
- Explosions
- Riot or civil commotion
- Aircraft
- Vehicles
- Smoke
- Theft or vandalism (sometimes called malicious mischief)
- Falling objects
- Weight of ice, snow or sleet
- Freezing of a plumbing, heating, air conditioning or other such household system

In fact, your coverage is most likely even more comprehensive than this list. Many homeowners policies cover damage by “just about everything,” unless the coverage is specifically excluded. In these cases, it is even more important to understand what is not covered.

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Q: What about floods, earthquakes and other catastrophes?

Most catastrophes are covered; for example, wind damage from hurricanes and tornadoes come under the windstorm peril listed in the previous question and so are included. Flood and earthquake damage, however, are not covered by a standard policy.



Be careful not to be lulled into a false sense of geographic security. Flood and earthquake activity is more widespread than many people realize. For example, almost 90 percent of the U.S. population lives in seismically active areas. Since 1900, earthquakes have occurred in 39 states and caused damage in all 50. And if your home is located in a flood-prone area, you are 26 times more likely to suffer a flood loss than a loss from fire.

You may want to check with your Trusted Choice® insurance professional about special catastrophic policies for normally excluded conditions like floods and earthquakes. Of course, the cost of such extra coverage may reflect the high risk involved. If you live along a shoreline, for example, expect to pay a higher premium for flood coverage than someone living on a mountaintop would pay.

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Q: Are there any other exclusions I should know about?

There may be other exclusions spelled out in your policy such as neglect, intentional loss, “earth movement,” general power failure and even damage caused by war. If you neglect to take care of your property (e.g., a leaky roof), you may not be covered. Obviously, if you intend to lose an object or damage your property, there is no coverage.

One other exclusion that can be costly is the Ordinance or Law exclusion. Building codes established by governmental bodies that drive up the cost of rebuilding or repairing after a loss occurs may not be covered by your insurance policy. Thus, if you discover when replacing damaged property that current law demands higher grade or more expensive materials than the original ones being replaced, the new materials may not be covered for the full price.

For example, if the current building code in your area requires a higher grade of electrical wiring and after a fire you replace all the wiring in your home, your policy may cover only the cost of replacing the older wiring. The difference in cost between the old wiring and the new wiring required by ordinance or law is your responsibility.

Even if you live in a fairly new home, laws and building codes are constantly being updated. Coverage to include ordinance or law requirements can be added to your homeowners policy with an endorsement—an addition that could save you money in the long run.

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Q: Are the backyard shed and my TV both covered in my homeowners policy?

Yes, they are both your property so they are both covered. The value of the real property— your home, garage, shed and other structures—is generally based on the value of the main structure, the house itself. Thus, if the house were insured for \$75,000, the shed, detached garage and other auxiliary structures would be covered for 10 percent or \$7,500 worth of damages. Additional property protection features may include living expenses should your home not be habitable for a period of time.

Your personal property is also covered by a homeowners insurance policy. Personal property includes the contents of your home and personal belongings used, owned, worn or carried by you or members of your household—basically, everything and the kitchen sink! This coverage is also based on the house coverage, and there are limits on the losses that can be claimed. Higher limits can be purchased for both real and personal property.

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Q: **Who decides how much my property is worth?**

State laws may dictate how losses are calculated, which means the same insurance company may use one method in one state and a different method in another. The common methods are:

Actual Cash Value: The replacement cost of the item minus depreciation. For example, a new television set may cost \$500. If your seven-year-old TV gets damaged in a fire, it might have depreciated 50 percent. Therefore, you would be paid \$250 for that TV.

Replacement Coverage: The cost of replacing an item without deducting for depreciation. So today's cost for a TV set with features similar to the 7-year-old one damaged by fire would determine the amount of compensation. If it still costs \$500 today, that would be the replacement coverage.

Replacement value should not be confused with **market value**. The market value is what your house, for example, would actually sell for and is generally more than the replacement cost. This is because replacement value does not include the land—which almost always does not need to be replaced.

Check your policy. If you prefer replacement coverage and do not already have it, this coverage can be added to your policy. Typically, the difference in premiums is 10 to 15 percent to upgrade from actual cash value coverage to replacement coverage. However, it is well worth it to protect your investment in your possessions. Your agent can advise you of the costs involved.

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Q: How much will I be paid for damage to my personal property?

Remember that homeowners insurance is designed to cover general personal possessions, not valuable collections like antiques, jewelry or original art. Insurance companies deliberately limit their coverage of expensive possessions so that household premiums are more affordable to everyone. After all, if they had to cover museum-level art collectors under standard homeowners policies, everyone would end up paying higher premiums to cover those expensive items.

