

# The Massachusetts Homeownership Collaborative

## HOMEBUYER COUNSELING CORE CURRICULUM

### SECTION VIII: INSURANCE

#### Section Objectives:

- To emphasize the need for adequate insurance coverage
- To provide participants with information on how to shop for insurance

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## SECTION VIII: INSURANCE

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### A. WHY DO I NEED HOMEOWNER'S INSURANCE?

Buying a home is likely to be the biggest purchase in your life.

You are investing a lot in:

- Time
- Furnishings
- Prized Possessions
- Labor
- Feelings
- Money

Homeowner's insurance is designed to protect these investments. You can't always foresee the future. Homeowner's insurance protects your home and what's in it. It also protects you. Homeowner's insurance offers the peace of mind that comes from knowing that damage to your home or your possessions won't wipe you out financially.

Those are the personal and common sense reasons why you need homeowner's insurance. There is another reason – a very big one. If you are like most people, you will have to borrow money to buy your home. Most lenders require you to have insurance before they will approve your mortgage. You must keep the insurance until the mortgage is paid.

### B. TERMS YOU SHOULD KNOW

Homeowner's insurance includes:

- *Property protection coverage*, which protects the home itself, from the basement to the roof. It protects your trees and shrubs, the tile on your floors, carpeting, furniture, appliances and your clothes. This coverage protects your home against such things as fire, windstorms, hail, tornadoes, explosions, riots, falling aircraft, vandalism, theft and smoke damage.
- *Liability protection coverage*, which is for yourself and your family, in case you are responsible if someone is accidentally hurt or their property is damaged. Your homeowner's insurance will pay for medical treatment to others, restore or repair their property, and will pay legal costs if you or a family member is responsible for the injury or damage.

Homeowner's property protection insurance can reflect:

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- ***Replacement cost***, which is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality, without deducting for depreciation,
- ***Actual cash value***, which is replacement cost minus depreciation for age or use, or
- ***Market value***, which is a real estate term that describes what the current value of your home would be if you were to sell it, including the price of land.

For an “affordable,” deed-restricted property, the value is almost always lower than the market value, as the price is calculated by a formula that determines the “affordable” price for an income-eligible buyer.

Other types of insurance coverage include:

- ***Private mortgage insurance (PMI)***, which allows borrowers to purchase homes with a low down payment and protects the lender in the event the buyer fails to repay the loan.
- ***Title insurance***, a policy that protects the lender and/or buyer against loss resulting from disputes over ownership of a property.
- ***Mortgage life insurance***, a policy that covers payment of the mortgage due to death or disability.
- ***Flood insurance***, which is required by lenders if your property is located in a flood plain. Flood insurance includes coverage for a rain-flooded basement (not covered under a standard homeowner’s policy), and can be obtained through the National Flood Insurance Program. A licensed property insurance agent can help you get this coverage.
- ***Credit life insurance***, which provides a maximum of \$500, with no deductible, to protect you against theft or unauthorized use of your credit cards.
- ***Disability insurance***, which provides income if you are disabled and out of work.

Different individuals need different kinds of insurance. You may not need all or even any of the policies listed above. You should get professional advice on the types of insurance needed to meet your particular circumstances.

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Insurance is available through:

- *Independent insurance agents*, who write insurance policies for specific companies.
- *Direct insurance agents*, who write policies only for the company for which they work.
- *The Massachusetts Fair Plan*, an association which functions like an insurance company in making homeowners and other property insurance available to people in specified urban areas who are not able to buy through regular insurance markets.

### C. SHOPPING FOR INSURANCE

Shop around for your homeowner's policy. Some ways you can reduce the cost of your premiums are:

1. Shop around for an inexpensive policy from a financially strong insurer. Get premium quotes from agents representing at least six insurers. The agents can be independents, who represent a number of companies, or sales people who work for a single insurer. It is essential to be confident the company will be around if you need to make a claim. Stick with insurers who get top grades from the major ratings services, e.g. at least AA from Standard & Poor's or A+ from A.M. Best. You should ask the insurance agent for the company's rating.

Ask the agents the costs of the following:

- 100% replacement coverage for your home and contents, so that the insurer would pay what it actually costs to rebuild your home or buy new belongings
  - Inflation protection, which automatically increases your coverage periodically to keep up with the cost of living
  - Umbrella liability coverage, which pays for bodily injury or property damage caused by you or a family member
2. Increase your annual deductible. You can cut your premium up to 15% by raising the amount you agree to pay out of pocket before any insurance reimbursement from the standard \$250 to \$1,000.

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3. Seek discounts for being a loyal customer. Some insurers offer 5% savings for people who have had policies with them for three to five years and 10% off for customers with longer records.
4. Get a break for making your house safer. Many insurers reduce premiums by between 2% and 10% if you install burglar alarms, and take off another 2% for smoke detectors throughout the house.
5. New homeowners should ask about any special breaks. Some companies lower premiums by 5% to 20% for customers whose homes are less than five years old.
6. Ask about savings for insuring your home and your car with the same company. Some insurers lower homeowners premiums by 5% to 15% for policy holders who double up this way. Before signing up, however, be sure that the insurer's auto insurance premium is fairly priced. Otherwise, you could be overpaying to cover your car just to get a "break" on your homeowner's policy.

### Don't be underinsured

- **Banks require insurance coverage for at least the amount of the mortgage. Homeowners would be wise to get insurance coverage for the full market value of the home.**
- **Know the difference between replacement cost and market value coverage and decide what is most appropriate for your situation.**

### D. LEAD PAINT AND FLAT ROOFS

For many years, community groups heard anecdotal accounts of inner-city homeowners who had their applications for insurance rejected by private insurers, were forced to pay inflated prices for property insurance, or were dropped as customers by private carriers. Many homeowners were forced to seek insurance coverage through the Massachusetts Fair Plan, which was created by the state for homeowners who could not obtain property insurance through the private market.

In May 1996, the Massachusetts insurance redlining bill was signed into law. The new law creates incentives for insurance companies to come back into the urban market and penalties if they choose not to. Despite this new law, some urban homeowners still face difficulty in getting insurance coverage because their homes have lead paint and/or flat roofs.

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### Lead Paint

Many insurance companies will not insure multi-family homes with lead paint despite a 1994 state law eliminating insurer liability for damages resulting from lead paint poisoning and/or will only underwrite homes that have a deleading certificate stating that the home is in compliance. This situation disproportionately affects urban neighborhoods because of the large number of older two and three-family dwellings, the vast majority of which have lead paint. As a result, owners of such homes are often forced to insure their homes through the Fair Plan.

Private market insurers seeking to increase their urban market share have been adopting a lead paint poisoning liability exclusion endorsement. Companies such as Hanover Insurance, Arbella Insurance, Worcester Insurance, Liberty Insurance and Holyoke Insurance have adopted the lead paint exclusion.

### Flat Roofs

Many homeowners also contend that it is difficult to find private insurers to insure a home with a flat roof. Some private insurers have policies that allow them to insure such a home if the roof is rubber membrane and has been replaced in the last ten years.

Private insurers and the Fair Plan claim that losses due to wind, water and the weight of snow and ice that occur on flat roofs are usually more severe with respect to paid loss dollars than those for pitched roof structures. The Fair Plan has agreed to do a study that will analyze the frequency and severity of losses on flat roof properties.