

## All About Insurance

More than likely, your home will be the biggest purchase you make in your lifetime, so you'll want to protect your investment with the right types -- and amounts -- of insurance coverage. The following is an overview of the kinds of insurance that you may either be required to purchase by your lender or choose to purchase to ensure your home is adequately protected. To determine the exact coverage you need, consult your mortgage professional.

### Homeowner's Insurance

Homeowner's insurance protects your property from financial losses as a result of fire, burglary and a range of other hazards. This form of insurance guards both your interest and your lender's.

The majority of lenders require basic homeowner's insurance (HO-1), which provides coverage against damage by fire or lightning, glass breakage, windstorm or hail, explosion, riot or civil commotion, aircraft, vehicles, theft, smoke, and vandalism. It also covers liability for injuries occurring on the premises, which is recommended by most lenders.

If you feel like basic insurance coverage isn't enough, you may opt for broader homeowner's insurance (HO-2), which covers hazards like falling objects, ice, snow and sleet, problems with heating, and plumbing and electrical systems damage, in addition to what's included under HO-1. If you decide on comprehensive homeowner's insurance (HO-3), all dangerous occurrences will be covered, with the exception of natural disasters like floods, earthquakes, wars and nuclear attack.

If you own an older home, you may want to consider HO-8, which covers dwelling and personal property in the event of 11 hazards. Unlike HO-1, this form of insurance covers repairs or actual monetary values instead of rebuilding costs. HO-8 policies are advised for historic homes whose replacement costs outweigh their market values.

### Private Mortgage Insurance

Private mortgage insurance protects your lender against financial losses if you default on your mortgage and go into foreclosure. Mortgage insurance is issued by the **Federal Housing Administration** (FHA), other government agencies and private companies.

If you make a low downpayment, the lender usually will require that you obtain private mortgage insurance that will cover the lender's losses. Mortgage insurance isn't typically required for a mortgage with a higher downpayment, because if a borrower in that situation defaults, the lender should be able to sell the home for more than the loan balance.

After you've built up at least 20 percent equity in your home, you typically can cancel your mortgage insurance. Contact your servicer to learn the cancellation procedure. These guidelines are determined by the issuing organization's investors.

### Title Insurance

Title insurance guarantees the simple -- yet vital -- fact that you own your property and no one else has a claim to it. If you hold a mortgage, you'll be required to pay the one-time premium for title insurance. Title insurance is a wise investment, as it guards against any false claims that may arise.

As opposed to traditional health or home insurance, title insurance protects you against claims referring to before the policy's effective date. A range of claims from the past can be brought against your property's title, including forgery, clerical errors, undisclosed heirs and improper interpretation of wills.

There are two types of title insurance policies: the lender's policy and the owner's policy. The lender's policy protects the lender's interest for the amount of the loan -- not necessarily your home's purchase price, if the two figures differ. This type of policy, approved by the **American Land Title Association**, is issued to institutional lenders. In addition, the lender's title policy covers any losses that the lender would incur if the interest of another creditor, such as a second mortgagor, takes precedence in the event of a foreclosure.

The owner's policy covers your losses or damages if it's determined that the property belongs to someone else, there's a defect or lien on the title, the title can't be marketed, or there's no access to the land. Your owner's policy will stipulate the date by which the terms are effective -- the key to your ownership rights.

Most homeowners never have to file a title insurance claim; however, that doesn't mean that you should write this form of insurance off as superfluous. In the event that a third party makes a claim about your property, title insurance can make the difference in retaining your house.

### Home Warranties

Home warranties serve different purposes depending on whether your home is newly built or older. If your home is brand new, you'll want a warranty protecting the home's workmanship, mechanical systems and wiring for up to 10 years. For older homes, warranties offering one-year service agreements are common. The terms of coverage vary greatly.

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