

SECTION VIII:

INSURANCE

- A. 12 Ways to Lower Your Homeowners Insurance Costs
- B. Handout on what is not covered under homeowners insurance
- C. Flood Insurance Summary
- D. FloodSmart.gov Quick Quote handout

12

Ways to Lower Your Homeowners Insurance Costs

Insurance Information Institute

The price you pay for your homeowners insurance can vary by hundreds of dollars, depending on the insurance company you buy your policy from. Here are some things to consider when buying homeowners insurance.

1. Shop Around

It'll take some time, but could save you a good sum of money. Ask your friends, check the Yellow Pages or contact your state insurance department. National Association of Insurance Commissioners (www.naic.org) has information to help you choose an insurer in your state, including complaints. States often make information available on typical rates charged by major insurers and many states provide the frequency of consumer complaints by company.

Also check consumer guides, insurance agents, companies and online insurance quote services. This will give you an idea of price ranges and tell you which companies have the lowest prices. But don't consider price alone. The insurer you select should offer a fair price and deliver the quality service you would expect if you needed assistance in filing a claim. So in assessing service quality, use the complaint information cited above and talk to a number of insurers to get a feeling for the type of service they give. Ask them what they would do to lower your costs.

Check the financial stability of the companies you are considering with rating companies such as A.M. Best (www.ambest.com) and Standard & Poor's (www.standardandpoors.com) and consult consumer magazines. When you've narrowed the field to three insurers, get price quotes.

2. Raise Your Deductible

Deductibles are the amount of money you have to pay toward a loss before your insurance company starts to pay a claim, according to the terms of your policy. The higher your deductible, the more money you can save on your premiums. Nowadays, most insurance companies recommend a deductible of at least \$500. If you can afford to raise your deductible to \$1,000, you may save as much as 25 percent. Remember, if you live in a disaster-prone area, your insurance policy may have a separate deductible for certain kinds of damage. If you live near the coast in the East, you may have a separate windstorm deductible; if you live in a state vulnerable to hail storms, you may have a separate deductible for hail; and if you live in an earthquake-prone area, your earthquake policy has a deductible.

3. Don't confuse what you paid for your house with rebuilding costs

The land under your house isn't at risk from theft, windstorm, fire and the other perils covered in your homeowners policy. So don't include its value in deciding how much homeowners insurance to buy. If you

do, you will pay a higher premium than you should.

4. Buy your home and auto policies from the same insurer

Some companies that sell homeowners, auto and liability coverage will take 5 to 15 percent off your premium if you buy two or more policies from them. But make certain this combined price is lower than buying the different coverages from different companies.

5. Make your home more disaster resistant

Find out from your insurance agent or company representative what steps you can take to make your home more resistant to windstorms and other natural disasters. You may be able to save on your premiums by adding storm shutters, reinforcing your roof or buying stronger roofing materials. Older homes can be retrofitted to make them better able to withstand earthquakes. In addition, consider modernizing your heating, plumbing and electrical systems to reduce the risk of fire and water damage.

6. Improve your home security

You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm or dead-bolt locks. Some companies offer to cut your premium by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the police, fire or other monitoring stations. These systems aren't cheap and not every system qualifies for a discount. Before you buy such a system, find out what kind your insurer recommends, how much the device would cost and how much you'd save on premiums.

7. Seek out other discounts

Companies offer several types of discounts, but they don't all offer the same discount or the same amount of discount in all states. For example, since retired people stay at home more than working people they are less likely to be burglarized and may spot fires sooner, too. Retired people also have more time for maintaining their homes. If you're at least 55 years old and retired, you may qualify for a discount of up to 10 percent at some companies. Some employers and professional associations administer group insurance programs that may offer a better deal than you can get elsewhere.

8. Maintain a good credit record

Establishing a solid credit history can cut your insurance costs. Insurers are increasingly using credit information to price homeowners insurance policies. In most states, your insurer must advise you of any adverse action, such as a higher rate, at which time you should verify the accuracy of the information on which the insurer relied. To protect your credit standing, pay your bills on time, don't obtain more credit than you need and keep your credit balances as low as possible. Check your credit record on a regular basis and have any errors corrected promptly so that your record remains accurate.

