DEPARTMENT OF
Professional & Financial Regulation
STATE OF MAINE

- OFFICE OF SECURITIES
- BUREAU OF INSURANCE
- CONSUMER CREDIT PROTECTION
- BUREAU OF FINANCIAL INSTITUTIONS
- OFFICE OF PROF. AND OCC. REGULATION

A Consumer's Guide to…
Homeowners Insurance

This guide provides information on how to make decisions when you buy homeowners insurance. You have a choice in coverages, and prices will differ between insurance companies.

There are two major reasons to buy homeowners insurance:

- **To protect your assets.**
  - Homeowners insurance covers the structure of your home and your personal property.
  - Homeowners insurance liability coverage protects you if you are legally responsible for damage to another person's property or for injuries to another person.
- **To satisfy your mortgage lender.**
  - Most mortgage lenders require you to have insurance as long as you have a mortgage and to list them as the mortgagee on the policy. If you let your insurance lapse, your mortgage lender will likely obtain its own insurance. You may be required to pay for this insurance until you get your own homeowners policy again, and the cost could be added to your loan. Such coverage is often quite costly, generally is limited to damage to the structure of your home, and protects only the lender.

Coverages in a Homeowners Policy

Most homeowners insurance policies provide a package of coverages. The main types of coverage are described below.

- Dwelling. Pays for damage to your house and to structures attached to your house, such as an attached garage or attached barn. This includes damage to fixtures, such as plumbing, electrical wiring, heating and permanently installed air-conditioning systems.
- **Other Structures**. Pays for damage to fences, tool sheds, freestanding garages, guest cottages and other structures that are not attached to your house, if the structure is not used for business or rented to others.
- **Personal Property**. Reimburses you for the value of your possessions, including furniture, **electronics**, appliances and clothing that become damaged or lost even when they aren't on your property, such as those at an off-site storage locker or with your child at college.
- **Loss of Use**. Pays some of your additional living expenses if your home is uninhabitable while it is being repaired.
- **Personal Liability**. Covers your financial loss if you are sued and found legally responsible for injuries to someone else or for damage to another person's property.
- **Medical Payments**. Pays medical bills for people injured while on your property or by your pets.

Keep in mind that you're covered only if the loss is caused by a peril your policy covers. For example, if your home becomes unlivable due to an earthquake and your homeowners policy does not cover earthquakes, your policy won't pay for loss of use of your home. Review your policy for the limits of your coverage.

Flood Insurance

Homeowners policies **DO NOT** cover flood damage. Depending on where your home is, you may qualify for flood insurance through the National Flood Insurance Program or through a private insurer. Contact an insurance agent for more information. If your home is in a flood plain, your mortgage lender will usually require you to buy flood insurance. (back to top)

Types of Homeowners Policies

To be reimbursed for damage to your property, a covered peril (such as fire, theft or windstorm) must have caused your loss. Which perils your policy covers depends on the type of policy you buy. The most common types of homeowners (HO) policies are listed below. All of the policy types cover your dwelling and its contents, as well as personal liability and medical payments.

Another type of policy available is a *dwelling property* (DP or DF) policy. It can be written to cover an owner-occupied residence or seasonal home, or a tenant-occupied property, and covers the dwelling and contents. A separate *dwelling liability* form is available to add coverage for liability and medical payments.

- The **Basic Form** insures your property against only a short list of perils named in the policy. (HO 1 and DP 1 forms.) It covers damage from fire and lightning. For an additional premium, the Extended Perils Coverage includes coverage for damage caused by windstorm/hail, explosion, riot and civil commotion, aircraft, vehicles, smoke, and volcanic interruption. Coverage for vandalism/malicious mischief can also be added for an additional premium.

- The **Broad Form** insures your property against those in the basic form (including the extended perils and vandalism, plus several additional named perils, including falling objects, weight of ice/snow, and freezing. (HO 2 and DP 2.) The most notable difference between the HO and DP is that HO 2 and HO 3 forms include coverage for theft of personal property. That coverage must be purchased separately by endorsement to a DP 2 or DP 3.

