

Home Sweet (Insured, New) Home

If you're in the market to buy a home, So Cal Farmers Agent **Ross Allen Veckey** offers this advice:

Research insurance costs BEFORE submitting an offer, get comparison quotes, and don't rely on your realtor or loan officer to arrange for the coverage.

Veckey writes: Buying a home is the American Dream and one of the most exciting and rewarding experiences a family or an individual can go through. But the process can also be nerve-racking and traumatic and the paperwork is extraordinary. And, whether you're buying an REO, traditional sale, or short sale, with the exception of an all-cash purchase, you're going to need home insurance in place before a bank will fund the loan so escrow can close. When you see all the documents that need to be signed, it's tempting to have your realtor or loan officer take care of the home insurance your lender requires. Avoid the temptation. Do your own research and/or find a qualified insurance professional to advise you.

Realtors and loan officers may be experts in real estate financing, but insurance is another matter entirely. The sale price of a home is COMPLETELY unrelated to the amount it should be insured for. *[Editor's note: UP's "Do's and Don'ts When Insuring Your Home" offers more tips on this topic. Our #1: "Don't rely on the purchase, appraised or estimated sale price of your home to set your dwelling limits. That is not predictive of the cost to rebuild".]*

The Realty and Loan industry often use a "3% Rule". This is essentially a formula where 3% of the total sale cost of the home is allocated to be the insurance cost. This is where the potential for disaster can begin.

There are many factors that go into calculating insurance needed on a home. The major factors include; square footage; year built; proximity to a hydrant or fire station and the prior claim history of the previous owners. So let's say a family is in the market for a home and they have it narrowed down to 3 choices. Even though all 3 homes might have the exact same square footage and have the same year of

construction, the insurance cost can vary by as much as 50% based on other major factors.

One of two things can happen when insurance is not properly researched or calculated:

1. When the evidence for insurance is issued, the premium can be much higher than permitted in the good faith estimate making the home unaffordable for the family and causing escrow to fall through. This can be heartbreaking for the family and frustrating for the Realtor and Loan officer.
2. An insurance policy is chosen based on the 3% rule ensuring that the numbers will fit and the loan will close. Under this scenario, the family will be living in a home that is grossly underinsured. Should the family ever suffer a major or total loss, their insurance safety net will fail which can lead to financial collapse. Losing a home to a fire is horrendous. Losing a home to a fire then finding out you're grossly underinsured is much worse.

So what then, does one do to avoid either of these scenarios? Surprisingly enough the answer is simple. Once you have your home selection narrowed to your "final" choices, request quotes from various insurance companies on ALL of your choices. This way you can provide your Realtor and Loan officer with accurate figures to ensure that all homes are within reach. At the same time you give yourself peace of mind knowing your very large investment is protected. And, you get to see the true intentions of the insurance professionals providing you the quotes: If they act like providing multiple quotes for you is a hassle, then quite frankly they don't deserve your business.

Ross Veckey II is a dedicated insurance professional/Farmers Insurance agent based in Highland, CA. He recently joined UP's Agent Advisory Board and submitted the above article at UP's request. You can reach Ross at (866) 914-9623.