

SECTION 13: UNDERSTANDING HOW TO OBTAIN INSURANCE

For many people, one of the most confusing things about buying a home is understanding all of the different types of insurance that are required or optional. This section aims to demystify the various insurance policies.

Homeowners Insurance

➤ *Important Note
About Prepaid*

Property Insurance

When you are using personal property financing, some retailers and lenders may suggest that you pay for one year's premium of property insurance in advance by financing the premiums.

When premiums are financed, you pay interest on them, which increases the cost of your coverage but offers you no real benefit. If you decide to finance your insurance premium, be sure to shop around and not just take the insurance policy that is offered by the retailer.

Property insurance may not be financed with real estate financing.

As mentioned previously, when you borrow money to pay for a manufactured home, your lender will require that you buy homeowners insurance coverage in the amount of the loan before you close on your home. Homeowners insurance is a package policy that combines two types of coverage in one insurance policy: property protection and liability protection. Just as there are different types of properties (site-built and manufactured homes), there are different types of homeowners insurance and different amounts of coverage. Insurance companies may offer manufactured home coverage under a standard homeowners insurance policy or a special manufactured home policy.

Property Protection

Property protection covers your home, other structures and possessions if they are damaged due to perils, such as lightning, fire and wind. Most homeowners insurance policies break the property coverage into four main sections:

- Coverage A: The home (dwelling)
- Coverage B: Detached structures
- Coverage C: Contents (personal property) covered anywhere in the world
- Coverage D: Additional living expenses

When you buy homeowners insurance, you are usually told that you have an amount of coverage — for example, \$60,000. That is actually how much coverage you have for your home (Coverage A). Your insurance agent can help you decide on amount of insurance to purchase to cover your home. All the other coverages are percentages of Coverage A. For example, if Coverage B is 10 percent of A, Coverage C is 70 percent of A, and Coverage D is 20 percent, you would have \$6,000 of coverage for detached structures, \$42,000 for contents and \$12,000 for additional living expenses. Different companies use different percentages. Depending on the type of homeowners insurance policy you purchase, the perils covered will differ. All policies will tell you which perils are covered and which ones are not.

Replacement Cost

You will probably want your manufactured home to be replaced after it is substantially damaged, but many insurance policies use the concept of actual cash value, which is the replacement cost minus

depreciation. However, full replacement cost coverage, where you get the amount required to replace your home up to the limit of your policy, is available on many policies. In some cases, the insurance company requires you to purchase enough insurance (an amount equal to at least 80% of the value of your property) in order to qualify for replacement cost coverage. Be sure you have enough coverage for site improvements, the foundation and on-site additions.

Liability Protection

Liability protection is called third-party protection since it pays other people, not you. A typical homeowners policy provides \$100,000 of liability coverage, although the amount can decrease or increase as needed. The coverage applies if you become legally liable for injuries or damages (that are not auto-related) on and off your property. Liability protection also includes medical payment coverage that pays medical costs for people hurt on your property regardless of liability. It is usually limited to \$1,000 to \$10,000.

Shop around for a homeowners insurance policy that best fits your needs, with enough protection for your home and its contents at a reasonable price. Keep in mind, there are a number of factors that can affect the price you pay for homeowners insurance, including:

- Age and condition of your home
- Foundation type
- Rate of insurance losses in the area
- History of claims made on property
- Type of fire protection
- House size
- Type of contents
- Your credit score
- Type of policy
- Size of deductible or amount you pay for every loss
- Optional coverage
- Discounts for smoke detectors, burglar alarms, fire extinguishers, nonsmokers, retirees and multiple policies
- Company chosen

Use the “Homeowners Insurance Quote Guide,” below, to help you comparison shop for homeowners insurance by talking with at least three different insurance companies. In addition to using the quote guide to help you make a decision, ask the following questions:

Understanding Your Options: Manufactured Housing

- How well does the insurance company understand the needs of manufactured home owners?
- How long has the company insured manufactured homes?
- Are there any foundation system requirements to qualify for coverage, such as approved tie-downs and ground anchors for simple foundations?
- Does the company have a track record of responding quickly and handling claims fast?
- Are there any discounts on insurance premiums for installing special safety devices, such as smoke detectors?

If you have a loan and do not buy homeowners insurance, your lender will probably buy insurance for you to protect the lender's interests only and then charge you for it. This is called "forced placement" and can be costly for minimal coverage. If you decide that you want or need homeowners insurance but cannot find an insurance company that will sell you a policy, many states have a "Fair Plan" to help you. Ask your housing counselor, or contact your state's insurance department for more information.

