

Home Buyers Insurance Checklist



Shopping for your dream house? There are many considerations when looking at real estate, such as property taxes, school district, available recreational opportunities in the neighborhood, to name a few.

But an important and often overlooked consideration is the *insurance implications* of your purchase. You will be paying insurance on your home for as long as you own it, so you should factor the cost of insurance into the home-buying process. You don't want to find out that your dream home is more expensive to insure than you thought after you own it!

Before You Start Looking for a Home

Thinking through all the costs associated with buying a home will make the process run more smoothly, and it may also save you money. It is important to:

Check Your Credit Rating

A good credit history helps you in many ways. Good credit makes it easier to get a mortgage at a competitive rate, and it may also qualify you for a good credit discount on your insurance. Make sure you know your credit rating before you apply for a mortgage. Get a copy of one or all of your credit reports. Make sure they are accurate and report any mistakes immediately. If your credit is not as good as it could be take steps now to improve it. The I.I.I. has information on [credit and insurance](#) [1] to help you with this process

Protect Yourself with a Renters Insurance Policy

If you are currently renting a house or apartment, protect yourself financially with a [renters insurance policy](#) [2]. This provides insurance protection in the event a fire, hurricane or other insured disaster damages or destroys your personal possessions. It also covers the cost of additional living expenses if something happens to make your rental home or apartment unlivable. Additionally, renters insurance gives you liability protection if someone is injured in your home and decides to sue you. Disasters happen, and it would be unfortunate to have to use the down payment you saved to buy your new home to pay for losses that could have been covered by renters insurance. Furthermore, having a renters

insurance policy provides a useful insurance history to your prospective homeowners insurer when you go to buy your first home.

While House Hunting

As you search for your new home, remember that the physical characteristics of the house—its size, location, construction and overall condition—can affect the cost, choice and availability of home insurance. Following are some factors to consider when shopping for a home:

Quality and Location of the Fire Department

Houses that are located near highly-rated, permanently staffed fire departments usually cost less to insure. This also holds true for homes that have a hydrant nearby. An important underwriting criterion for insurance companies is a community's investment in fire protection, which includes trained firefighters, proper equipment and adequate supplies of water.

Proximity to the Coastline

Houses located on or near the coast will generally cost more to insure than those further inland. There will also likely be a hurricane or windstorm deductible [3]. This is a percentage deductible based on the cost to rebuilding a home, rather than a flat dollar amount. With a homeowners policy that has a \$500 standard deductible, for example, the policyholder pays the first \$500 of the claim before insurance kicks in. However, as percentage deductibles are based on the home's insured value, if a house is insured for \$100,000 and has a 2 percent deductible, the first \$2,000 of a claim is paid out of the policyholder's pocket.

There are two kinds of wind damage deductibles: hurricane deductibles, which apply to damage solely from hurricanes; and windstorm or wind/hail deductibles, which apply to any kind of wind damage. Percentage deductibles typically vary by state and range from 1 percent to 5 percent of a home's insured value. These come into effect if certain triggers occur—a deductible triggering event can be, for instance, an official National Weather Service declaration that a storm is generating hurricane-strength winds (i.e., 74 miles per hour, or more) in your community.

In coastal areas with high wind risk, some homeowners may select higher hurricane deductibles to lower their insurance premiums, but that means they pay more if their home is damaged. In some coastal communities, private homeowners insurance coverage may not be readily available. Instead, you may need to purchase insurance through a state-run insurance program, which can provide less coverage, and in some cases be more costly, than private insurance.

Age of the Home

A stately, older home can be quite beautiful, but ornate features such as plaster walls, ceiling molding and wooden floors may be costly to replace and raise the cost of insurance. Plumbing and electrical systems can become unsafe with age and lack of maintenance. So, older homes may cost more to insure. If you are considering buying an older home find out how much it will cost to update these features and factor it into the cost of ownership.

Condition of the Roof

Ask about the condition of the roof. A new roof matters to insurers and keeps you and your family safer. Depending on the type of roof and whether or not you use fire and/or hail resistant materials, you may even qualify for a discount. Talk to your insurer about qualifying discounts.

Is the Home Well-Built and Up to Code?

Find out whether the house has been updated to comply with current building codes. Homes built by

Careful craftsmen and those built to meet modern engineering-based building codes are likely to better withstand natural disasters. Consider hiring a licensed home inspector who is knowledgeable about the latest building codes to inspect the property before you sign a mortgage.

Risk of Flooding

Damage from flooding is NOT covered by standard home insurance policies. If you are buying a home in an area at risk from flooding, you will need to purchase separate insurance. Insurance for flooding is available from the federal government's [National Flood Insurance Program](#) ^[4] (NFIP), which is serviced by private carriers, and from a few specialty insurers. People often underestimate the risk of flooding. Ninety percent of all natural disasters in the U.S. involve flooding, according to the NFIP. More important is that 25 to 30 percent of all paid losses for flooding are for damage in areas not officially designated as special flood hazard areas. If you are not in a high-risk flood zone, NFIP coverage is available at a lower premium.

