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Homeowners Insurance Policies

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A homeowners insurance policy is your protection in the event your home is damaged or destroyed. It is critical that you understand your policy and that you keep your coverage limits up-to-date.

Homeowners' policies can be either comprehensive or named peril. A comprehensive, or all-risk policy, will cover everything except what is listed as an exclusion, whereas a named peril policy will cover only the perils that are listed. It is vital that you understand which you have and that you know which types of damages are covered and which are not.

Homeowners' policies can also be either an actual cost policy or a replacement cost policy. Actual cost policies pay the amount needed to replace your home after depreciation, whereas replacement cost policies pay for the replacement of a damaged or destroyed home without deducting for depreciation. Most replacement cost policies require the policy holder to insure the dwelling for at least 80% of its replacement cost. Once again, it is important that you understand how your home will be replaced in the event of damage.

To make sure your home is adequately covered, it is important that you inform your insurance agent/company of any additions, upgrades or major purchases to your home so that your insurance coverage can be kept up-to-date. Inflation guard endorsements are available that automatically increase property coverage each year by a certain percentage, based upon a local index. Remember, if your policy is not up-to-date and you have damage to your home, your replacement coverage will be based on the original amount of coverage, not on the present cost of the property, which may not be enough.

Your deductible is the amount you are responsible for paying whenever there is damage to your home. In essence, this is the amount of risk you are willing to assume in the event that something happens to your home. Generally, if you are willing to assume a higher risk, your monthly/yearly insurance premiums will be reduced.

A hurricane deductible is separate from your general deductible. With most hurricane deductibles, you are responsible for paying 2-5% of the cost of repairs before the insurance company will pay. It is important that you know what yours is and that you understand how that payment is made.

Some policies offer mold exclusions. For policies with a mold exclusion, damage from mold that is a result of a covered peril is covered only in the event of a sudden and accidental discharge of water, not from poor maintenance. Review your policy to determine if you have a mold exclusion, and if so, what the base coverage is for it.

Flood insurance is not covered in your homeowners policy but must be purchased as a separate policy. Flood insurance is required if your mortgage is federally insured and the property is within a special flood hazard area. Flood insurance can also be required by the lender, even if the property is outside a special flood hazard area.

Even if it is not required, it may be prudent to purchase flood insurance. A homeowner is eligible for flood insurance if the home is located within a community participating in the National Flood Insurance Policy. For more information regarding flood insurance, contact the National Flood Insurance Program at www.fema.gov/nfip.

Understanding and keeping current with your homeowners' insurance policy is an important step to protecting yourself and your home. Read your policy and know what is covered and what steps to take in the event of a loss. Take the time now to review your policy and contact your agent if you have any questions or need to make changes. Don't wait until it's too late.