



# YOUR PROTECTION

Morris & Reynolds Insurance Presents:

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## HOW MUCH COVERAGE DOES YOUR HOME NEED ?



### IS YOUR HOME ADEQUATELY INSURED?

A study of 10,000 homeowner claims found that 70% of the homes were underinsured by an average of an alarming 25%. How much coverage does a home need to be properly protected? This question is frequently a topic of tremendous confusion for homeowners and can lead to costly surprises at the time of a loss.

### HOW THE PROBLEM BEGINS

Underinsuring a home often begins at the time of purchase. In the rush to close on the sale and move into your dream house, most owners don't pay close attention to how much coverage they need. Commonly, they base coverage on the purchase price or the money financed in a mortgage. Rather than replacement cost.

Consider a 3,502 square foot home that recently sold for \$ 418,000. The Residential Appraisal required by lenders found that a general contractor would charge \$ 250,530 to build the dwelling today and that the half acre it sat on was worth \$ 175,000. In this example, the "Appraised" value of the property, including the site and dwelling reproduction cost, was \$ 425,530. The lender offered a \$ 340,424 mortgage and suggested that the dwelling be insured for a similar (\$ 340, 424) amount.

It's at this point that many buyers are confused over the correct limit of coverage to carry to protect what may be their single largest asset.

### THE PROBLEM ANSWERED

Should you focus on the purchase price, the mortgage amount, a builder's estimate or some other factor ?

Rita A. Schappell, ACSR, the Personal Insurance Department Manager at Morris & Reynolds Insurance and an Underwriter with over 40 years experience, explains this dilemma and how simple it is to avoid.

*"This case is typical of what we see daily in that the lender advised their client to carry coverage equal to the amount of their loan. To make matters worse, our client was sure that, since they had paid \$ 418,000, they should carry at least that amount of insurance. The answer is that neither the mortgage amount, the land value, nor the purchase price should be used to determine the coverage limit. Rather, the Replacement Cost to rebuild the dwelling today, in compliance with recent building laws, is the solution."*

Rita is, of course, correct in that the answer is to carry coverage based on current costs to rebuild the home today. Based on the contractor's estimate to build this dwelling, it should have at least \$ 250,530 of coverage, including a Replacement Cost Endorsement, to be properly protected. The key wording being replacement value of the covered premises (the dwelling).

### FLORIDA MORTGAGE LAW

This dilemma is so common, and the answers frequently provided to buyers so often incorrect, Florida law addresses this issue. Statute 4-1167.009, titled the "Mortgage Fire Insurance Requirements Limited," Says: "No lender shall in connection with any application for a loan in this state which is secured by a mortgage on residential real estate located in this state, require a prospective mortgagor to obtain a fire insurance policy in excess of the replacement value of the covered premises as a condition for granting such a mortgage."

### REPLACEMENT COST COVERAGE

Owners must also be concerned with changes in how insurers offer Replacement Cost coverage since hurricane Andrew in 1992. In the years since " Andrew," most insurers ceased offering "Guaranteed Replacement Cost" coverage.

The combination of underinsured homes and stringent building laws often led insurers to pay claims well above the limit of insurance shown in the policies they wrote at the time of that storm.

Many insurers today continue to offer Replacement Cost coverage, but restrict payments above the limit shown for the Dwelling to between 10% and 20% of the Dwelling coverage. A few insurance companies, such as CHUBB and Pure, still offer "extended" Replacement Cost.



### TO DETERMINE THE CORRECT LIMIT

Another way to determine your Replacement Cost is to have a Builder provide a written estimate. Since each home is unique, and the cost per square foot can easily range from \$ 150 to \$ 200 to \$ 500 or more, it pays to have an expert estimate your Replacement Cost.

Yet another way to estimate the correct limit is to rely on a Property Appraiser. The "Valuation Section" of a "Uniform Residential Appraisal" Includes a "Cost Approach" that details the "Total Estimated Cost— New" of improvements on the property. The figures used in the earlier "example" come from such a report for a recent client closing.

And finally another way to estimate the correct limit for a Dwelling is to have your Insurance Agent prepare a " Replacement Cost Estimate." We prepare such reports daily by placing relevant data about the homes we insure into our computer, which then uses current construction costs to estimate a likely Replacement Cost needed to adequately protect the home.

Confusion over the amount of insurance needed to correctly protect your home can easily be avoided with proper information and advice.

Please call us at any time with your questions and we will be happy to help you, immediately. **305.238.1000**



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