

TAKE LONG, HARD LOOK AT HOMEOWNERS POLICY

By Basil Housewright, Jr.

Home values and construction costs have risen significantly in recent years, and that means homeowners who haven't updated their insurance policies could have grossly inadequate coverage. Others simply underestimate the cost of rebuilding. And some misunderstand the terms of their policies, realizing too late that they're not covered for a significant loss. And unfortunately many may have just taken bad advice from an insurance sales person who made a recommendation to under insure. What so many people don't realize is how dramatically the cost of rebuilding rises when an entire neighborhood gets wiped out. What might normally cost \$100 or \$125 a square foot to rebuild could cost \$150 because there just aren't enough contractors to go around. Worse yet, where homeowners were once protected from inadequate coverage with so-called "guaranteed replacement cost" policies that promised to replace a home regardless of the price, this type of coverage has gone the way of the full-service gas station and the policy limit is the policy limit.

Now, most policies cap their coverage at the policy limit. Even on policies with "extended replacement coverage" cap their coverage to a percentage of the structural limits. In other words, a policy that promises \$100,000 in structural coverage may pay as much as \$125,000 but not more. If the house can't be rebuilt for less than the policy limit, the homeowner will have to pay the remaining amount. If you have renovated a kitchen or bathroom, the question you have to ask yourself is did you call your insurance agent to see whether this changed the cost of rebuilding. If not, you may have to forget those granite countertops and rebuild with Formica. Moreover, most policies limit coverage for contents to a percentage of the structural coverage. So, if the structural limits are inadequate, it's possible that the contents limits are too. Homeowners should review their policies annually. Here are key things to look for.

STRUCTURAL COVERAGE

The "dwelling" limit on the policy - theoretically the maximum amount the insurer would pay if the house were destroyed in a covered calamity - should amount to at least \$100 to \$125 in coverage for each square foot in your home for most tract built homes in our local neighborhoods. In other words, adequate coverage for a 2,000-square-foot home would be between \$200,000 and \$250,000. Homeowners who have wood cabinets, granite countertops, or custom tile or carpets should estimate on the high end of that scale. Custom built homes should be calculated on an individual basis taking into consideration all details of construction and enhancements. If you bought extended replacement cost coverage, learn what that means. In most cases it means the insurer will pay 25 percent more than the structural limit. If you can't find the details in your policy, ask your agent to point them out.

BUILDING CODES

If your home is more than 20 years old, it's important to know whether your policy will pay to upgrade to today's building code standards. That's because policies typically pay to replace your structure precisely as it was before. If building standards have tightened, requiring more structural reinforcement, electrical or plumbing upgrades or other costly upgrades, the homeowner could be on the hook for a significant amount of the bill. If you have an older home but no "building code" coverage, add it.

SEPARATE STRUCTURES

Detached structures may not be covered if you use them for business purposes. For example if you have a detached garage or office that you use for business, you'll need to check your policy carefully to ensure that they are covered. You may need a separate policy to have these structures covered properly.

PERSONAL PROPERTY

The typical policy pays 40% to 75% of the dwelling limit to reimburse homeowners for the furniture, clothing and other personal items lost in a disaster. The catch is that the policyholder has to establish what they lost and what it costs to replace. For that, you need a home inventory. Most people remember the big

stuff, like the television and the DVD player, but do you know how many CDs or DVDs you have? Do you know how many shirts you have in the closet? You're never going to remember all the utensils you have in a kitchen drawer, but it's really expensive to replace them. There are two options: A written inventory or a photo and/or video inventory. Because writing every item can be ponderous, you could walk through the house with a video camera, panning every room and then sticking the camera's nose into every drawer, closet and cabinet. Narrate as you go, explaining what you're looking at and roughly what it cost to buy. Put the tape or DVD in a safe-deposit box or give it to a trusted friend outside of your neighborhood for safekeeping. Typical home insurance will pay to replace your computer, but it won't replace the personal data that you've loaded onto it. If you have costly music or video files on your hard drive, make sure you back them up and periodically deposit those backup files in your safe-deposit box, too.

OTHER LIMITS

People with expensive jewelry, tools or electronic devices should know that most policies have separate limits on coverage for more than a dozen different items, including computers and cash. It's easy and inexpensive to buy extra coverage for your racing bikes or jewelry. But, if you don't have additional coverage, you'll be reimbursed only to the standard limits. For instance, many policies won't pay more than \$100 for collectibles such as baseball cards and vintage comic books. You may want to consider secure, fireproof storage for these types of belongings.

UNCOVERED PERILS

Homeowners coverage only kicks in when your property is destroyed by a "covered peril." That's typically a fire, windstorm, rainstorm, tornado or hurricane. What's generally not covered, unless you bought the coverage separately, is damage from an earthquake or "rising tide of water." If you want quake or flood coverage, call your agent to secure coverage.

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