VERMONT
DEPARTMENT OF FINANCIAL REGULATION

Homeowners Insurance Guide

Contents

This information is intended only as a general guide to concepts relating to homeowner's insurance. Terms and conditions of coverage may vary. This guide does not override provisions of your own policy, and it is not intended to substitute for the advice of your insurance agent, attorney, or other professional advisor, should you have questions about your policy.

What is homeowner's insurance?

What is the purpose of homeowner's insurance?

Your home may well be your most valuable financial asset. Yet, owning a home is not without risk. Realistically, you must face the possibility of damage or loss. The loss could be small, such as a broken window, or something serious, such as the loss of your entire home due to a fire. Or, someone could be injured on your property and sue you for a large amount of money. The reason you carry insurance is to protect yourself against such financial losses.

Although homeowner's insurance is not required by law, if you have a mortgage, the bank will almost certainly require you to have insurance - at least up to the value of your mortgage. The home itself is referred to as the "dwelling" for insurance purposes.

Standard Types of Homeowner's Policies

The Basic Coverage Form (HO-1)

As the name suggests, this form provides a minimal amount of coverage. It applies to both dwelling and personal property, and insures against fire, lightning, vandalism, malicious mischief, and extended coverage* perils. Extended coverage perils usually include:

- Riot
- Explosion
- Hail
- Civil Commotion
- Aircraft
- Smoke
- Windstorm

The Broad Coverage Form (HO-2)

A HO-2 policy is basic. The physical structure of your home, any other structures such as fences or a detached garage and your personal belongings are only insured against perils specifically named on the policy. A named peril is any factor covered by your insurance provider. Each of these is specified in the policy documents. A HO-2 policy offers reimbursement at actual cost value or replacement cost value.

Special Coverage Form (HO-3)

The Special Coverage Form provides for the dwelling "open perils," which means that any cause of loss is covered except those specifically excluded in the policy--as a rule, these exclusions would be flood, war or nuclear accident. Personal property, however, is covered only to the same extent as in the Broad form.

Tenants Form / Renter's Insurance (HO-4)

Broad Coverage Form, Contents

This form is designed to offer insurance to people who do not own the building they live in. It covers the same perils detailed in the broad form, but applies to personal property only, since the renter does not own the building. Many renters assume their landlord's insurance covers them, but it does not. This kind of insurance may be more reasonable to purchase than you think and is sometimes cheaper if you buy it in combination with auto insurance from the same agent.

Broadest Coverage Form (HO-5)

This form provides coverage for your home as well as your personal property (contents of your home), the HO-5 home insurance policy is deemed one of the best home insurance policies in the United States. This is an "open perils" policy, which means that it insures your home and personal property against all types of damage and danger unless it specifically excluded. Due to this, the HO-5 policy provides the most extensive coverage there is, making it better than a standard HO-3 policy.

Condominium Form (Unit Owners Form) (HO-6)

For personal property, this form provides Broad form coverage similar to the Tenant's Form. The degree of structural coverage will vary. You will need to talk to your insurance agent to learn what you are responsible for insuring under the by-laws of your condo association.

Coverages

- *Coverage A: Dwelling* -- Will generally include the dwelling plus any structures attached to the dwelling as described in your policy.
- *Coverage B: Other Structures* -- means buildings on the premises described in the policy which are separated by a clear space from the building.
- *Coverage C: Personal Property* -- means anything owned or used by an insured person. Property which is not on the home premises is covered at a much lower limit (usually 10% of the regular limits) than property on the premises.
- *Coverage D: Loss of Use* -- provides additional living expenses if a loss makes your property uninhabitable. This section also covers rental value if a loss makes a rental portion of your property uninhabitable.
- *Coverage E: Personal Liability* -- Covers bodily injury to other people or to other people's property which occurred as a result of your negligence (or the negligence of a family member living with you
- *Coverage F: Medical Payments to Others* -- Covers the medical expenses of someone who was injured on your property, injured as a result of your unintentional actions, or harmed by your pets.
- *Deductible*: A deductible is an amount of money that you yourself are responsible for paying toward an insured loss. When a disaster strikes your home or you have a car accident, the amount of the deductible is subtracted, or "deducted," from your claim payment.

Your Dwelling Policy: "Actual Cash Value" vs. "Replacement Cost"

Some homeowners may still have an older type of coverage known as an Actual Cash Value policy. It covers the cost to replace your home up to the amount of insurance you have purchased, minus depreciation. Depreciation is applied because you have already had some use of the property before it was destroyed, and it is presumably worth less than when it was new. For example, if your roof burned and it's 15 years old, there would be depreciation for its age and condition.

Most policies today cover you on what's called a replacement cost basis. A replacement cost policy covers the cost to rebuild your house or repair damages, up to the amount of insurance you have purchased on your dwelling, without applying depreciation. Under a replacement cost policy, you must rebuild to collect the cost of your home. If you suffer a loss and decide not to rebuild your house, you will be paid only the Actual Cash Value of the policy.

