

# Home insurance basics

*By Nicholas Schidowka, President  
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When shopping for home insurance, it is important for a homeowner to consider more than how much coverage will cost. As insurance agents, we must work with each customer to consider their unique situations to make sure the correct policy is purchased to fit their needs. Some considerations include the proper level of protection, additional coverage for natural disasters and special provisions for valuables such as jewelry, computer equipment and other possessions.

When applying for a mortgage, many lending institutions have established of policy requiring customers to purchase homeowners insurance. It is not always in your best interest to rely on the coverage levels mandated by your bank or mortgage company. Many times, these levels are designed to only protect the house itself, not necessarily your possessions. It is beneficial to you to check with your agent or insurance company to make sure you have adequate coverage.

**Attorney Oleh Mahlay recommends that you carefully evaluate your home insurance needs as the home is one of our highest value assets and the site of most of our personal property. "While individuals fail to pay attention to their insurance agent's advice or spend the time to look over their policy, home insurance is crucial if an unfortunate event takes place involving your residence."**

## Basic policies

There are several basic types of home insurance policies:

### HO-1

- Basic homeowner's policy  
Covers your house and possessions against 11 different perils.

### HO-2

- Broad homeowner's policy  
Covers house and contents against 17 perils. Premiums run about 5 percent to 10 percent higher than an HO-1 policy.

### HO-3

- Special homeowner's policy  
Covers all perils except those specifically excluded by the policy. Costs 10 percent to 15 percent more than an HO-1 policy.

### HO-4

- Renters Policy  
Covers 17 named perils and includes liability coverage. It does not insure the dwelling itself.

## **HO-5**

- Extensive homeowners policy

Covers damage from practically everything except earthquakes, wars and floods.

## **HO-6**

- For owners of co-ops or condominiums  
Provides personal property coverage, liability coverage and specific coverage of improvements to the owner's unit. Insurance provided by the owner's association normally covers most of the actual structure.

## **HO-8**

- Policy for older homes  
Covers the same perils as HO-1 but pays only for repair costs or actual cash value, since replacement cost could make the policy costly.

Each of these policies have variations to cater to many different situations. For example, landlords can buy coverage that insures only their buildings and not your personal property (which is what a renter's policy would cover). You can also get special policies to cover mobile homes (a.k.a. manufactured housing).

### **Starting an application**

When you apply for homeowners insurance, your agent will be asked for a great deal of information. The insurance company will ask you about your current occupation and employment history, marital status, previous addresses, date of birth and Social Security number. They will also ask for information about the house itself including the age of the roof, age of the furnace, if the house has fuses or circuit breakers, and the type of plumbing (copper, PVC, galvanized, etc.). Many considerations will be made to see if you are a "good risk" for the company. To make this assessment, the insurer will check your criminal, credit, and insurance history including your "loss history" or the amount of home insurance claims you've made in the past.

After the company accepts you as a client, you will have the opportunity to sit down with an agent who will help you decide what type of homeowner's policy you want, how much of a deductible you want and how you will pay for the coverage. Your agent or insurance company will determine how much it would cost to replace your home and many of the items inside. Special consideration and coverage may be required to cover expensive property such as jewelry or computer equipment.

### **Analyzing your home**

An insurance company uses many factors to determine the premiums for a homeowner policy. Below is a list of a few of the aspects an insurance agent will look at in determining premiums for your home.

- How old is your home?
- What materials were used to build your home?
- In what kind of area is your home located?
- What is the square footage of your home?
- How many rooms are in your home?
- How do you heat your home?
- How many people live in your home?
- How close is your home to the nearest fire station and fire hydrant?
- What is the overall condition of your home?

