# **Homeowners Insurance Basics**

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Homeowners insurance is a package policy. This means that it covers both damage to property and liability or legal responsibility for any injuries and property damage policyholders or their families cause to other people. This includes damage caused by household pets.

Damage caused by most disasters is covered but there are exceptions. Standard homeowners policies do not cover flooding, earthquakes or poor maintenance. Flood coverage is provided by the federal government?s National Flood Insurance Program, although it is purchased from an insurance agent. Earthquake coverage is available either in the form of an endorsement or as a separate policy. Most maintenance related problems are the homeowners? responsibility.

A standard homeowners insurance policy includes four essential types of coverage. They include:

## 1. Coverage for the structure of the home

This part of a policy pays to repair or rebuild a home if it is damaged or destroyed by fire, hurricane, hail, lightning or other disaster listed in the policy. It will not pay for damage caused by a flood, earthquake or routine wear and tear. Most standard policies also cover structures that are not attached to a house such as a garage, tool shed or gazebo.

## 2. Coverage for personal belongings

Furniture, clothes, sports equipment and other personal items are covered if they are stolen or destroyed by fire, hurricane or other insured disaster. Most companies provide coverage for 50 to 70 percent of the amount of insurance on the structure of a home. This part of the policy includes off-premises coverage. This means that belongings are covered anywhere in the world, unless the policyholder has decided against off-premises coverage. Expensive items like jewelry, furs and silverware are covered, but there are usually dollar limits if they are stolen. To insure these items to their full value, individuals can purchase a special personal property endorsement or floater and insure the item for its appraised value.

Trees, plants and scrubs are also covered under standard homeowners insurance?generally up to about \$500 per item. Perils covered are theft, fire, lightning, explosion, vandalism, riot and even falling aircraft. They are not covered for damage by wind or disease.

## 3. Liability protection

Liability covers against lawsuits for bodily injury or property damage that policyholders or family members cause to other people. It also pays for damage caused by pets. The liability portion of the policy pays for both the cost of defending the policyholder in court and any court awards?up to the limit of the policy. Coverage is not just in the home but extends to anywhere in the world. Liability limits generally start at about \$100,000. An umbrella or excess liability policy, which provides broader coverage, including claims for libel and slander, as well as higher liability limits, can be added to the policy.

## 4. Additional living expenses

This pays the additional costs of living away from home if a house is inhabitable due to damage from a fire, storm or other insured disaster. It covers hotel bills, restaurant meals and other living expenses incurred while the home is being rebuilt. Coverage for additional living expenses differs from company to company.

#### **Types of Homeowners Insurance Policies**

The different types of homeowners policies are fairly standard throughout the country. However, individual states and companies may offer policies that are slightly different or go by other names such as ?standard" or ?deluxe." The one exception is the state of Texas, where policies vary somewhat from policies in other states. The Texas Insurance Department (http://www.tdi.state.tx.us) has detailed information on its various homeowners policies.

People who own the home they live in have several policies to choose from. The most popular policy is the HO-3. It provides coverage for the structure of the home and personal belongings as well as personal liability coverage. It also provides the broadest coverage, protecting against 16 disasters or perils listed below.

- Fire or lightning
- Windstorm or hail
- Explosion
- Riot or civil commotion
- Damage caused by aircraft
- Damage caused by vehicles
- Smoke
- Vandalism or malicious mischief
- Theft
- Volcanic eruption
- Falling object
- Weight of ice, snow or sleet
- Accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning, or automatic fire-protective sprinkler system, or from a household appliance
- Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot water heating system, an air conditioning or automatic fire-protective system
- Freezing of a plumbing, heating, air conditioning or automatic, fire-protective sprinkler system, or of a household appliance
- Sudden and accidental damage from artificially generated electrical current (does not include loss to a tube, transistor or similar electronic component)

Owners of multifamily homes generally purchase an HO-3 with an endorsement to cover the risks associated with having renters live in their houses. Other types of policies for home owners are the HO2, which provides more limited coverage, the HO-1, a bare bones policy that is not widely available, and the HO-8, designed for older homes. There is also a version of the HO-2 designed for mobile homes.

The HO4-policy was created specifically for those who rent the home they live in. It covers a policyholder?s belongings against all 16 perils. It also provides personal liability coverage for damage the policyholder or dependents may cause to third parties. The HO-6 policy was designed for owners of condominium and cooperative units. It provides coverage for belongings and the structural parts of the condominium or co-op that the policyholder owns. It protects against all 16 perils and provides personal liability coverage. Both cover additional living expenses.

## **Levels of Coverage**

There are three coverage options:

#### 1. Actual Cash Value

This policy pays to replace the home or possessions minus a deduction for depreciation.

## 2. Replacement Cost

This policy pays the cost of rebuilding or repairing the home or replacing possessions without a deduction for depreciation.

# 3. Guaranteed/Extended Replacement Cost

This policy offers the highest level of protection. A guaranteed replacement cost policy pays whatever it costs to rebuild the home as it was before the fire or other disaster? even if it exceeds the policy limit. This gives protection against sudden increases in construction costs due to a shortage of building materials after a widespread disaster or other unexpected situations. It generally won?t cover the cost of upgrading the house to comply with current building codes. However, an endorsement (or an addition to) the policy called Ordinance or Law can help pay for these additional costs.

Some insurance companies offer an extended, rather than a guaranteed, replacement cost policy. An extended policy pays a certain percentage over the limit to rebuild the home. Generally, it is 20 to 25 percent more than the limit of the policy. For example, if homeowners take out a policy for \$100,000, they can get up to an extra \$20,000 or \$25,000 of coverage. Guaranteed and extended replacement cost policies are more expensive; but they offer the best financial protection against disasters for a home. These coverages, however, may not be available in all states or from all companies. Replacement cost coverage is available for the structure of the home, but only actual cash value coverage is available for possessions.

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