



Why Insure Your Home For More Than the Purchase Price?



You just purchased a new home, and your insurance company tells you that your homeowner's policy dwelling coverage amount will be greater than the amount you paid for your home. So why does the insurance company want to insure your home for more than the purchase price? The fact is your home's market value is not a key determinant of what you will pay for home insurance. The insurance company is looking to insure the home for the full replacement value, not the current market value.

A common mistake many homeowners make is insuring their home based on the current market value of the home. Here are a few things to keep in mind when considering the differences between Market Value and Replacement Cost:

MARKET VALUE is the price paid for the house, including the land. Market value is based on several factors such as real estate market conditions, location, condition of the home, condition of neighboring properties, and even property taxes.

REPLACEMENT COST is the cost to actually repair or replace your home exactly as it is now, in its current location, and using the same materials and workmanship as was in the home at the time of the claim.

Even though home values have dropped over the last few years in most areas of the U.S., it is estimated that more than one half of homes are still underinsured. Insuring your home for the price paid may leave you exposed to risk if the market value of a home is less than the replacement cost. For example: a home that you purchased for \$300,000 in a depressed real estate market may actually cost \$600,000 to replace. If the home were insured for \$300,000 (purchase price), you would only receive \$300,000 in the event of a total loss. You would be faced with a tough choice; build a less expensive home or pay the additional \$300,000 out of pocket to rebuild. A policy insuring the home at the replacement cost of \$600,000 would allow you to completely replace your home.

As a homeowner, it is ultimately your responsibility to determine how much money you will need to rebuild your home exactly the way it is now should you suffer a total loss caused by a fire or other covered peril. We'll consult with you to develop a homeowner's insurance policy that fits your needs and your budget. Contact one of our Champion Realty Insurance consultants at 410.975.3044 to ensure that in the event of a loss, you have the insurance coverage to rebuild your home at a level of quality equal to what you now enjoy.