9. Stay with the same insurer

If you've kept your coverage with a company for several years, you may receive a special discount for being a long-term policyholder. Some insurers will reduce their premiums by 5 percent if you stay with them for three to five years and by 10 percent if you remain a policyholder for six years or more. But make certain to periodically compare this price with that of other policies.

10. Review the limits in your policy and the value of your possessions at least once a year

You want your policy to cover any major purchases or additions to your home. But you don't want to spend money for coverage you don't need. If your five-year-old fur coat is no longer worth the \$5,000 you paid for it, you'll want to reduce or cancel your floater (extra insurance for items whose full value is not covered by standard homeowners policies such as expensive jewelry, high-end computers and valuable art work) and pocket the difference.

11. Look for private insurance if you are in a government plan

If you live in a high-risk area -- say, one that is especially vulnerable to coastal storms, fires, or crime -- and have been buying your homeowners insurance through a government plan, you should check with an insurance agent or company representative or contact your state department of insurance for the names of companies that might be interested in your business. You may find that there are steps you can take that would allow you to buy insurance at a lower price in the private market.

12. When you're buying a home, consider the cost of homeowners insurance

You may pay less for insurance if you buy a house close to a fire hydrant or in a community that has a professional rather than a volunteer fire department. It may also be cheaper if your home's electrical, heating and plumbing systems are less than 10 years old. If you live in the East, consider a brick home because it's more wind resistant. If you live in an earthquake-prone area, look for a wooden frame house because it is more likely to withstand this type of disaster. Choosing wisely could cut your premiums by 5 to 15 percent.

Check the CLUE (Comprehensive Loss Underwriting Exchange) report of the home you are thinking of buying. These reports contain the insurance claim history of the property and can help you judge some of the problems the house may have.

Remember that flood insurance and earthquake damage are not covered by a standard homeowners policy. If you buy a house in a flood-prone area, you'll have to pay for a flood insurance policy that costs an average of \$400 a year. The Federal Emergency Management Agency provides useful information on flood insurance on its Web site at FloodSmart.gov. A separate earthquake policy is available from most insurance companies. The cost of the coverage will depend on the likelihood of earthquakes in your area. In California the California Earthquake Authority (www.earthquakeauthority.com) provides this coverage.

If you have questions about insurance for any of your possessions, be sure to ask your agent or company representative when you're shopping around for a policy. For example, if you run a business out of your home, be sure to discuss coverage for that business. Most homeowners policies cover business equipment in the home, but only up to \$2,500 and they offer no business liability insurance. Although you want to lower

your homeowners insurance cost, you also want to make certain you have all the coverage you need.

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Consumer Federation of America

www.consumerfed.org

Federal Citizen Information Center

www.pueblo.gsa.gov

National Consumers League

www.nclnet.org

Cooperative State Research, Education, and Extension Service, USDA

www.reeusda.gov

Your house and other structures are insured against *countless* causes of loss.

Coverage for your dwelling and other structures is much broader than coverage for your personal property. In fact, the types of loss covered are so numerous that your policy only names the kinds of loss that are *not* covered. In *very general terms*, your structures are insured against all the same kinds of loss as your personal property *plus* any other kind of loss *except those caused intentionally or by:*

- Neglect
- Wear and Tear
- Collapse (in most cases)
- Earthquake
- Landslide/Mudslide
- Flood, Tidal Waves, Water from Sewer or Drains
- Constant or Repeated Seepage of Water or Steam
from within a household appliance or system
- Insects, Vermin, Rodents
- Power Failure
Off Premises
- Smoke
that is not sudden or accidental
- Illegal acts
- Nuclear reaction, radiation, or radioactive contamination
- War

NOTE: There are minor exclusions whereby a type of loss isn't covered in a particular situation. These are noted in the appropriate entries in this booklet.

