

Homeowners Insurance

By ANNA CHANG-YEN | Green Shoot Media

Homeowner's insurance is more than just protection from major disasters, such as a fire or storm. Your policy likely includes a range of protections that can safeguard your financial interests in such situations as someone being injured on your property or having your personal belongings lost or stolen.

Get to know your homeowner's policy and how it protects you.

TYPES OF COVERAGE

Homeowner's insurance typically provides three types of coverage: property damage, personal property loss and personal liability.

Property damage coverage is meant to compensate you for damage and destruction of your home. Personal property loss compensates you when your belongings are lost or stolen. Personal liability protects your assets from lawsuits by someone who claims you are at fault for their injury.

Know which types of events are covered in regards to damage to your home. For example, earthquakes and flooding typically are not covered. You may be able to buy additional coverage to cover your living expenses while your home is being repaired.

Personal property coverage usually excludes property lost



or stolen due to your own negligence, and if you own certain pricey items, such as

art or jewelry, you'll probably need additional coverages for those specific items. A nice

feature of this type of coverage is that it protects your property no matter where it's at — whether it's in your home or vehicle or across the world while traveling.

Personal liability coverage usually excludes situations in which you are the aggressor, such as a physical altercation.

VALUING YOUR PROPERTY

When you suffer a loss that is covered under your insurance policy, you'll need to know how your policy specifies that your property be valued. Actual cash value means the replacement value of the item minus depreciation. Replacement coverage covers the full cost of replacing an item without taking depreciation into account. For example, if you own a home theater system that cost \$1,500 when it was purchased five years ago, a policy that reimburses you for the actual cash value might only pay you \$700, while replacement coverage would pay out whatever it costs to replace the system today.

WHAT'S NOT COVERED?

Aside from floods and earthquakes, there are other situations in which your homeowner's policy might not pay out. Other typical exclusions include war, government action, earthquake and a poor repair job.

REAL ESTATE 101

Escrow or Go it Alone?

Many loans require that property taxes and homeowner's insurance be included in the monthly mortgage payment. Only conventional mortgages in which the owner has more than 80 percent equity usually allow a buyer to pay these expenses on his own. Otherwise, expect to have these costs included in your monthly mortgage payment and paid out by the lender to the insurer through an escrow account.

If you have a garage apartment you rent to tenants and a storm damages the roof, your tenants' belongings will not be covered. (The renters also should have their own renter's insurance policy.) You can probably purchase additional coverage to protect yourself from liability claims by tenants.

In addition, if you own a business and keep business-related office equipment or product inventory in your home, you should check your policy document to see if those items are covered. If it is covered, the limit is probably low.

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HOMESWISE GLOSSARY

PITI reserves: a cash amount that a borrower has available after making a down payment and paying closing costs for the purchase of a home. The principal, interest, taxes and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

SOURCE: Federal Trade Commission

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