Your policy lists the specific monetary limits for personal property under what is called “Special Limits.” Those limits usually are:

- \$200 for money, bank notes, gold and silver (other than goldware and silverware), platinum, coins and medals.
- \$1,000 on securities, accounts, deeds, evidences of debt, letters of credit, notes (other than bank notes), manuscripts, passports, tickets and stamps.
- \$1,000 on watercraft, including their trailers, furnishings, equipment and outboard motors.
- \$1,000 on trailers not used for watercraft.
- \$1,000 for loss by theft of jewelry, watches, furs, precious and semiprecious stones.
- \$2,000 for loss by theft of firearms.
- \$2,500 for loss by theft of silverware, silver-plated ware, goldware, gold-plated ware and pewterware.
- \$2,500 on property on the resident premises used for business and \$250 on this property damaged or lost away from the premises.

If these limits seem low to you (maybe that engagement ring is worth much more than \$2,500), you may wish to talk to your agent about additional coverage for specific items.

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Q: I rent out my basement. Are my tenants covered by my homeowners policy?

No. Your property and the structure (the basement) are covered by your policy as is your personal liability. However, the tenants' possessions and liability are not covered by your policy. Therefore, they may wish to purchase their own renters insurance. Whether you are a lessor or a renter, you should check with your Trusted Choice® insurance professional to make sure you have the right coverage.

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Q: My mother lives with us in a separate in-law suite. Are her possessions covered?

As a member of the family, she is probably covered under your homeowners policy. So too is your child away at college covered for personal liability or theft or damage to his or her property even in the dormitory or college apartment. However, you should check with your Trusted Choice® insurance professional to be sure of the extent of coverage.

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Q: What about our vacation home in the next state?

Insurance companies can operate in more than one state so the company that carries your primary residence may issue a policy for your vacation home. Personal liability is covered in the first homeowners policy so the second policy need cover only property. This type of policy is called a “dwelling policy.”

If you rent out your second home for all or part of the year, your homeowners policy may need to be endorsed (added to) to cover the increased liability exposure. The renter's property is not covered under your dwelling policy. Should damage occur while someone is renting your property, they will need to check with their own agent about their coverage.

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Q: Does my policy cover my possessions even when I go on vacation?

Yes. Perhaps in this case the term “homeowners” is misleading because this is a package of insurance coverage that extends to all your possessions no matter where they are. If you take a round-the-world vacation and lose a valuable item, as long as the loss is by a covered event or peril, the location does not matter.

The liability component also extends well beyond the boundaries of your home. Should you be found legally at fault for injury or loss to another individual, whether you unfortunately caused a tumble down a San Francisco hill or a fall in an Indiana barn, that is personal liability which again is addressed in your homeowners policy.

As in the property section of your homeowners policy, there are limits and exclusions to personal liability. Your business activities, for example, are not covered under a homeowners policy. You are also not covered for injuries or damage you purposely cause. So if a fight with a neighbor turns physical and you end up bopping him on the nose, your homeowners insurance will not cover the injury or any resulting suit. Your policy lists specific exclusions and limits.