- The **Special Form** is the most popular form. (HO 3 and DP3). This form insures your property against all perils, except those the policy specifically named as **not** covered. Perils commonly excluded are flood and earthquake.

- The **Tenants Form, or HO 4,** is for renters. It insures your personal property against all of the perils named in the Broad Form and also provides liability and medical payments coverages.

- The **Condominium Unit Owners Form** is for owner-occupants of condominium units. It insures your personal property and your walls, floors and ceiling against all of the perils in the Broad Form, and also provides liability and medical payments coverages.

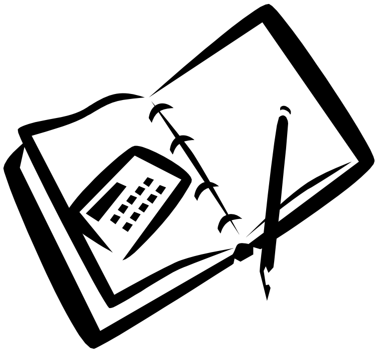
Special Policies

Some companies have specific *mobile home* policies, while other companies may use one of the homeowners or dwelling policies to provide coverage for this type of home.

If your home is on land used for farming or raising livestock, ask about a *farmowners* policy which has specialized coverage for those exposures.

Although the dwelling policy follows the same Basic, Broad and Special Form categories, overall it provides less coverage than the *homeowners* forms, and at a higher cost. (back to top)

Limits of Coverage



Your insurance agent usually will help you decide how much dwelling coverage to buy when you get homeowners insurance. Your coverage should equal the full replacement cost of your home. Note that replacement cost and market value are **not** the same. The **market value**, which includes the value of your land, depends on the real estate market. Replacement cost is also different from the assessed value used to determine property taxes. **Replacement cost** is the amount it would cost to rebuild your home (same size and features) in the event of a total loss. Replacement cost should be the basis of your dwelling coverage.

The limits of your coverage for other structures, for personal property and for loss of use of your home are expressed as percentages of your dwelling coverage (see Table 1). For example, if your dwelling coverage limit is $150,000 and your coverage for personal property is limited to 50% of your dwelling coverage, your coverage for personal property would be $75,000. Check your policy, as coverage limits might be based on percentages different from those in Table 1. Many companies have options to increase these limits, generally in increments of 10%, for an additional premium. You select your coverage limits for your personal liability and for medical payments.

Table 1. Policy Limits

Coverage Component	**Typical Limit of Coverage**
Dwelling	You Choose
Other Structures	10% of Dwelling Coverage Limit
Personal Property	50% of Dwelling Coverage Limit
Loss of Use	20% of Dwelling Coverage Limit
Personal Liability	You Choose
Medical Payments	You Choose

Replacement Cost and Actual Cash Value

You can choose to insure your home and its contents for either replacement cost or actual cash value. **Replacement cost** is the cost to rebuild your home or repair damages using materials of similar kind and quality, or to replace damaged belongings with new ones of similar quality. **Actual cash value** (ACV) is the replacement cost of the property less depreciation, which considers its age and wear and tear. Actual cash value coverage pays you for the value of the damaged property at the time of the loss, and may not be enough to fully repair or replace the damaged property.

You should review your dwelling coverage from time to time to be sure it doesn't drop below the cost to replace your home (see Replacement Cost/ACV box above). Many insurers require homeowners to insure their homes for at least 80% of the replacement cost, and some require 100%. If the homeowner fails to insure for the percentage of replacement cost required by the policy, a penalty is applied to partial losses as well as total losses.

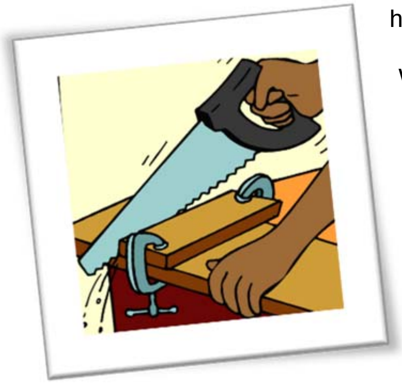
For example, if it would cost $100,000 to replace your home and it is insured for $80,000 (80% of its replacement value), and a fire causes $25,000 worth of damage, then your insurance will cover the full $25,000, if 80% of the cost to replace the home is the required minimum limit. However, if the same home is insured for $60,000 (which is less than 80% of its replacement value), and there is a