Before you move into your manufactured home, it is important for you to read over your homeowners insurance policy and make sure that you understand everything *before* you file a claim. Review your policy annually, or at least each time the policy is renewed, to make sure that you are maintaining adequate coverage. Consider making a list of your personal property to speed the claims and reimbursement process if a loss should occur.

You have the right to cancel your policy with a particular provider at any time, but lenders require you to maintain adequate insurance protection for the financing term. Your insurance company also can cancel your coverage at any time, but they must notify you in writing and give you a full refund of any unused premium. Remember, even after your loan is paid off, it is in your best interest to have enough insurance protection to protect you and your home from accidental losses.

Homeowners Insurance Quote Guide

Use the following guide to help you compare what you are buying.

WHAT ARE YOU BUYING?	QUOTE #1		QUOTE #2		QUOTE #3	
	AMOUNT OF COVERAGE	COST	AMOUNT OF COVERAGE	COST	AMOUNT OF COVERAGE	COST
Property Coverage						
<i>Dwelling</i>						
Replacement cost						
Actual cash value						
<i>Other Structures</i>						
Garage						
Other						
<i>Contents (personal property)</i>						
<i>Contents Endorsements</i> (extra coverage for)						
Antiques						
Jewelry						
Furs						
Silverware						
Money						
Business property on premises						
Business property off premises						
Computer equipment						
Liability Coverage						
Liability						
Medical payments						
Additional Protection						
Fire department charges						
Debris removal						
Trees and shrubs						
Other						
Other						

Understanding Your Options: Manufactured Housing

WHAT ARE YOU BUYING?	QUOTE #1		QUOTE #2		QUOTE #3	
	AMOUNT OF COVERAGE	COST	AMOUNT OF COVERAGE	COST	AMOUNT OF COVERAGE	COST
Optional Coverage						
Sewer back-up						
Mine subsidence						
Flood						
Earthquake						
Other						
Any Discounts?						
Security devices						
New/renovated home						
55 and retired						
Safety features						
Foundation type						
Other						
Total Annual Cost						

Flood or Special Hazard Insurance

Flood or special hazard insurance may be required by the lender if your manufactured home is in a flood zone or special hazard area, which is not covered under standard homeowners insurance. Flood insurance is available to any property owner located in a community participating in the National Flood Insurance Program (NFIP). All areas are susceptible to flooding — not just those in flood zones — due to such events as heavy rains, melting snow, inadequate draining systems, failed dams, tropical storms and hurricanes. Flood coverage is generally not included with a homeowners insurance policy, so you should consider purchasing flood insurance to protect your home from unexpected flood damage. To buy a flood insurance policy, contact your insurance agent or call the NFIP at (888) FLOOD29 to find an agent in your area that offers flood insurance. Visit www.fema.gov/nfip for more information about the NFIP.

Mortgage Insurance

As discussed in section 7, *Understanding Financing Options for a Manufactured Home*, mortgage insurance is frequently required for certain types of real estate loans if your down payment is less than 20 percent of the price of the house. It protects the lender in case you do not pay your mortgage and the lender has to foreclose. Usually, you will pay a mortgage insurance fee at closing, and then you will pay a monthly mortgage insurance fee as part of your mortgage payment until you have paid off 22 percent of your loan for automatic cancellation. Your lender will make all of the arrangements for the mortgage insurance.

Mortgage or Credit Life Insurance

Mortgage or credit life insurance is always optional. This is a form of life insurance that pays off your loan if you die so that your family can continue to live in your manufactured home even without your income. Some lenders will send you information recommending that you get mortgage or credit life insurance, but it is never required. You should talk to your own insurance agent to decide whether mortgage or credit life insurance is a good idea for you or whether you should consider a separate life insurance policy. In any case, do not finance mortgage or credit life insurance without first consulting your housing counselor.

Title Insurance

Title insurance is usually required to protect the lender against any problems with the legal ownership (the title) of the land or property you are purchasing as real estate. Though it is not required, it is highly recommended that you buy an owner's policy to protect your equity in the property. Your title insurance officer (who usually works for a title company) orders the title search and title insurance policy.

➤ Important Note

About Life Insurance

Once you start shopping for life insurance, you will find that there are many different products available. In order to select the one that is right for you, follow some of the tips listed below:

- *Research the different types of life insurance available.* Understanding products' features will help you choose the policy that's right for you. For most families, term life insurance is a good option, providing adequate coverage at a low cost.
- *Shop around.* Insurance rates vary, and you can get a wide range of prices for similar insurance. Get comparison prices. You should also shop for a quality insurance company and a responsive agent.
- *Buy enough to protect your family.* How much you need depends on a number of factors, such as your current income, the size of your mortgage and the number of children you have.
- *Be wary.* Avoid any high-pressure sales tactics to purchase an expensive policy. Don't rush into buying a policy until you've looked at all of the possibilities.