

Homeowner's and Renter's Insurance

WHY DO YOU NEED HOMEOWNER'S INSURANCE?

If you buy a house or rent an apartment, a homeowner's or renter's policy can give you peace of mind. It can protect you from serious financial loss:

- Your property (buildings and contents) could be damaged or destroyed.
- You could be held legally responsible if visitors to your home are injured.

Property and liability insurance are combined into *packaged policies* called homeowner's insurance to help pay the costs of such losses. In North Carolina, there are six basic policies, with different options for different situations.

If you are buying a house, the mortgage lender will require you to purchase insurance that protects the loan in case the house is damaged. The insurance you purchase will also provide financial protection for your personal property and your personal liability to others.

Renting an apartment (or a house) also carries certain risks and responsibilities for which you can purchase insurance. As a tenant, you probably own furniture, clothes, and other valuable items. Your landlord's insurance on the building will not pay for losses to your personal property. A special type of homeowner's policy covering personal property and liability is available for renters.

To get the most for your insurance dollar, it's important that you understand basic home insurance.

PROPERTY COVERAGE

If you buy a house in North Carolina, it must be insured for at least 80 percent of its replacement cost or it will not qualify for repair or replacement without having deductions made for depreciation. Some insurance companies require you to carry insurance for 90 to 100 percent replacement cost. The amount of coverage required is usually less than 100 percent because the land and foundation are part of the house's value and are not considered insurable.

Coverage for personal property is usually written at 50 percent of the value of the home. You need to ask the insurance agent and check the policy to see if claims for loss of personal property will be for its actual cash value or for the cost of replacing it.

You have the option of increasing the coverage on your house and contents each year in response to higher replacement costs caused by inflation. If your company bills you for this increased coverage, you are not required to accept it.

You can purchase full coverage on your house and personal property for an additional cost. Full coverage will pay the replacement cost for both the dwelling and your personal property, rather than its depreciated value.

POLICY FORMS

When you buy a homeowner's policy, your house and personal property are insured against many causes of loss or damage. These are called *perils*. The specific perils covered depend on which policy form you choose.

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In the United States, there are seven standard homeowner's forms. Consumers in North Carolina may choose from six of these forms. Four of them cover dwellings, contents, and personal liability. The other two cover only personal property and liability insurance—one for renters and the other for condominium owners. The names of these six forms are included in the chart below. Look them over and think about which homeowner's form might be best for your needs.

Homeowners	HO-1	Basic form; limited losses covered. (11 named perils)
	HO-2	Broad form; additional losses covered. (18 named perils)
	HO-3	Special form; more losses are covered than HO-2.
	HO-8	Older home form—least amount of coverage.
Renters	HO-4	Renter's contents broad form.
Condo Owners	HO-6	Condominium form.

The homeowner's policy cannot be used to cover any mobile home, trailer home, or house trailer. You will need a special policy designed especially for your mobile home. The mobile home must be owner occupied. The insurance coverages are similar to the homeowner's policy. Your mobile home is covered, as are other buildings on the premises, personal property, and the loss of use. You also will have personal liability and medical-payments coverage if someone gets hurt on your property. To find out more about this policy and how to insure your mobile home, contact your insurance agent.

Look over the following chart to see which policy forms cover losses from the most common perils. Note that none of the policy forms covers losses from flood and rising water or from earthquake. Special insurance must be purchased for either of these perils.

Homeowner's Covered Losses						
Covered Loss	HO-1	HO-2	HO-3	HO-8	HO-4	HO-6
Fire	yes	yes	yes	yes	yes	yes
Lightning	yes	yes	yes	yes	yes	yes
Windstorm	yes	yes	yes	yes	yes	yes
Explosion	yes	yes	yes	yes	yes	yes
Flood	no	no	no	no	no	no
Rain through roof	no	no	yes	no	no	no
Earthquake	no	no	no	no	no	no
Weight of snow	no	yes	yes	no	yes	yes
Plumbing freezing	no	yes	yes	no	yes	yes
Falling objects	no	yes	yes	no	yes	yes

COVERAGE PARTS

Homeowner's or renter's insurance is sold as a "package" policy, combining insurance for your dwelling (for actual home owners only), your personal property, and your liability for injury to others.

Every homeowner's policy is divided into two sections.

Section I coverage is for property. It covers repairs or replacement for your house and personal property up to the amount of coverage you purchase. (You can increase your personal property coverage to replacement value. You can buy special coverage for valuable possessions. You can protect against rising costs of replacement with an inflation guard endorsement.) Also covered are additional living expenses, in case damage to your home forces you to live temporarily in a hotel and eat in restaurants.

Section II is for liability and medical payments. It covers legal obligations resulting from injuries or damages caused by you or a member of your family living in the same household. It also includes the cost of defending you if you are sued. (This coverage does not apply to liability resulting from the use of an automobile, which must be covered by an auto insurance policy.) The standard amount of liability coverage is \$100,000. (You can purchase more or less than this amount of coverage.) The standard coverage for medical payments is \$1,000. You also can increase or decrease this coverage. It is recommended that more coverage be carried, as the increase in premiums is very small and medical bills can be very costly.

There are six coverage parts for forms HO-1, HO-2, HO-3, and HO-8: Coverages A, B, C, D, E, and F.

Coverages	HO-1, HO-2, HO-3, HO-8
<i>Section I</i>	
Coverage A	Your house and any building attached
Coverage B	Buildings that are not attached: 10% of Coverage A Amount
Coverage C	Personal property that you own: 50% of Coverage A Amount
Coverage D	Additional living expenses: 20% of Coverage A Amount for HO-2, HO-3 10% of Coverage A Amount for HO-1, HO-8
<i>Section II</i>	
Coverage E	Liability: \$100,000
Coverage F	Medical payment: \$1,000

There are four coverage parts for forms HO-4 and HO-6: Coverages C, D, E, and F.

