



Question: What do I need to know about insurance before I buy my first home?

A: If you are planning to buy a home, you will want to protect what is probably your largest single investment. When we think about insuring our home we usually mean the structure and the contents. Fire, theft and natural disasters immediately come to mind as reasons to insure your home. How would you replace whatever was damaged, destroyed or stolen?

For these concerns many people will buy Homeowners' Insurance (also called Hazard Insurance). Most such policies will cover damage to your property and its contents up to whatever limits are set in the policy and will also protect you against liability that you and others living in the house have for any injury or damage caused to another person or their property. For example, if your dog ruins the neighbor's custom patio furniture, your liability coverage would come into play. Again, the amount and kind of liability coverage you have is dependent on the limits you choose when you purchase a policy.

Homeowners' policies cover some forms of disaster, such as fire, but often do not include coverage for floods or earthquakes. If you live in areas where these events happen regularly, then separate coverage may be needed – or even required. The Federal Government, through a program managed by FEMA (Federal Emergency Management Agency), offers flood insurance in more than 20,000 communities across the country. This form of coverage can be quite expensive.

You are not required by law to have homeowners' insurance. If, however, you have financed the purchase of your home with a mortgage, your lender is likely to require you get homeowners insurance. This is to protect their investment in you and your property. Lenders may also require a particular type of insurance if the home is in a high risk area for disaster.

Buying a home involves other kinds of insurance, as well. Title Insurance is purchased at the time that you “close” on your new property. The home you are buying may have previous owners and the land on which it sits certainly had other owners in the past. You need Title Insurance in the event someone in the chain of ownership of either the land or the house did anything that calls into question who has “clear title” to the property.

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There are two forms of this insurance – one that protects your lender up to the value of your mortgage and another that protects you as the owner up to the total purchase price of the home (including your down payment). If you plan to have a mortgage on your home you will need to make the one-time purchase of Title Insurance and you will need to decide which level of coverage you want to buy.

Some lenders may also require that you purchase Mortgage Insurance. This insurance provides no benefit to the buyer but protects the lender against a default on the loan. The advantage to purchasing Mortgage Insurance is that your lender will likely allow a smaller down payment, making it easier for you to buy the house.

Another type of insurance to consider is a Home Warranty. These are essentially service agreements purchased either by the builder if it is a new home or the seller if the home has been previously occupied. Each policy offers different coverage but will likely include mechanical problems (like plumbing and heating), workmanship defects and structural problems (if a new home). If there is a covered “defect,” then the warranty company would step in to take care of the repair or its cost.

With so many choices in the insurance marketplace, it is a good idea to contact your REALTOR® and a reputable insurance broker to help you sort through your options.

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