$25,000 loss, your insurance would pay for only part of the loss. You would have to pay the balance yourself. Your company would pay for damages to your property based on the following formula:

<u>Amount of Insurance on Your Policy</u>	<u>$60,000</u>	= 75%
Amount of Insurance Required by Policy (80% of $100,000)	$80,000	

Using these figures, your company will only pay for 75% of your $25,000 loss: 75% x $25,000 loss = $18,750 paid by the company. You will have to pay the remaining $6,250.

Insuring your home for the appropriate percentage of its replacement cost is very important. Check with your insurance agent or company to see what is required. Most homeowners insurance policies cover the contents of a home on an ACV basis. Many insurers offer an option to insure contents at replacement cost. The premium will be somewhat higher for this coverage; however, you may want to consider this option.



Whether your home is insured for replacement cost or ACV, it is important to keep track of its value. For instance, improvements such as adding a new room or new insulation or upgrading your kitchen increase the replacement cost of your home, as does inflation in the cost of building materials. This can occur even while the market value of the home may decreases in a bad economy.

Check with your insurance agent or company at least once a year to make sure your policy gives you adequate coverage. (back to top)

Deductibles

A deductible is the amount you have to pay out-of-pocket on a claim before the policy pays the loss. The deductible applies to coverage for your home and personal property and applies to each claim. Higher policy deductibles help reduce your policy premium but put more of the loss on you. A policy with a $1,000 deductible will have a lower premium than the same policy with a $500 deductible. Some policies have special deductibles for certain perils, such as windstorm, that may be expressed as a percentage of your coverage limit. For example, if your dwelling limit is $150,000 with a 1% windstorm deductible, your deductible for that type of loss would be $1,500.

Having a higher deductible can be a good way to save money on your homeowners insurance premium and to submit fewer claims. However, be sure you can afford the deductible in case you have a loss. (back to top)

Optional Coverages

You can select other coverages to add to your protection. Sometimes, you can add coverage by buying an **endorsement** to a policy that you already have; other times, you must **buy another policy** to cover a specific peril or a specific item of property. (An endorsement is a document that makes a change to an insurance policy to add coverage, policy terms or exclusions to a policy without having to create and issue a new policy.)

<u>Endorsement</u>

An endorsement is a document that makes a change to an insurance policy to add coverages, policy terms or exclusions to a policy without having to create and issue a new policy.

Some reasons you might want to add coverage are:

- **To cover perils most homeowners policies don't cover.** The National Flood Insurance **Program** writes most *flood insurance policies*, although some insurance companies also sell it. Many insurance companies sell *earthquake* coverage as an endorsement to your homeowners policy. While homeowners policies cover damage caused by *windstorm and hail,* policies in coastal areas may limit this coverage by requiring a percentage deductible. You might be able to buy endorsements to cover damage caused by *mold* or by *sewer or drain backups and sump pump overflow* because most homeowners policies offer limited or no coverage for these types of events.

- **To increase your current coverage.** *Extended replacement cost coverage* may be available. This generally will pay up to 25% over your policy limit if rebuilding your home is more costly than expected. Endorsements are also available to amend coverage on your personal property to a replacement cost basis, and/or to increase the perils covered. An *inflation guard endorsement* raises your dwelling coverage limit annually in line with inflation. *Personal umbrella liability insurance* increases your liability coverage above the level available in a homeowners policy. A *scheduled personal property endorsement* (or "personal articles floater") covers jewelry, furs, stamps, coins, guns, computers, antiques and other items whose value might be greater than the limits available in your homeowners policy. An *ordinance or law endorsement* pays for the extra expense to rebuild your home in compliance with building codes and other ordinances or laws that didn't exist when your home was originally built. (back to top)

Business Use of Your Home

While homeowners insurance is not designed to cover most business uses of your home, some business uses may be covered, at least partially. For example:

- **Computers and laptops.** If you use your home computer or laptop for business purposes, it's often covered, but you should check your policy limits. Off-premises coverage is generally a lower limit than if the loss occurred on premises.