Insurance settlement for your dwelling and other structures is based on the replacement cost of the property.



FEMA

National Flood Insurance Program Summary of Coverage

This document was prepared by the National Flood Insurance Program (NFIP) to help you understand your flood insurance policy. It provides general information about deductibles, what is and is not covered by flood insurance, and how items are valued at time of loss.

This document is based on the Standard Flood Insurance Policy Dwelling Form, which is used to insure one to four family residential buildings and single family dwelling units in a condominium building. There are two other policy forms:

- The General Property Form is used to insure five or more family residential buildings and non-residential buildings.
- The Residential Condominium Building Association Policy Form is used to insure residential condominium association buildings.

While the three forms are similar in many ways, there are differences as well. For example, the General Property Form does not provide coverage for contents in any building other than the insured building, and the Residential Condominium Building Association Policy Form contains a coinsurance clause, which provides for a pro rata reduction in the building claim payment if the building is not insured to 80 percent of its replacement value.

Two Types of Flood Insurance Coverage

The NFIP's Dwelling Form offers coverage for: 1. Building Property, up to \$250,000, and 2. Personal Property (Contents), up to \$100,000. The NFIP encourages people to purchase both types of coverage. Your mortgage company can require that you purchase a certain amount of flood insurance coverage.

For information about your specific limits of coverage and deductibles, refer to the Declarations Page in your flood insurance policy. It's also a good idea to review your policy with your insurance agent or company representative.

What is a Flood?

Flood insurance covers direct physical loss caused by "flood." In simple terms, a flood is an excess of water on land that is normally dry. Here's the official definition used by the National Flood Insurance Program.

A flood is "A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is your property) from:

- Overflow of inland or tidal waters;
- Unusual and rapid accumulation or runoff of surface waters from any source;
- Mudflow*; or
- Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above."

*Mudflow is defined as "A river of liquid and flowing mud on the surfaces of normally dry land areas, as when earth is carried by a current of water..."

Three Important Facts About Your Flood Policy

A Standard Flood Insurance Policy is a single-peril (flood) policy that pays for direct physical damage to your insured property up to the replacement cost or Actual Cash Value (ACV) (See "How Flood Damages Are Valued") of the actual damages or the policy limit of liability, whichever is less.

1. **Contents coverage must be purchased separately.**
2. **It is not a valued policy.** A valued policy pays the limit of liability in the event of a total loss. For example: Your home is totally destroyed by a fire and it costs \$150,000 to rebuild. If your homeowners insurance policy is a valued policy with a \$200,000 limit of liability on the building, you would receive \$200,000. Flood insurance pays just the replacement cost or ACV of actual damages, up to the policy limit.
3. **It is not a guaranteed replacement cost policy.** A guaranteed replacement cost policy pays the cost to rebuild your home regardless of the limit of liability. For example: Your home is totally destroyed by a fire and it costs \$200,000 to rebuild. If your homeowners insurance policy is a guaranteed replacement cost policy with a \$150,000 limit of liability on the building, you would receive \$200,000. Flood insurance does not pay more than the policy limit.

Choosing Deductibles

Choosing the amount of your deductibles is an important decision. As with car or homeowners insurance, choosing a higher deductible will lower the premium you pay, but will also reduce your claim payment.

You can normally choose different deductibles for Building Property and Personal Property coverage. The deductibles will apply separately to Building Property and Personal Property claims. Your mortgage company can require that your deductible is no more than a certain amount.

Review the Declarations Page in your flood insurance policy for amounts of coverage and deductibles. Talk with your insurance agent, company representative, or lender about raising or lowering deductibles.

Reminder: Keep Your Receipts

While you are not expected to keep receipts for every household item and article of clothing, do try to keep receipts for electronic equipment, wall-to-wall carpeting, major appliances, and other higher cost items. Your adjuster will be able to process your claim more quickly when you can prove how much items cost at the time of purchase.