Coverages	HO-4 Renters
Coverage C	Personal property (your contents)
Coverage D	Additional living expenses: 20% of Coverage C Amount
Coverage E	Liability: \$100,000
Coverage F	Medical payment: \$1,000

Coverages	HO-6 Condominium Owners
Coverage C	Personal property (your contents)
Coverage D	Additional living expenses: 40 % of Coverage C Amount
Coverage E	Liability: \$100,000
Coverage F	Medical payment: \$1,000

PRICING OF HOMEOWNER'S POLICIES

The pricing of your homeowner's policy is based on three primary factors in North Carolina—territory, fire protection class, and construction.

Territory—each area of the state has been classified with a territory number. Ask your insurance agent which territory you are in.

Inland 2: territories 32-35

Inland 3: territories 36-40

Seacoast: territories 42-43 (as of 10-1-94)

Beach: territories 5 and 6 (as of 10-1-94)

Fire Protection Class—ranges from 1 to 10 with protection class 1 being the best and protection class 10 being unprotected.

Construction—either frame or masonry.

Urban areas usually have much higher crime rates than rural areas, which increases rates. Cities with better water supply and fire-fighting equipment will receive better fire rates. Houses made of wood or aluminum siding over wood will have a higher premium than a brick house (see

next chart for premium comparison).

If you wish to purchase basic coverage in North Carolina as a homeowner, you will find that the premiums will be the same for every company, given the same house value and other pricing factors. These rates are set by the North Carolina Rate Bureau*. The basic deductible for a homeowner's policy in North Carolina is \$250. (A deductible is the amount of the loss that you pay for yourself before the insurance company begins paying.) You can probably reduce your premium by agreeing to pay a higher deductible. The following example compares the rates effective Oct. 1, 1994, for basic coverage in North Carolina. (Rates for HO-1 are not included as very few policies for this form are requested and written.)

\$60,000 dwelling Fire Protection Class 1-6	Frame			Masonry		
	HO-2	HO-3	HO-8	HO-2	HO-3	HO-8
Territory 42, 43	\$359	\$378	\$473	\$341	\$359	\$449
Territory 32	\$287	\$302	\$378	\$273	\$287	\$359
Territory 33	\$276	\$291	\$364	\$262	\$276	\$346
Territory 36	\$280	\$295	\$369	\$266	\$280	\$351
Territory 40	\$261	\$275	\$344	\$248	\$261	\$327
Territory 5, 6	\$469	\$494	\$618	\$446	\$469	\$587

In order to determine the best form and level of coverage for your situation, think carefully about the losses that might occur and the amount of money you have available to help pay for them. Make a list of all personal property with date of purchase and cost. Get a written appraisal for any special possessions. Take pictures or make a video of your possessions. Keep your household inventory in a place that is safe from fire, storm, or theft.

SHOPPING FOR INSURANCE

Ask relatives or friends to recommend insurance agents or companies from whom they have had good service (prompt response to questions or problems and prompt payment of claims).

Check the yellow pages of your telephone book for insurance representatives with the recommended companies.

Ask a reference librarian to help you find ratings of the companies you are considering and recent articles in

*The North Carolina Rate Bureau was created by the General Assembly to represent the insurance industry. The Bureau files recommended base rates with the Department of Insurance (for all insurance companies writing certain kinds of insurance policies in the state), which must then be approved by the Insurance Commissioner or resolved in court. The rates "shall be fair, reasonable, and not discriminatory." Rates, coverages, policy forms, and other information in this publication have been set by the Bureau for North Carolina. Rules and rates in other states may be similar or different.

consumer and personal finance magazines. You could call the Consumer Services Division of the North Carolina Department of Insurance and ask if there is a larger than average number of complaints on file about one or more specific companies. The toll-free number is 1-800-546-5664.

Talk with insurance agents in person. Have the necessary information ready about fire protection and construction. Ask questions about anything you do not understand, and take good notes. (Compare the answers you are given with the policy itself when it arrives. Only the terms of the policy are enforceable.)

Consider the largest deductible you can afford—the amount of loss that you agree to pay. The higher the deductible, the lower the premium.

Compare the cost and coverage from two or three companies. Remember to consider the service reputation of the insurance representative and company. Check the internal limits for specific personal property and find out what it would cost to increase the coverage.

Choose the policy you believe is best for you.

AFTER YOU'VE PURCHASED YOUR INSURANCE

Read your policy carefully when it arrives so that you will know exactly what it covers and what to do if you have a loss.

Keep the policy and a copy of your inventory of your personal property in a safe place away from your home. Keep your agent's name and phone number in your wallet.

Be sure to contact your insurance agent and describe additions to your house or personal property so that your insurance coverage can be kept up to date.

Report all claims promptly and accurately, and take pictures of damage. Keep detailed records of all expenses. Make copies of all items you submit with your claim.

If you have questions:

- Don't hesitate to ask your insurance agent.
- For general information about homeowner's and other insurance, you can contact the National Insurance Consumer Helpline—a toll-free consumer information telephone service sponsored by insurance industry trade associations. They answer questions, refer complaints to appropriate sources, and send consumer brochures upon request. The number for the Helpline is 1-800-942-4242. It operates from 8 a.m. to 8 p.m. Eastern Time, Monday through Friday.

For specific information about insurance sold in North Carolina, call the Consumer Services Division of the North Carolina Department of Insurance. Trained counselors help consumers get answers to their insurance questions. They also work to help consumers resolve insurance problems. The toll-free number is 1-800-546-5664.

References:

North Carolina Rate Bureau rate books

Assorted approved policies on file with the North Carolina Department of Insurance

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