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How Much Home Insurance Do I Need?

By: Richard Stringham

How much home insurance should I have? This is actually a more involved question than you would think. In a nutshell, your mortgage company will require at a minimum that you carry insurance at a level that will match the principal amount of your mortgage. So, if you borrow \$200,000, you will be required to own a homeowner's insurance policy (or other appropriate property insurance policy) for at least \$200,000. That's not the end of the story...

You need to know that most homeowner's policies are written with "replacement cost" in mind. An insurance company will want to write a policy to cover the cost to replace your home in the event of a covered loss. This "replacement cost" figure is probably not the price of the home either. So, if you are borrowing \$200,000 to cover the \$300,000 home you just purchased, you will have to carry at least \$200,000 to satisfy your lender, but more likely a higher amount of coverage is needed to cover the actual cost to "rebuild" your home. If you underinsure your home at the time of a loss, you could suffer severe penalties when settling a claim.

It is important that you talk to a professional insurance agent who is sensitive to your home situation. Most will complete a computerized replacement cost survey of almost all homes they insure to keep their clients properly insured to value. This is very important!

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