How do you show what you've lost after you've lost it?

Preparing an inventory does two things:
First, it will make the process of filing a claim easier -- more orderly and less stressful-- should you someday need to. If you were to try to call to mind all the property your house contained today, it would be tough enough to do. Imagine doing this in an emotional turmoil after a devastating event such as a house fire.

Second, doing an inventory now can help you determine whether your possessions require more coverage than you presently have. Items that often require special coverage are: jewelry, furs or leather garments, firearms, artwork, antiques, heirlooms, silver, silverware, china, crystal, unusual collections, hobby materials or tools and computer systems.

If you find items that require more coverage than your policy provides, you can obtain in one of two ways: either by increasing your property limit, or by scheduling items separately through the purchase of an endorsement. Insurance companies often require appraisals for scheduled items.

While a list may be very helpful, it may not be acceptable proof to an insurance company that an item existed, or that you owned it. You should keep receipts and photos with your inventory list and arrange to store your documentation somewhere other than your home.

Insurance Contract

- An insurance policy is a legal contract. You and the company each have responsibilities under this contract. You pay a premium (charge for your policy) to the company in exchange for the insurance company's promise to pay your covered losses. There is an expectation of good faith, i.e., that you and the insurance company will be fair and honest in your dealings with one another.

- When does coverage begin? To obtain a policy you must fill out an application which contains information to help the company decide whether to accept or reject the risk your application poses to them. The agent or company may issue you a binder, which is a statement that you have immediate protection for a specified time. The binder guarantees temporary coverage only, during which time the company decides whether or not to issue a policy. At the end of the binder period, if the company formally accepts your application, you will be issued a policy, usually for one year.

- If the company decides not to issue you a policy, you will be covered for the period specified in the binder. If you near the end of the binder period and haven't heard from the company, it's best to contact your agent and company.

- Renewal and non-renewal: When a policy reaches its expiration date, it's customary for the company to offer to renew the policy for another term, if both you and they want the coverage to continue. Under Vermont law, the company must provide notice of its intent to renew, and the premium to be charged, 45 days prior to the expiration date.
- Cancellation: The provisions for cancellation differ, depending on how long the policy has been in effect. During the first 59 days following the issuance of a new policy (not a renewed policy), a company may cancel coverage for any reason. This period gives the company a chance to evaluate the risk involved. After the initial 59-day period and up until the expiration date of your policy, the company can't cancel your policy unless one of the following reasons apply:

  - Non-payment of premium -- If you pay your premium in installments and you don't pay an installment on time, the company can cancel your policy. In such a case the company must furnish you 15 days' notice prior to the cancellation date. If the company receives your payment prior to the cancellation date in the notice, your policy will not be cancelled.
  - Fraud on your application -- Any dishonesty or misrepresentation on your original application would entitle the company to cancel your policy, i.e., stop coverage from that point forward. In addition, an act of fraud could potentially entitle the company to cancel your policy. Fraud on a claim, or violation of a condition -- If you make a dishonest claim for a loss during the policy period, or violate other agreements of the policy, the company may cancel. Under most circumstances you would be entitled to 45 days' notice prior to cancellation.
  - Increase in risk -- If a change in your circumstances makes you a substantially higher risk than you were when you first applied for your policy, the company may issue a cancellation notice. Reasons for cancellation of a policy are first subject to approval by the Vermont Insurance Division. Examples have included a change to a more hazardous use of the property, or a change in occupancy.

Cancelling Your Policy

As the policyholder, you may cancel your coverage any time. You will want to cancel if you sell your home or change companies. If you cancel during the policy period, the company generally will refund you a pro-rated portion of your premium, minus an administrative charge.

Choosing an Insurance Company

The homeowner's market is competitive in nature. Therefore, it pays to shop around. Rates may vary considerably from one company to another. However, rates are not the only factor to consider. A company's service record and reputation are important and may justify paying slightly more for a policy. Also, some companies may be more willing than others to insure you for a certain type of risk.

Company or Agent's Reputation

You can learn a lot about an insurance company or agent through word of mouth. Another way to find out if a company or agent has a disciplinary action or is unlicensed to sell in Vermont is to contact the Vermont Insurance Division at the Department of Financial Regulation.

800-964-1784 or 802-828-3302
DFR.InsuranceInfo@vermont.gov

To check the financial rating of a company doing business in Vermont:
Call Company Licensing at 802-828-2470

File a Complaint with DFR

If you have been unable to resolve a dispute with a company on your own, you can contact the Vermont Department of Financial Regulation.
https://dfr.vermont.gov/consumers/file-complaint/insurance

Credit Score

https://www.naic.org/documents/consumer_alert_credit_based_insurance_scores.htm

Flood Insurance

https://www.floodsmart.gov/how/how-do-i-buy-flood-insurance