CONSUMER GUIDE TO RESIDENTIAL INSURANCE*

INTRODUCTION

Homeowners need to consider four major factors when shopping for insurance for their property:

(1) *The types of policies needed* (e.g.. homeowners, renters, condo, fire and extended coverage? Flood? Earthquake? Floaters?);

(2) *What policy limits, deductibles, and coverage to select;*

(3) *The premium;*

(4) *Whether or not the agent or broker and insurer are properly licensed.*

TYPES OF POLICIES AND COVERAGES

A "Homeowners insurance" policy consists of several different coverages combined into a single package. These include:

* Damage to the house (dwelling) and other structures (detached garage, fences) on the property from various perils, such as fire, glass breakage, and many others.

* Damage to personal property (furniture, appliances, fixtures, clothing, etc.) from the covered perils.

* Reimbursement for loss of use of the house (e.g.. reimbursement if you have to vacate the house and live in a hotel or apartment; loss of rental income if you were renting a room in the house).

* Liability coverage protects you if you are legally liable for negligent acts (e.g. a visitor slips and falls on your driveway, your tree falls on your neighbor's house, your dog bites someone). Liability coverage will also pay for defense against lawsuits filed against you and pay a judgment against you if the defense is unsuccessful, up to the policy limit.

There are several types of policies for homeowners. Most are designated with the letters "HO." The HO-3 is the typical policy for an owner-occupied, single family dwelling.

There are also policies with limited coverage available for purchase generally referred to as fire and extended coverage policies. These policies <u>do not</u> include the same coverage that is available under a HO policy. For instance, coverage for personal property, jewelry, liability or additional living expense, etc. is usually not covered.

All insurance policies have sections that contain definitions, conditions and exclusions. To understand fully what your policy covers, you must read the entire policy. Any questions you have should be answered to your satisfaction by your agent/broker or insurance company before a loss occurs.

Flood and earthquake policies are sold separately from homeowners policies, and are discussed later in this pamphlet.

<u>Renters and condo insurance</u>

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* Prepared for consumers by the California Department of Insurance. A broker must give this pamphlet to its insured whenever the broker charges a broker fee and sells a homeowners policy, pursuant to Title 10 of California Code of Regulations Chapter 5, Subchapter 1, Article 6.8, Appendix A, VIII.

The HO-4 policy is designed for renters. It covers your personal property if it is stolen or damaged from a covered peril, and pays the expenses of finding a new place to live while your rental unit is being restored due to damage from a covered peril. It also provides liability coverage. The condo policy, HO-6, provides similar coverage for condo or co-op owners.

Flood insurance:

Flood insurance is provided almost exclusively by the National Flood Insurance Program (NFIP), operated by the Federal Emergency Management Agency (FEMA). Federal law requires mortgage lenders to assure that all properties within designated flood prone areas have flood insurance before the lenders provide a mortgage on such properties. Real estate agents will almost always know, or can find out, if a property requires flood insurance. More information on flood insurance can be found at http://www.fema.gov/nfip/.

Earthquake insurance:

Homeowners can obtain earthquake insurance from two sources: The California Earthquake Authority (CEA), and private insurance companies. The CEA is a publicly administered, privately financed agency that offers basic earthquake insurance for homeonwer, renters, condominium owners and mobile home owners. The CEA was created after the 1994 Northridge earthquake. It currently provides most of the earthquake insurance sold in the state. Insurance from a private insurance company may be more or less expensive than insurance from the CEA for a similar type of policy, depending on where you live.

Earthquake policies can vary greatly in terms of exclusions and deductibles. Deductibles are much higher than with an HO policy; fifteen percent (15%) of the amount of coverage being a typical deductible. On a building with a replacement cost of $200,000, this would mean you would have to incur at least $30,000 in damage before the earthquake policy would provide any payment to rebuild your house. And, even if your damage exceeded the deductible, you would still need $30,000 of your own savings to restore your house to its pre-earthquake condition. The good news is that lower deductibles may be available, if you are willing to pay a higher premium.

Some earthquake insurance policies have extensive exclusions – patios, decks, detached garages, fences, swimming pools, satellite dishes, and sprinkler systems, to name a few. Be sure you read through the list of exclusions when comparing policies.

In sum, be extra careful when buying an earthquake policy. Be sure to compare premium, coverage, and deductibles before you make a final decision.

Floaters:

HO policies usually include special limits on items like cash, gold, silverware, jewelry, watches, furs, gems, and computers. A floater is a type of policy, or endorsement to a HO policy, that may increase the limit, or provide specific coverage for these items.

LIMITS

In general, a "limit" is the maximum amount that an insurance company will pay under a policy. When you buy homeowners insurance you will need to decide what limits to select for the dwelling coverage portion of the policy, for the personal property portion, and for the liability coverage portion.

The correct limit on the dwelling part of the policy usually will be the estimated amount, based on current building costs, to rebuild your house if it is totally destroyed. This is called the "replacement cost." The insurance company or agent can help to determine the replacement cost of your house. If you obtain a limit that equals the replacement cost, the insurer will pay that amount to replace your house if it is totally destroyed. You should also consider obtaining a policy that automatically adjusts your replacement cost coverage for inflation. Additionally, you may be able to purchase coverage for building code upgrades which covers the extra cost to rebuild the house to meet current building codes.

TIPS ON BUYING INSURANCE ON YOUR HOME

1. Before buying a home consider the cost of insurance. Factors such as location in or near a flood or earthquake zone, brush area, or steep hillside will have an impact on the cost and availability of affordable insurance.

2. Insure only your house, not the land. Your land won't burn in a fire or perish in any of the other covered perils, so you should base your limits on the cost to rebuild the house, not the cost of the land and the house together.

3. Ask about discounts that may be available, such as:

* Having your homeowners and automobile insurance with the same insurance company.

* Being a senior citizen.

* Being insured with the same insurance company for many years.

* Being a member of a group or association.

* Being a non-smoker.

* Having a smoke detector or burglar alarm.

4. Obtain quotes from several insurers, either directly or through agents or brokers.

5. If you purchase a fire and extended coverage policy instead of a homeowners policy, be sure to consider whether or not you will need to purchase additional policies to cover liability, personal property, jewelry, cash, etc.

6. Consider higher deductibles to save on premium (but only if you can afford to absorb a loss below the deductible amount).

7. Consider the insurance company's reputation for service, as well as price. The California Department of Insurance annually evaluates homeowners insurance companies for price and for the ratio of complaints to the number of policies. A high complaint ratio may mean that you will have more problems with accurate or timely premium billing, policy service, or claims.

8. Before you purchase insurance, make sure the agent/broker and insurer you select are licensed by the California Department of Insurance. Call 1-800-927-HELP (or 213-897-8921 from the Los Angeles area) to determine the license status and obtain additional information. You may also wish to visit our website for additional information: www/insurance.ca.gov.