What is Covered by Flood Insurance – and What's Not

Generally, physical damage to your building or personal property "directly" caused by a flood is covered by your flood insurance policy. For example, damages caused by a sewer backup are covered if the backup is a direct result of flooding. However, if the backup is caused by some other problem, the damages are not covered.

The following charts provide general guidance on items covered and not covered by flood insurance. Refer to your policy for the complete list.

General Guidance on Flood Insurance Coverage

What is insured under Building Property coverage

- The insured building and its foundation.
- The electrical and plumbing systems.
- Central air conditioning equipment, furnaces, and water heaters.
- Refrigerators, cooking stoves, and built-in appliances such as dishwashers.
- Permanently installed carpeting over an unfinished floor.
- Permanently installed paneling, wallboard, bookcases, and cabinets.
- Window blinds.
- Detached garages (up to 10 percent of Building Property coverage). Detached buildings (other than garages) require a separate Building Property policy.
- Debris removal.

What is insured under Personal Property coverage

- Personal belongings such as clothing, furniture, and electronic equipment.
- Curtains.
- Portable and window air conditioners.
- Portable microwave ovens and portable dishwashers.

- Carpets not included in building coverage (see above).
- Clothes washers and dryers.
- Food freezers and the food in them.
- Certain valuable items such as original artwork and furs (up to \$2,500).

What is not insured by either Building Property or Personal Property coverage

- Damage caused by moisture, mildew, or mold that could have been avoided by the property owner.
- Currency, precious metals, and valuable papers such as stock certificates.
- Property and belongings outside of a building such as trees, plants, wells, septic systems, walks, decks, patios, fences, seawalls, hot tubs, and swimming pools.
- Living expenses such as temporary housing.
- Financial losses caused by business interruption or loss of use of insured property.
- Most self-propelled vehicles such as cars, including their parts (see Section IV.5 in your policy).

General Guidance on Flood Insurance Coverage Limitations In Areas Below the Lowest Elevated Floor and Basements

Flood insurance coverage is limited in areas below the lowest elevated floor (including crawlspaces) depending on the flood zone and date of construction (refer to Part III, Section A.8 in your policy) and in basements regardless of zone, or date of construction. As illustrated below, these areas include 1. basements, 2. crawlspaces under an elevated building, 3. enclosed areas beneath buildings elevated on full story foundation walls that are sometimes referred to as "walkout basements," and 4. enclosed areas under other types of elevated buildings.

What is insured under Building Property coverage

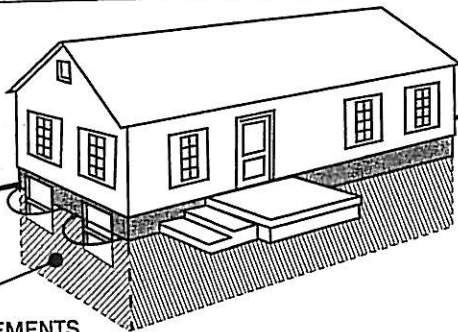
- Foundation walls, anchorage systems, and staircases attached to the building.
- Central air conditioners.
- Cisterns and the water in them.
- Drywall for walls and ceilings (in basements only).
- Nonflammable insulation (in basements only).
- Electrical outlets, switches, and circuit breaker boxes.
- Fuel tanks and the fuel in them, solar energy equipment, well water tanks and pumps.
- Furnaces, hot water heaters, heat pumps, and sump pumps.

What is insured under Personal Property coverage

- Washers and dryers.
- Food freezers and the food in them (but not refrigerators).
- Portable and window air conditioners.