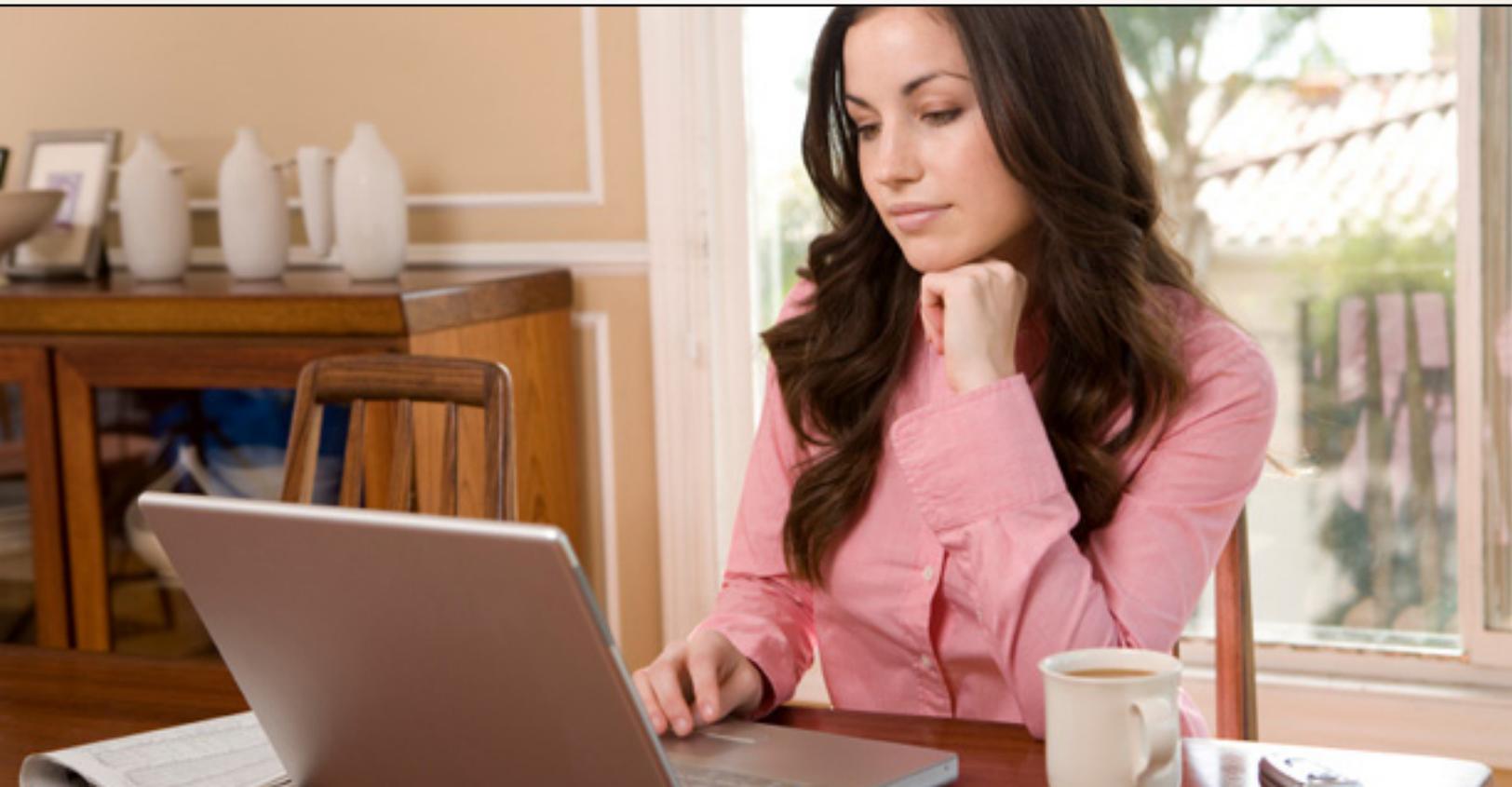
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Q: I work out of my home. Are my inventory and business property covered?

Yes, but within certain limits. Both are covered as personal property used for business purposes. However, like all personal property, there are monetary limits on reimbursement. Whether your home business is your primary occupation or a hobby that nets you a few hundred dollars a year, it is still a business and you should treat it as such. If you've invested quite a bit in equipment (woodworking tools, for example) and sell the occasional decoy, you should consider whether the personal property limits are sufficient.

Also, keep in mind that the personal liability protection in your homeowners policy does not extend to business liability. Check with your agent concerning your business insurance needs.

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Q: Help! I've lost everything! Where do I start?

It's true—if most of us suddenly found ourselves without anything due to some calamity, we would be hard pressed to know all that we had lost. When was the last time, for example, that you counted the number of shoes you own, not to mention furniture, dishes, drapes or audio and video equipment? And the list goes on and on. How much is it all worth and where would you start if you had to replace it?

Now is the time to make a list of major household items and possessions. Just remember that, where possible, it is wise to list the serial number, date and cost of purchase and even include the receipt if you can.



Another easy way to inventory your home is to use a video camera or take pictures of your home and its contents. As you shoot the video, talk about the items and their date and cost of purchase.

Whichever method you choose, make a copy and ask a friend or family member to hold on to it. Or store your copy in a safe deposit box. You could even check with your Trusted Choice® insurance professional—he or she may be able to store a copy for you. That way, if the worst happens and your home is destroyed, the inventory list will be safe at another location.

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Q: Why does the insurance company want to know where the nearest fire hydrant to my home is?

The insurance company has to weigh many factors in determining a premium to charge for your policy. One factor is access to water (hence the question about the location of the nearest fire hydrant) as well as the dependability and location of your local fire company and police. Rural homes more than five miles from a water supply are more at risk for severe damage from fire and lightning. Therefore, they can be more expensive to insure and rural homeowners may even have difficulty obtaining insurance.

Other factors are, of course, the age and construction of your house. Generally, brick and stone homes are cheaper to insure than ones constructed of wood.

The number and dollar amount of lawsuits in your state can also influence your premiums. Residents in states that experience a large number of lawsuits or of verdicts in excess of \$1 million may face higher premiums to cover the cost of those suits.

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Q: Is there anything I can do to lower my premiums?

Because your premium is based partly on the level of risk the insurance company must take, there are things you can do to lower your premium. Installing deadbolt locks (to discourage theft), fire extinguishers, smoke alarms and burglar and fire alarms that alert your local police and fire stations can often save you up to 15 percent on your premium. Check with your Trusted Choice® insurance professional before purchasing any of these items to see if your insurance carrier has specific requirements to qualify for the discount.