### **Ways to save**

There are many ways to save your family money on the price of home insurance. Installation of alarm systems, smoke detectors and deadbolt locks make your home safer, more secure and save you money on your insurance costs. On the other hand, owning an in-ground pool, a dog that is considered a vicious breed or having a trampoline on your property can raise your premiums, or in some cases you may not even be able to get coverage with certain companies. You can also expect to pay more if you are located in a higher risk area, such as a coastline. Your insurance company will also want to know if you plan to use the home for any business purposes, or if you plan to rent all or part of the house, both of which can increase liability.

Having all of this information on hand can help insurance companies determine how much to charge you for insurance, sometimes in a matter of minutes.

### **Dollar Limits on Insurance Policies**

It is very important for you as the insurance holder to know your policy's limit. If you insure your house for \$100,000, that's the most you will get if it is destroyed, even if it would cost more to replace it. Don't wait until you have a claim to learn your policy's limit. This important and useful information can be found on the Declarations Page which is on the front of your policy.

### **Replacement cost coverage for your personal property**

Before purchasing homeowner's insurance, make sure you are clear on the difference between "replacement cost" and "actual cash value". Most homeowner policies contain replacement cost coverage on the home and actual cash value coverage on personal property.

Homeowner's policies automatically cover household contents - furniture, clothes, appliances, etc. - up to 40 percent of the amount your house is insured for. This means if you insure your house for \$100,000, its contents are insured for up to \$40,000. By paying a higher premium, you can get more coverage. This coverage pays only the actual cash value of damaged, stolen, or destroyed household goods. Actual cash value can be calculated as an item's replacement cost, minus depreciation.

Replacement cost policies can give you more protection than actual cash value coverage. For example, with actual cash value coverage if you have a six-year-old television set

stolen from your home you will only get what you would expect to pay for a six-year-old television set. With replacement cost coverage, the insurance company pays to replace your TV with a new set similar to the stolen one.

Insurance companies generally want proof you replaced an item before paying your claim in full. An insurer might offer to replace the items instead of paying cash, but the choice is yours.

### **Take inventory**

Many people learn after a fire or storm they didn't have enough personal property coverage. Taking inventory will help you decide how much insurance you need. It also will simplify claims.

Your inventory should list each item, its value, and serial number. Photograph or videotape each room, including closets, open drawers, storage buildings, and your garage. Keep receipts for major items in a fireproof place.

### **What other protections does my policy provide?**

Homeowner's policies regularly provide other types of coverage, including off-premises theft protection and unauthorized use of your credit cards. Make sure you understand which provisions are included in the standard coverage you elect to purchase and which might require supplemental premiums.

### **Supplemental coverage**

Homeowner's policies cover specific risks. Depending on what you own and where you live, you might need to supplement your policy with special coverage.

#### **Flood insurance**

Homeowner's policies do not cover flood damage. The National Flood Insurance Program (NFIP) offers flood coverage in many areas. Insurance Cleveland Agency sells NFIP flood policies, and one of our knowledgeable insurance agents can help you get information about the program in your area. Check with your mortgage lender to see whether your home is in a special flood hazard area. In these special cases, a borrower may require you to purchase flood insurance.

#### **Earthquake insurance**

If you are concerned about earthquakes, you can get coverage with a separate policy.

#### **Extra coverage (Endorsements)**

It may be necessary for you to purchase more coverage than your policy provides for your personal valuables. For an extra premium, you might be able to buy endorsements that expand or increase the coverage on these items. Some of the most common endorsements cover jewelry, fine arts, camera equipment, coin or stamp collections, computer equipment, and radio and television satellite dishes and antennas.