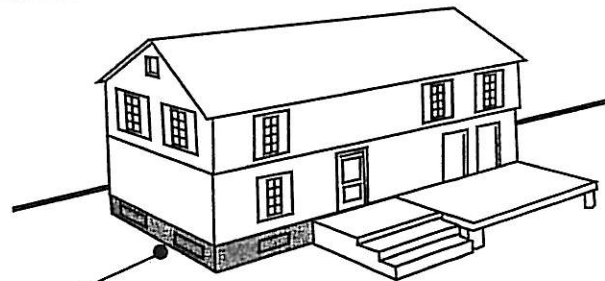
What is not insured by either Building Property or Personal Property coverage

- Paneling, bookcases, and window treatments such as curtains and blinds.
- Carpeting, area carpets, and other floor coverings such as tile.
- Drywall for walls and ceilings (below lowest elevated floor).
- Walls and ceilings not made of drywall.
- Most personal property such as clothing, electronic equipment, kitchen supplies, and furniture.



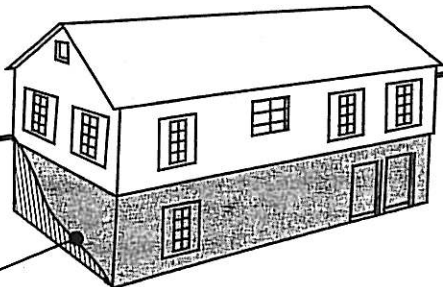
1. BASEMENTS

Coverage limitations apply to "basements," which are any area of the building, including a sunken room or sunken portion of a room, having its floor below ground level on all sides.



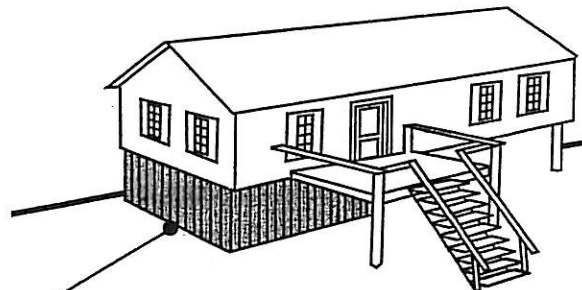
2. CRAWLSPACE

When a building is elevated on foundation walls, coverage limitations apply to the "crawlspace" below.



3. ELEVATED BUILDING ON FULL STORY FOUNDATION WALLS

Coverage limitations apply to the enclosed areas (lower floor) even when a building is constructed with what is sometimes called a "walkout basement."



4. ELEVATED BUILDING WITH ENCLOSURE

Coverage limitations apply to "enclosed areas" at ground level under an "elevated building." An elevated building allows water to flow freely under the living quarters, thus putting less strain on the building in the event of flooding. An "enclosure" is the area below the lowest elevated floor that is fully shut in by rigid walls.

How Flood Damages Are Valued

The value of flood damage in the Dwelling Form is based on either Replacement Cost Value (RCV) or Actual Cash Value (ACV).

Replacement Cost Value (RCV)

Replacement Cost Value (RCV) is the cost to replace that part of a building that is damaged (without depreciation). To be eligible, three conditions must be met:

1. The building must be a single-family dwelling, and
2. Be your principal residence, meaning you live there at least 80 percent of the year, and
3. Your building coverage is at least 80 percent of the full replacement cost of the building, or is the maximum available for the property under the NFIP

Actual Cash Value (ACV)

Actual Cash Value (ACV) is Replacement Cost Value at the time of loss, less the value of its physical depreciation.

Some building items such as carpeting are always adjusted on an ACV basis. For example, wall-to-wall carpeting could lose between 10-14 percent of its value each year, depending on the quality of the carpeting. This depreciation would be factored in the adjustment.

Personal property is always valued at ACV.

Special Considerations for Multiple Claims

Property owners of "severe repetitive loss properties" may be eligible for a FEMA mitigation grant for property improvements that reduce the likelihood of future flood damages. Property owners who refuse the grant money could be required to pay increased flood insurance premiums.

A property is defined as a "severe repetitive loss property" when it meets one of these conditions:

1. Four or more separate flood claim payments have been made and each claim payment exceeds \$5,000, or
2. At least two flood claim payments have been made and the cumulative payments exceed the value of the property.