Many insurers also offer discounts if you insure both your home and automobile with the same company. Another way to save may be to increase the deductible on your homeowners policy. If your deductible is \$100, it means that you agree to pay this amount first, and your insurance company will pay for damages that exceed this deductible. By increasing your deductible from \$100 to \$250, or even \$500, it decreases the insurance company's risk, which may mean a savings in your premium.

Also, it pays to shop around for insurance coverage just like anything else. Of course, keep in mind that the extent of coverage also determines the premium cost, so the cheapest policy is not necessarily the best. Your Trusted Choice® insurance professional can help you evaluate the different policies and companies to find the one most suitable for you.

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Q: Who keeps an eye on the insurance companies?

Insurance is a heavily regulated industry. Every state has some sort of department, administration or agency that regulates and monitors every insurer operating within the state's borders. In addition to approving rates, your state's insurance department is involved in all insurance matters on behalf of private citizens and businesses. It also issues operating licenses to insurers and agents based on their ability to meet the state's requirements for conduct and knowledge about insurance issues.

Your insurance company and Trusted Choice® insurance professional work closely with your insurance department to make sure you are getting the best and fairest possible service within the state's guidelines. If you ever have difficulty settling a claim, work with your Trusted Choice® insurance professional to resolve the difficulty. However, you can also contact your state's insurance department (listed in the next section of this guide) if you want to know more about your options and rights as an insurance consumer.

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Q: What do I do if my property is damaged or stolen?

Contact your Trusted Choice® insurance professional as soon as possible. If there is damage to your home or possessions, make "emergency" repairs to protect yourself and your property from further damage, then call your agent. For example, if some of the windows in your home have been blown out by wind, you may board them up to prevent additional damage. In fact, your policy covers the cost of these emergency measures.

However, before setting about to make permanent repairs, call your Trusted Choice® insurance professional. The insurance company has the right to inspect the property in its damaged condition. They may want to send a claims adjuster or instruct you to get an estimate from an independent contractor. If you have property stolen, notify the police immediately and call your agent.

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Q: What if I am sued or found liable for injury to another person?

Liability covers bodily injury and property damage to others due to your negligence. The coverage applies to non-auto accidents that occur either at your residence or off the premises. Medical expenses such as first aid can also be due to the injured party. Should you be sued or suspect that you may be, contact your agent immediately.

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Q: I am a renter, not a homeowner. Do I need insurance?

The same rule of thumb applies to renters as to homeowners. If catastrophe struck tomorrow, could you afford to replace everything you own? Or if you were sued, would you have enough money to pay legal fees and possibly settle the suit? If not, chances are you would benefit from the protection that renters insurance brings.

Renters insurance offers the same general personal property coverage and liability protection as a homeowners policy. Thus, your camera is insured while you are on vacation, and you are covered if your grandfather clock crashes into the apartment lobby's wall and leaves a gaping hole. In fact, most policies are surprisingly extensive and may include additional living expenses (also called loss-of-use coverage) if you are forced by fire or other damage to live elsewhere.

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Q: Isn't my apartment covered under my landlord's policy?

No, the landlord's insurance covers damage to the building and the landlord's property—not your personal property or liability. Plus, you may be liable for damage to the building if it is your fault. If you go out and leave the stove on and an ensuing fire causes extensive damage to the entire building, you may be held liable to the landlord.

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Q: How are prices determined for renters insurance?

Renters insurance is surprisingly inexpensive. That's because you are not insuring a building. Like all property-casualty policies, the value of your property to be insured and other risk factors are weighed by the insurance company to determine your premium. Your Trusted Choice® insurance professional can help you find the best combination of coverage and cost.

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Q: I live in an apartment with three roommates. Do we each need a policy?

Check with your Trusted Choice® insurance professional. Usually, it is best if all roommates are on the same policy, although it is possible for each to purchase his or her own coverage. If you do need to “go it alone,” you alone receive the security of renters coverage.

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Q: **I own a condo. How is my policy different?**

Condo owners insurance covers the same general areas outlined throughout this guide for homeowners in the important areas of personal property and liability. In addition, condo owners insurance provides coverage for some situations specific to condominium unit owners.

Usually, the condominium association buys insurance to cover the property (building and structures) and liability coverage for the general association. If you own a condominium unit, you may be responsible for covering from the “walls in” on your unit, that is, for your personal property and the interior of your unit (whatever area is excluded from the condo association’s policy) as well as for your personal liability.

Sometimes, condo owners are assessed by their condo association for losses “outside the walls” that were not completely covered by the association’s policy. For example, if the clubhouse is destroyed and the condo association did not have it insured, you could be assessed for a “share” amount needed to replace it. Check with your Trusted Choice® insurance professional about adding such “loss assessment coverage” to your condo owners policy.

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