- **Daycare coverage.** Most homeowners policies provide a limited amount of liability coverage if you care for a friend's children and aren't paid. But if you are paid to provide daycare in your home, you must buy a daycare liability policy to cover exposures related to this business risk.

If you have a separate structure on your property that is used even partially for business, or an apartment over your garage that is rented to a tenant, you need to purchase other coverage. In many cases, an endorsement can be added to the policy. (back to top)

How Insurers Determine Your Premium

Many factors affect the premium you pay, including which insurance company you choose. Different insurance companies charge different premiums for similar coverage. How much insurance coverage you decide to buy will also affect your premium. Some of the other things that are likely to affect your premium are:

The characteristics of your home

- The cost to rebuild your home. This is not the same as the purchase price or tax-assessed value. Your insurance agent might help you estimate replacement cost using information about your home and its contents. Most insurers use software programs with regional expense data to calculate a replacement cost based on the size and features of your home.
- Whether your home is made of brick or wood. Premiums are usually lower for homes made primarily of masonry or brick (i.e. fire resistant) than for wood frame homes.
- The distance to your home from the fire department or a water source and the quality of your community's fire protection services.
- The age and condition of your home. The premium often is higher for older homes and homes in poor condition than for newer homes and homes in good condition.

Your choices and characteristics

- The coverages you choose, including optional endorsements.
- The deductible you choose.
- Insuring your home and autos with the same insurance company.
- The length of time you have been with your current insurer.
- Your credit history. To access your credit report, the insurance agent might ask you for your Social Security number. In many states, insurers use your credit history as a factor in your risk assessment. In Maine, insurers may not deny you insurance solely due to your credit history.

• Your history of filing claims for water damage, fire, theft or liability on homes you've owned.

Other household characteristics

• Having protection devices in your home, such as smoke detectors, a burglar alarm, sprinkler system, and deadbolts on doors or security devices for windows. Many insurers offer a discount if you have any of these.

• Having a wood-burning appliance or using space heaters.

• Having a swimming pool, trampoline or playscape that could cause injuries.

• The types of pets you have. Most insurers won't insure you if you own certain breeds of dogs, or dogs with a history of aggressive behavior.

• Operating a business from your home. (back to top)

Smart Shopping

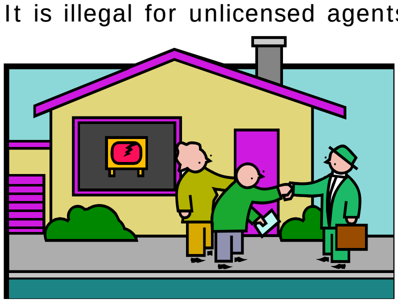
Different insurance companies charge different rates for the same coverage. Also, not all insurance companies provide the same level of claims service. Therefore, it makes sense to shop around for the best insurance company for your needs.

Insurance companies use these methods to sell their products:
• **Independent agents** represent several companies and can give you several quotes.
• **Exclusive agents** only sell the products of one insurance company.
• **Direct market** sales are over the Internet or by mail or telephone.

You can find insurance companies and agents through the phone book, on the Internet and television, and by asking friends and neighbors.

Use the Bureau's complaint index
Customer service is important to most consumers, particularly when they have a claim. You can get a sense of how well an insurer serves its customers from its complaint index. The Maine Bureau of Insurance has a homeowners complaint index comparison brochure on its website at http://www.maine.gov/pfr/insurance/consumer/brochures.htm. The index measures how many complaints the Bureau received relative to how much business the company does in the state. You can use this to compare the prior year's complaints against insurers.

Know your agent
It is illegal for unlicensed agents or companies to sell insurance. Business cards aren't proof that an agent is licensed. The best way to make sure you are dealing with a legitimate business is to call the Bureau of Insurance or check our licensee database yourself. It is available online at http://www.maine.gov/pfr/insurance/license_search.htm. If you buy insurance from an unlicensed agent or company, you might not have coverage in the event of a loss. If you suspect or determine that you have been contacted by an unlicensed agent or insurer, notify the Bureau of Insurance immediately so it can investigate. Your actions may protect someone else from being victimized.