A final note

This document provides general information about flood insurance coverage. However, please be aware that your Standard Flood Insurance Policy, your application, and any endorsements, including the Declarations Page, make up your official contract of insurance. Any differences between this information and your policy will be resolved in favor of your policy. If you have questions, call your insurance agent or company representative.

WHAT IS INCREASED COST OF COMPLIANCE (ICC) COVERAGE?

Most NFIP policies include ICC coverage, which applies when flood damages are severe. ICC coverage provides up to \$30,000 of the cost to elevate, demolish, or relocate your home. If your community declares your home "substantially damaged" or "repetitively damaged" by a flood, it will require you to bring your home up to current community standards.

The total amount of your building claim and ICC claim cannot exceed the maximum limit for Building Property coverage (\$250,000 for a single-family home). Having an ICC claim does not affect a Personal Property claim (up to \$100,000), which is paid separately.

Details about eligibility are in Part III, Section D of your policy.

F-679 / July 2005

Congress created the National Flood Insurance Program (NFIP) in 1968 to reduce future flood damage through floodplain management, and to provide people with flood insurance through individual agents and insurance companies. The Federal Emergency Management Agency (FEMA) manages the NFIP. As required by Congress, this document was prepared by the NFIP to help flood insurance policyholders understand their policy.



FEMA



ZONES B, C, X, PRE-/POST-FIRM (STANDARD \$500 DEDUCTIBLE)

These premiums are based on a single family, one floor, no basement building with a standard deductible.***
Regular Program Communities [without CRS premium discount].

Building Only		Contents Only		Building & Contents	
Coverage	Premium**	Coverage	Premium**	Coverage	Premium**
\$ 35,000	\$ 260	\$ 10,000	\$ 129	\$ 35,000/10,000	\$ 359
50,000	356	15,000	179	50,000/15,000	505
75,000	399	20,000	228	75,000/20,000	597
100,000	441	30,000	258	100,000/30,000	669
125,000	484	40,000	288	125,000/40,000	742
150,000	526	50,000	318	150,000/50,000	814
250,000	694	100,000	468	250,000/100,000	1132

ZONES A, AE, A1-A30, AO, AH - PRE-FIRM (STANDARD \$1,000 DEDUCTIBLE)

Building Only		Contents Only		Building & Contents	
Coverage	Premium**	Coverage	Premium**	Coverage	Premium**
\$ 35,000	\$ 356	\$ 10,000	\$ 126	\$ 35,000/10,000	\$ 452
50,000	470	15,000	174	50,000/15,000	614
75,000	570	20,000	222	75,000/20,000	762
100,000	670	30,000	294	100,000/30,000	934
125,000	770	40,000	366	125,000/40,000	1106
150,000	870	50,000	438	150,000/50,000	1278
250,000	1285	100,000	798	250,000/100,000	2053

ZONES A1-A30, AE - POST-FIRM + 1 FOOT ABOVE BFE (STANDARD \$500 DEDUCTIBLE)

Note: These premiums are based on a single-family, one floor, no basement building with a standard deductible.***
Regular Program Communities [without CRS premium discount].

Building Only		Contents Only		Building & Contents	
Coverage	Premium**	Coverage	Premium**	Coverage	Premium**
\$ 35,000	\$ 250	\$ 10,000	\$ 80	\$ 35,000/10,000	\$ 300
50,000	341	15,000	105	50,000/15,000	416
75,000	361	20,000	130	75,000/20,000	461
100,000	381	30,000	142	100,000/30,000	493
125,000	401	40,000	154	125,000/40,000	525
150,000	421	50,000	166	150,000/50,000	557
250,000	499	100,000	226	250,000/100,000	695

Note: Replacement Cost Coverage is available for single-family dwellings that are primary residences. They must be insured to the maximum amount of insurance available under the program or no less than 80% of the replacement cost at the time of loss. Please refer to the policy or manual for further explanation and requirements.

*Includes a Federal Policy Fee of \$30 and ICC Premium.

**Includes a Federal Policy Fee of \$30 only.

***Higher deductible limits are available, up to \$5,000 for single family properties.