

## 4 Homeowner's Insurance Pitfalls

Woodhill Homes

A home is perhaps the single largest investment of a person's life. When someone takes out a mortgage, they are also required to take out a homeowners' insurance policy that is acceptable to their lender. If they let the policy lapse for any reason, while still owing on the mortgage, the loan will go into default.

Homeowner's insurance is important to protect from fire and theft - and injuries to others that may occur on the property. But there are also "natural" disasters that it protects against, and sometimes extra policies need to be taken out to protect against these. For example, "wind damage" is typically covered in a home insurance policy - unless the home is in a region that typically experiences very high winds. In that case, "wind damage" coverage is may not included and must be purchased separately.

Below are 4 homeowners' insurance pitfalls.

Underinsuring the home

Two-thirds of U.S. homes are under-insured, meaning that if the home was totally destroyed in a fire or flood, they would not receive enough from their insurance company to rebuild the home.

There are three reasons for this.

Lenders require only that the homeowner's policy cover the amount of the mortgage. The mortgage amount isn't the same as the value of the house since it doesn't factor in the initial down payment which may have been up to 10% of the cost to purchase the home.

Or if the home buyer does buy insurance to cover the current value of their home...they don't factor into account that rebuilding a home will actually cost much more, due to the fact that costs always rise - from the materials to rebuild the home to the labor required!

Thirdly, while the value of a home may appreciate over time, its individual elements will depreciate.

When a homeowner files a claim to replace a hail-damaged deck, for example, they will receive a check to rebuild the deck at current value – with the depreciation value of the deck subtracted from that check! It is only if the homeowner has replacement cost coverage included in the policy that he or she will receive enough funds to actually rebuild the deck.

#### Skimping on natural disaster coverage

Many homeowners believe that coverage is included in their policy that is actually not included. The main missing coverage is flood insurance. Anyone who lives within a mile of the shore of a lake, river or ocean, or is in a flood plain, simply must have flood insurance. 99-year storms are happening with more frequency, and there is always a chance that your home will be flooded. Flood waters and mud cause an incredible amount of damage to the home and for some flood insurance is essential.

Even if the mortgage lender does not require the home buyer to have flood insurance as part of their insurance policy, it is always a good idea to have it if the criteria above is met. During a hurricane, even inland homes can be seriously damaged by flood waters, as people on the east and southeast coast of the United States frequently learn.

There is a federal program that offers flood insurance, so no one is ineligible. (<https://www.floodsmart.gov/floodsmart/>). As with all types of insurance, the coverage varies. There is “above-ground, contents only coverage” which you can purchase if you are in a low risk area, or “basement and contents” coverage if you live in an area that is considered high risk. The annual premium will vary according to which coverage you choose.

#### Not clarifying the deductible

The deductible you have on your insurance policy actually varies depending on what you are requesting be reimbursed. In the case of “major weather events” the deductible is not a flat amount, but instead is tied to the amount of coverage you have. For example, your deductible for flood damage would actually be from 1 to 5 percent of the value of your coverage. If you are faced with earthquake damage, the deductible might jump to as much as 15 percent!

Make sure to ask your insurance provider about the different kinds of deductibles that will be in effect with your policy. “Flat rate deductible” policies are available, but they will cost more.

#### Not covering all contingencies

In going through a homeowner's policy, it's important to know what is covered and what isn't. Many policies come with exclusions – damages that aren't covered such as that caused by mold, pollution, wear and tear, construction defects, and so on.

Homeowner's should read through their policies carefully with the help of their insurance agent and find out just what these exclusions are, and if with an added premium they can be covered

Help

<http://www.uphelp.org/> (United Policyholders: Empowering the Insured)

<http://consumerfed.org/> (Consumer Federation of America)

References

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