## **Personal umbrella liability insurance or Excess Personal Injury Protection**

**If you own a home, Attorney Michael Dobronos strongly recommends you purchase an umbrella policy that covers (like an umbrella) your home and cars. He further goes on to explain that this insurance also covers other unique situations, like sports related injuries, and items on your property, such as trampolines, dirt bikes, all terrain vehicles (ATVs), hot tubs, and swimming pools. Again, an umbrella policy is maximum amount of coverage to protect your personal assets from being exposed to litigation. More important, this coverage would pay your attorney fees and court costs, if you are sued. If you own a home, you should not be without this coverage.**

An umbrella policy provides more liability coverage than a homeowners policy provides at a separate cost. Both your homeowner's and automobile insurance policies provide some coverage should you get sued because of damage to someone else's property or injuries they sustain as the result of an accident. However, in today's world, the limits placed on the insured in both these policies, is no longer enough. Today, many times a broken leg brings the plaintiff \$80,000. For more serious injuries you never know what a jury is going to do. Therefore, more and more people are taking out Umbrella policies or Excess Personal Injury Protection policies. These policies pick up where your homeowner's or automobile policy leaves off at a reasonably inexpensive price. If you own a home and a couple of cars, you will probably pay about \$300 - \$400 for the policy and have coverage for about \$1 - \$2 million. The policy is worth giving up a few meals out to have this kind of coverage.

This type of policy will also protect you against claims such as: libel, slander, false arrest, wrongful entry, invasion of privacy, and similar claims. There is also no territorial exclusion. And it will protect you if someone else's property, which is also in your care, is damaged.

**"Another benefit of having liability insurance is that part of the insurance company's obligation is to provide a defense for you if you are sued by another party" adds Cleveland attorney Oleh Mahlay. "Although the lawyer is actually representing your interest in these legal actions, the insurance company selects and pays the legal fees associated with any lawsuit."**

### **Higher deductibles, lower premiums**

Deductibles allow you to cut the cost of your insurance, by assuming some of the risk. If you have a \$250 deductible on your homeowner's policy, you agree to pay \$250 to cover any losses, before the insurance company pays the rest of your claim. By increasing that deductible to \$1,000, you might save 20 to 30 percent on your premiums. By talking with your insurance agent, you can determine whether lower deductibles or lowering your premium is right for you.

### **Bad credit could cost you**

Insurance companies look at financial situations of clients when they apply for a policy. Insurers have found that people with financial problems pose a greater risk. Some insurance companies might charge you higher premiums, if you have problems with your credit history.

An insurance score is different from a credit score. An insurance company uses credit information, together with your insurance history, to predict whether you are more or less likely to file a homeowner's claim. Insurance companies believe that this allows them to provide insurance to more people and to offer it at a lower cost to those who qualify.

The above article is meant to give a general overview of insurance policies; exact coverage and terminology could vary by insurance company. **Please refer to your policy for exact coverage details and terminology.**

### **About the Author**

Nicholas Schidowka began his work in the insurance and financial services industry in 1997. In 2001 he obtained Ohio licenses in Property and Casualty insurance and Life and Health insurance. Since then, he has worked hard to provide various insurance services to his customers including auto, business, health, home, and life. His professional and courteous approach to the insurance field has cultivated a diverse and loyal clientele in the Cleveland (Parma), Ohio area.

In 2007, Insurance Cleveland Agency LLC was formed. As an independent agency, Insurance Cleveland Agency has access to several different insurance carriers including Encompass (owned by Allstate), The Hartford, Ohio Casualty, Progressive Drive, Safeco, Travelers, Victoria (owned by Nationwide), Dairyland / Viking etc.

Insurance Cleveland Agency is pleased to announce the addition of Ivan Voytovych to their team! Mr. Voytovych is a highly qualified and valuable addition to the ICA team and helps the agency cater to the company's English, Ukrainian and Russian speaking customers.

Insurance Cleveland Agency is conveniently located off of Pearl Road and Highway 71 in the Islander Office complex. Office hours are Monday – Friday 9:00 am to 12:30 pm and 1:30 pm to 5:00 pm. Please call ahead for an appointment. We look forward to hearing from you in the near future!

Please give us a call, your free quote is waiting for you without any obligations. Many insurance policies are needlessly expensive and often out of date. We will work hard to give you the best service and there is a very good chance you can save money and improve your insurance at the same time.