

Understanding Homeowner's Insurance

Most people with a mortgage have Homeowner's Insurance because it is required by their lender. But the average person does not understand the policy, and may not really know what their insurance covers. Homeowner's Insurance is an insurance policy that protects you financially in the event that your home and/or property is damaged in a covered peril, or in the event of a covered lawsuit.

What Types of Perils are Covered?

While all Homeowner's Insurance policies differ, most cover the following losses: Windstorm or hail; Fire or lightning; Explosion; Riot or civil commotion; Aircraft; Smoke; Vandalism or malicious mischief; Theft; Volcanic eruption; Falling objects; and Weight of ice, snow, or sleet.

Some policies are written on an "Open Peril" basis. This means that coverage is provided for all perils except those that are specifically excluded. Some common exclusions are earthquake, war, intentional loss, power failure, water damage, neglect, etc.

What are the Coverage Options in a Homeowner's Policy?

1. **Coverage A: Dwelling:** The value of your home and attached structures, but not the land. You can decide what amount you think it would cost to rebuild your home if it were completely destroyed. Keep in mind that most lenders require the dwelling amount to be at least equal, if not higher, than your loan amount. Also, most insurance companies require a cost estimator to be completed to make sure that you are insuring your dwelling for an adequate amount.
2. **Coverage B: Other Structures:** Typically, this amount will be 10% of your dwelling amount. This coverage protects structures on your property that are not attached to your home. Examples include detached garages, workshops, sheds, etc.
3. **Coverage C: Personal Property:** Typically a home insurance policy will provide 50%-70% of your dwelling coverage towards contents/personal belonging coverage. However, you might decide to purchase more depending on the value of the personal belongings in your home. You should also decide if you want coverage for ACV (Actual Cash Value) or Replacement Cost. ACV coverage will only pay you for what your belongings were worth at the time they were stolen or damaged. You will pay higher premiums with replacement cost coverage, however, if something happens, you will be paid the amount that it will actually cost to replace your items.
4. **Coverage D: Loss of Use:** Another important provision included in most policies is coverage for additional living expenses. This means that your insurer will cover your living expenses in another location, if your home becomes unlivable. The typical limit is 30 to 50 percent of the total value of the policy. You will be limited to what your carrier considers a reasonable length of time for rebuilding or relocating, often twelve months.
5. **Coverage E: Personal Liability:** Most policies include liability coverage that will cover the costs for any injury to yourself or visitors to your home if you are legally responsible for the injury.
6. **Coverage F: Medical Payments:** Most policies include an amount for Medical Payments to Others. This type of coverage will pay reasonable medical expenses regardless of who is at fault.

Optional Coverages

Optional coverages should be carefully considered when purchasing a Homeowner's Insurance policy. Here are some common optional coverages:

1. **Water or Sewer Backup:** The damage you sustain from the backup of your water or sewer system will only be covered if you include this optional coverage on your policy.
2. **Identity Theft Protection:** Covers expenses incurred as a result of Identity Theft.
3. **Scheduled Personal Property:** Most policies have a limit on what it will pay for certain items like jewelry, furs, silverware, etc. But if your items have a higher value, they can be "scheduled" for their full value.

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