

# Insuring Residential Coastal Property

Homeowners Insurance is an important step in the process for a majority of home buyers in the residential real estate market. Insurance costs are the major concern during the purchase process, but overlooking coverage can be a costly mistake.

Homeowners Insurance is a 'Special Form' insurance coverage for residential owner occupied dwellings. The key to this coverage is the Replacement Cost provision for structure and personal property. There are however various supplemental coverages that should be obtained including but not limited to: Water BackUp, Other Structures, Loss of Use, Landscape Coverage, Equipment Breakdown and Service Line Coverage. These additional coverages are not always available when purchasing a home near the coast, due to the fact that fewer home insurance carriers are willing to offer terms and if they are, those terms may be different and will be offered at a higher premium.

Each Insurance carrier has different rating criteria with respect to assessing a risk and providing a premium quotation. The major criteria often used are: Age, Size, Credit, Type of Construction and Distance To The Coast. Depending on where a home falls into the spectrum will depend on which insurance companies will be a good fit for quoting and purchase. In addition to the carriers willing to offer terms, the various supplemental coverage may not be available.

Flood and Wind become the major determining factors with respect to purchasing insurance for a property. Most homeowners insurance policies do not cover the cause of loss, Flood. A separate Flood Insurance policy may be required by the mortgage company if the home is in a high risk area designated by an A or V flood zone determination. Flood Insurance does not offer the same coverage as homeowners insurance and has many exclusions including: Replacement Cost, Landscaping, Loss of Use and Other Structures.

The factors for determining flood insurance premiums are different than those for the basic homeowners insurance. Flood insurance premium is determined by: Base Flood Elevation, Height of the Bottom Floor, Height of the Next highest Floor, Flood Vents, Garage type and height of mechanicals. There are other factors that are detailed on an elevation certificate and a flood elevation certificate must be obtained for homes newer than 1974.

When coverage has been determined, it is important to confirm the affordability of deductibles. Homeowners Insurance often has two deductibles, one for all perils and then a separate one for either wind or hurricane. These Wind Deductibles can easily become unaffordable and should be avoided as they are set up as 1% to 5% of the Dwelling Coverage, meaning that a \$500,000 Home could carry a \$25,000 Wind Deductible. The same deductible lessons can apply to flood insurance, because with flood, there are two separate deductibles for Personal Property and Dwelling Coverage.

While coastal properties are often beautiful and living by the coast is great, it can be costly. It is important to understand a home buyer's risk tolerance and make sure that each home buyer is aware of the insurance coverage they are buying and what it does and does not cover.

The text above is for informational purposes only and does not include specific policy language. All Homeowners Insurance policies are subject to underwriting and the dwellings are subject to inspection by the respective insurance carrier.

# Insurance Definitions\*

**Homeowners Policy** - A package policy for dwelling and contents risks combining fire and allied line coverage with comprehensive personal liability and theft insurance for homeowners and tenants. This policy carries an indivisible premium in that the premium is not separately stated or broken down for the various hazards insured against. There are different homeowners forms, varying in extent of coverage and cost.

**HO3** - A broad package of homeowners insurance that, with exception of earthquake, flood, military and nuclear activity, covers all of direct loss to a residence that is not specifically excluded. It also provides personal property protection on a specified cause basis, as well as liability insurance.

**Replacement Cost**- When used in property insurance contracts, this is the amount it would take to replace the property with like property of the same quality and construction. No deduction is made for depreciation or obsolescence.

**Flood** - a general and temporary condition of partial or complete inundation of normally dry land areas from the overflow of inland or tidal waters, or the unusual and rapid accumulation or runoff of surface waters from any source

**Personal Property** - Property other than real (fixed, structural) property.

**Loss of Use** - Insurance which compensates the policyholder for the inability to use property destroyed or damaged by an insured peril.

**Service Line Coverage** - Insurance which covers the water, sewer and electrical lines to the insured property that are not in the home or on municipality property.

**Equipment Breakdown** - Protection against loss from disruption of mechanical equipment within the home including computers, televisions, washers and dryers. Coverage includes power surge.

**Wind vs. Hurricane** - This distinction with respect to deductibles requires a claim due to cause of loss Wind or Hurricane. If A Hurricane deductible exists, the storm must be defined by NOAA or NWS and must have sustained winds of 74 MPH or higher.



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