History of Earthquakes

While earthquakes are most frequently associated with California, they have occurred in 39 states and, like flooding, are not covered under standard home insurance policies. Earthquake insurance is available from private insurers as an endorsement to a homeowners policy, and in California from the [California Earthquake Authority](#) ^[5], a privately funded, publicly managed organization. The cost of earthquake insurance differs widely by location, insurer and the type of structure being covered. Generally, older buildings cost more to insure than new ones. Wood frame structures may benefit from lower rates than brick buildings because they tend to withstand quake stresses better. Regions are graded on a scale of 1 to 5 for likelihood of quakes, and this difference is reflected in insurance rates.

Swimming Pool or Other Special Feature

If the house has a swimming pool, hot tub or other special feature, you will likely need more liability insurance. You may also want to consider purchasing an excess or umbrella liability policy to provide added protection in the event someone gets injured on your property and decides to sue you.

Before You Place a Bid on the Home

Check the Loss History Report

Ask the current owner of the house for a copy of the insurance loss history report, such as a Comprehensive Loss Underwriting Exchange (C.L.U.E.) report from ChoicePoint or an A-PLUS report from ISO, a leading source of information about property/casualty insurance. This is a record of insurance claims on the house that can provide answers to two questions that any savvy homebuyer should ask:

- Have there been any past problems in the home?
- If damage has occurred, was it properly repaired?

Note that prior claims are not a barrier to getting insurance. In fact, sometimes a recent claim can have positive ramifications. If, for example, a roof was damaged by a wind storm and replaced by a new one, this would make the house more desirable to an insurance company. If there have been no claims within five years, there will be no loss history report on the home.

Get the House Inspected

A thorough inspection of the home is very important. The inspector should:

- check the general condition of the home;
- look for water damage, termites and other types of infestation;
- pay special attention to the electrical system, septic tank and water heater;

- show you where potential problems might develop;
- double-check that past problems have been repaired;
- suggest upgrades or replacements that may be needed.

If the inspector raises questions, your insurance company will as well. And, be sure to find out if there is an underground oil storage tank, as many insurers will not provide policies for homes that have one.

Determine How Much It Will Cost to Maintain the House

Routine maintenance is your responsibility as a homeowner. Losses caused by failing to properly care for your home are not covered by standard homeowners insurance policies. The yearly cost of taking care of your house is another factor to be included in the overall price of owning the home.

Call Your Insurance Representative

Don't wait until the last minute to think about insurance. Ask your insurance professional if the house will qualify for insurance, and get an estimate of the premium. The sooner you act, the smoother the process will be. Don't be shy about asking for estimates on more than one house. Insurance is an important consideration when purchasing a home. If you are uncomfortable with the cost of insuring a particular house, keep looking for one that better fits your financial situation. If you do not already have an insurance agent or company representative, get recommendations from family, friends or co-workers, or consult your [state insurance department](#) [6].

Purchasing Insurance for your New Home

When purchasing a home insurance policy, work with your insurance agent or company representative to get enough insurance to rebuild the house in the event of a total loss. No new home buyers want to think that their house could go up in flames, but disasters do happen. It's important to have enough insurance to completely rebuild your home and replace all of your personal possessions. You also need to make sure you have enough liability insurance to protect your financial assets. Ask about additional coverage such as:

- Replacement cost for personal possessions
- Extended or guaranteed replacement cost for the structure
- Building code upgrades
- Sewer and drain back-up coverage
- Inflation-guard
- Umbrella coverage for a pool or other high-risk items
- Special riders for jewelry, collectibles and expensive items

To save money on your homeowners insurance, shop around and take the highest deductible you can afford. Since most people only file a claim every eight to 10 years, having a higher deductible saves money over time and preserves your insurance for when it's really needed. You can also ask about available discounts for:

- Multi-policy (home, car or other policies with the same company)
- Smoke detectors
- Fire extinguishers
- Sprinkler systems
- Burglar and fire alarms that alert an outside service
- Deadbolt locks and fire-safe window grates
- Being 55 years old and/or retired
- Long-time policyholder
- Upgrades to plumbing, heating and electrical systems

- Earthquake retrofitting to make the home safer
- Wind-resistant shutters

Additional Resources

- [ChoicePoint](#) [7]
- [CLUE reports](#) [8]
- [Fair Isaac](#) [9]
- To order a credit report, [MyFICO.com](#) [10]
- For help in determining your credit score, call 800-777-2066
- [Institute for Business & Home Safety](#) [11]
- [ISO](#) [12]
 - To order a copy of your A-PLUS report, call 800-709-8842
 - For up-to-date information on fire protection services throughout the country, see the [Public Protection Classification](#) [13] program
- [National Flood Insurance Program](#) [4]

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- [3] <http://www.iii.org/media/hottopics/insurance/hurricanwindstorm>
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