Know your company's financial stability
You also want to buy insurance from a company that is financially sound. You can check the financial health of an insurance company by using ratings from independent ratings agencies such as Standard and Poor's, A.M. Best and Moody's. (back to top)

Getting Premium Quotes

Getting premium quotes is a good way to compare different companies' prices. You should first decide what coverages and policy limits you need. It's important that you know how much it would cost to rebuild your home. An insurance agent or a contractor might be able to help you estimate the cost to rebuild your home.

When you get quotes, *give the same information to each agent or company.* Ask for the same coverages and limits so that you know you are comparing apples to apples. To give you an accurate quote, the insurance agent or company will usually ask for a description of your house (such as where it's located, its square footage, when it was built and the type of construction). He or she also might ask about items that increase your insurance needs (such as owning pets and certain possessions). An agent or company inspector might visit your home to take photographs or ask you to provide photographs. The agent or inspector may also ask for other information (such as the distance from the nearest fire department, when the roof and furnace were last replaced, and the general condition of your home). Be sure to get rate quotes and key information in writing.

Ask if you qualify for any discounts. Some insurers offer a discount if you also buy your auto insurance from them, update the home's electrical or plumbing systems, get a new roof or add home security devices (for example, a burglar alarm).

Also, be sure to *find out how much your premium will change if you choose different deductibles*.

While you're getting quotes, you should also ask some of these questions:

- Are the agent and the insurance company licensed by my state? (The Bureau of Insurance can confirm the answers to these questions.)
- If I submit a claim, how will it affect my premium when I renew the policy?
- How will my credit history affect my premium?
- What does the policy cover? What doesn't it cover? What are the limits to the coverages?
- How much coverage do I need for my personal property?
- How much liability coverage should I buy?
- Should I buy flood insurance or earthquake coverage? Your homeowners insurance policy doesn't cover either.
- What types of water damage are **not** covered? Is mold damage covered? (back to top)

Your Responsibilities

A homeowners insurance policy is a legal contract. It states your rights and responsibilities and those of the insurance company. You should read your policy and be sure you understand it.

If you have questions about your insurance policy, contact your insurance agent or company.

When you first buy homeowners insurance, you will receive a policy—not a photocopy. If you don't receive a policy within 30 days, contact the insurance company, even if you bought the policy through an agent. (At renewal, often only forms that are new or have changed will be provided.) Keep your policy in a safe place and know the name of your insurer. If you still have questions, contact the Bureau of Insurance. (back to top)

Other Helpful Tips

Pay the premium on time. Most insurers don't offer a grace period for paying the premium; the due date is the due date, and Maine law allows an insurer to cancel if your premium is not paid when it is due.

Keep a file of all paperwork you completed online or received in the mail and signed—as well as any other documents related to your insurance, including the policy, correspondence, copies of advertisements, premium payment receipts, notes of conversations and any claims submitted.

Make a household inventory.

- Go through each room; write down and take pictures or videos of everything in the room.
- Inventory everything, including valuable items such as antiques, electronics, jewelry, collectibles and guns.
- Store your home inventory list in a secure place at another location, such as your workplace, a

safe deposit box, a relative's house or online.

- Annually review and update your home inventory, including your pictures/videos. Also update your inventory when you buy new items.
- Keep receipts with your home inventory for all repairs and new items you buy, for proof if you file a claim.

Maintain your home. A homeowners policy isn't a maintenance contract; it insures against damage from perils such as fire, wind and hail. It doesn't pay to repair items that simply wear out, like rotted porch railings or aging roof shingles. You are responsible for the upkeep of your home, such as repairing your roof when it begins to leak or cleaning your chimney flue so it doesn't catch fire.

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Filing a Claim

Read your policy. Your policy is your guide to the types of losses that may or may not be covered. How often you file a claim and the types of claims you file often affect your premium and whether your insurer will renew your policy.

If the cost to repair the damage is not much more than your deductible, you might want to pay for the repairs without filing a claim.

