

The Home Buyer Roadmap – Insuring your dream home

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This is the eight installment of the Home Buyer’s roadmap. When you’re buying a home, insurance is a critical part of your home buying checklist. Insurance is something most people don’t even want to think about until they need it the most. But, understanding what is and isn’t covered in your homeowner’s insurance policy can mean the difference of being able to rebuild your home and replace your personal belongings. Most lenders won’t provide a mortgage without homeowner insurance coverage so it is a good idea to check with an insurance company or agent on price and eligibility of a property as soon as possible. In many cases your agent will give you a questionnaire to fill out and having it at your home inspection will make it easier to fill out with the inspector’s assistance.

When you insure your home, you are really insuring two distinct things, the structure of your home and your personal belongings. The typical homeowner’s insurance policy covers damage resulting from fire, windstorm, hail, water damage (excluding flooding), riots and explosion as well as other causes of loss, such as theft and the extra cost of living elsewhere while the structure is being repaired or rebuilt. Your policy also covers your legal liability (up to policy limits) if you, members of your family or even your pets hurt other people or their property, not just in your house, but away from it, as well.

Depending on your circumstances you may want to ask about some of the following extra coverage’s:

- Replacement cost coverage for possessions
- Extended or guaranteed replacement cost coverage for the structure
- Building code upgrades
- Sewer and drain back-ups
- Inflation-guard (automatically increases coverage based on inflation)
- Umbrella coverage if you have a lot of assets to protect or the property has high-risk features, such as a pool
- Special riders for jewelry, collectibles and expensive items
- Coverage for business exposures

Everyday people ask themselves, “How much homeowner’s insurance do I need?” The answer varies, depending on each person’s situation. Before you purchase a new home,

make sure that you determine the appropriate amount of coverage needed. When you have the home appraised, ask if a replacement cost estimate is available. Or consult with your local builder association or a reputable builder for an estimate. You can also check with your insurance agent to help you with this process. You should insure your home for the total amount it would cost to rebuild your home if it were destroyed. That's not the market value, but the cost to rebuild. The market value is what the house, for example, would actually sell for and is generally more than the replacement cost. This is because replacement value does not include the land-which almost always does not need to be replaced. Also, be aware of any architectural details or unique building materials that may affect your estimated replacement cost, such as:

- Type of exterior wall construction – frame, masonry or veneer
- The style of the house – ranch, bi-level, etc.
- The type of roof
- Upgraded bathrooms or kitchens (including cabinets)
- Additional or special rooms (i.e. home theatre)
- Custom molding or arched windows
- Other unique features

If you don't have sufficient insurance, your company may only pay a portion of the cost of replacing or repairing damaged items. Remember most lenders require you to buy enough insurance to cover the amount of your mortgage. Make sure it's also enough to cover the cost of rebuilding.

Over the past several years' insurance companies have been looking at the insurance claim history of a home as well as your history of claims to determine your insurance costs and eligibility. You may want to ask the seller to provide a copy of the home's claim history report with the disclosure statements. Alternately you can talk to your agent about the history of the home. Insurance companies will consult one of two industry-wide databases to get this information. The CLUE system is the largest system of data gathering and is most used by insurance carriers. There is also another property loss database run by the Insurance Services Office called the Automated Property Loss Underwriting System (A-PLUS for short). A side benefit to these databases is that they can alert you to any damage that may have occurred to that property that may not be in the disclosure.

Do your homework. It might pay to shop around for insurance coverage. Ask about discounts for security devices, higher deductibles, multi-policy discounts and hail or fire resistive roofing products. Start with whom you have your auto insurance with but keep in mind that the cheapest policy is not necessarily the best. Selecting a company that provides good customer service and one that fits your personal needs is critical. Agents and companies are there to help you. At the most basic level, any agent or company representative should be able to answer all of your questions about insurance, provide you a thorough assessment of your insurance needs, and offer you a choice of insurance products to meet those needs.

After you get settled in your new home it's a good idea to take an inventory of your possessions. The Insurance Information Institute offers free software to make this easy. For a free home inventory program, go here <http://www.knowyourstuff.org>

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