

WHAT TO KNOW

About Homeowners Insurance

A homeowners insurance policy will protect you against certain losses and damage to your new home and is generally required by lenders prior to closing. Some lenders will collect the money you owe for homeowners insurance as part of your monthly mortgage payment and place it in an escrow account, paying the insurer on your behalf when the bill is due.

Coverage exclusions:

Most insurance policies do not cover flood or earthquake damage as a standard item. You may need to buy these types of coverage separately.

Dollar limitations on claims:

Even if you are covered for a risk, there may be a limit on how much the insurer will pay. For example, many policies limit the amount paid for stolen jewelry unless items are insured separately.

Replacement cost:

If your home is destroyed, you'll receive money to replace it only to the maximum of your coverage, so be sure your insurance is sufficient. This means that if your home is insured for \$150,000 and it costs \$180,000 to replace it, you'll still receive only \$150,000.

Actual cash value:

If you choose not to replace your home when it's destroyed, you'll receive replacement cost minus the depreciation. This is what's referred to as actual cash value.

Your liability:

Generally, your homeowner's insurance covers your liability for accidents that happen to other people on your property, including medical care, court costs, and awards by the court. However, there is usually an upper limit to the amount of coverage provided. Be sure that amount is sufficient, especially if you have significant assets.