To file a claim, contact your insurance agent or company as soon as possible. Ask about forms or documents you'll need to support your claim. You are also required to protect your home from further damage. For example, you might need to board it up or clean up water from a backed-up drain.

The insurance company will assign a claims adjuster to assess the damage and determine the payment. These adjusters may be employees of the company or independent contractors. You should cooperate with the adjuster's investigation of your claim.

The adjuster will probably want to meet with you at your house to inspect the damage. Jot down notes and keep track of the dates of any conversations you have with your insurance agent or adjuster.

If there are disagreements between you, the insurer and the claims adjuster, first try to resolve them with your insurer. Don't feel rushed or pushed to agree with something you aren't comfortable with. It might help to have your contractor meet with you and the insurance adjuster.

If you and the insurer still disagree about the value of the claim, review the appraisal provision in your policy. It is a simplified procedure to resolve disagreements about the value of a property damage claim.

If you have trouble with or questions about your claim, you also may contact the Bureau of Insurance for help. The Bureau of Insurance has consumer services personnel who can help you work with your insurer to resolve disagreements. (back to top)

Losing Your Insurance

There's a difference between an insurance company cancelling your policy and not renewing it.

Cancellation means either you or your insurance company stop the coverage before the policy's normal expiration date (a homeowners policy term is normally one year). You can always cancel your policy for any reason. When you're a new policyholder, there's a limited period of time (90 days for your primary residence/120 days for a seasonal home) in which your insurance company can cancel your policy for any reason. After that, it can only cancel you for specific reasons permitted by law, such as nonpayment of premium, failure to comply with loss control recommendations, and the property being vacant without custodial care. The cancellation reasons must be stated in your policy.

Your insurance company must give you at least 10 days' notice before cancellation due to nonpayment of premium, and at least 20 days' notice for other reasons. If you request to cancel your policy, the insurer may refund less than the total unearned premium amount. If the insurer cancels, the total unearned premium should be refunded.

Non-renewal means the company refuses to renew your policy when it expires. In Maine, the insurance company has the right to not renew your policy if its reason is an allowed cancellation reason or another reason that must be in good faith and related to the insurability of your property. For example, the home is no longer owner-occupied or the roof is in poor condition. If your company chooses not to renew your policy, it must give you at least 30 days' notice before the expiration date and clearly state the reason for the nonrenewal in the notice.

If your policy is canceled after the initial 90-day underwriting period has ended, or if your policy is not renewed, you can appeal that action by contacting the Bureau of Insurance and requesting a hearing. Your request must be made within 30 days of receiving the cancellation or nonrenewal notice. Even if you think the company may change its mind and continue your coverage, request the hearing to preserve your rights. The hearing can always be cancelled.

If you choose to cancel or not to renew your policy, you should notify your agent or insurer. You will need to sign a special form requesting cancellation if you wish to cancel your policy before its expiration. You should also notify them if you do not want a renewal, as the company is obligated to renew you unless it has sent a nonrenewal notice. Failure to notify the company that you no longer want the policy can result in an earned premium being charged to you up until the date the insurer cancels the policy for nonpayment. (back to top)

For More Information

Visit the National Association of Insurance Commissioners (NAIC) Web sites for consumers: www.InsureUonline.org or www.naic.org.

Visit the National Flood Insurance Program website: https://www.floodsmart.gov/floodsmart

Visit www.annualcreditreport.com or call 877-322-8228 to access your free annual credit report.

HOW TO USE THIS BROCHURE

This brochure is meant to be used only as a guide when you shop for homeowners insurance. We have tried to explain some commonly used insurance words to help you better understand the types of insurance you can buy, what and what each type of insurance covers should you have to file a claim.

Other brochures and additional consumer information are also available on our website.

www.maine.gov/pfr/insurance

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Although the Bureau can give general insurance information, and help when violations of insurance law have occurred, the Bureau cannot:

- **Force an insurer to satisfy you if no insurance laws have been violated.**
- **Act as your lawyer or give legal advice.**
- **Resolve a dispute when the only evidence is your word against the word of the company.**
- **Make medical judgments.**
- **Determine the amount of your loss or what is covered by your policy.**