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MENTOR
C A P I T A L

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Mentor Monthly Missive

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Is your home properly insured?

For many people, their home is their greatest asset. Yet according to the Insurance Information Institute (III), 59 percent of today's homes are underinsured by an average of 22 percent. To protect their investment, the institute recommends that homeowners update their insurance regularly to include improvements, major purchases and increased rebuilding costs.

Homeowners should contact their insurance agent or company representative at least once a year to make sure that their insurance is up to date, said Jeanne Salvatore, senior vice president and consumer spokesperson for the III "A major home alteration or addition, even a lifestyle change such as marriage, or a family member moving in (along with his or her belongings), should trigger a call to your insurance company."

The cost of building or repairing a home has increased dramatically in recent years. According to the U.S. Census Bureau, homeowners spent more than \$218 billion on additions, alterations, maintenance and repairs in 2005, up from \$201 billion in 2004.

To properly insure your home, the III recommends that you ask your agent or company representative three key questions:

1. Do I have enough insurance to rebuild my home?

Your policy needs to cover the cost of rebuilding your home at current construction costs. Unfortunately, some homeowners simply purchase enough insurance protection to satisfy their mortgage lender. Others confuse the real estate value of their home with what it would cost to rebuild it. Quite simply, you should have enough insurance to rebuild your home in the event that it is destroyed. Be sure to consider the following:

- **Replacement Cost**
Most policies cover replacement cost for damage to the structure. A replacement cost policy pays for the repair or replacement of damaged property with materials of similar kind and quality.
- **Extended Replacement Cost**
This type of policy provides additional insurance coverage of 20 percent or more over the limits in your policy, which can be critical if there is a widespread disaster that pushes up the cost of building materials and labor.
- **Inflation Guard**
This coverage automatically adjusts the rebuilding costs of your home to reflect changes in construction costs. Find out if your policy includes this coverage or if you have to purchase it separately.
- **Ordinance or Law coverage**
If your home is badly damaged, you may be required to rebuild it to meet new (and often stricter) building codes. Ordinance or law coverage pays a specific amount toward these costs.
- **Water Back-Up**
This coverage insures your property for damage from sewer or drain back-up. Most insurers offer it as an add-on to a standard policy.
- **Flood Insurance**
Standard insurance policies provide coverage for disasters such as fire, lightning and hurricanes. They do not include coverage for flood (including flooding from a hurricane). Flood insurance is available through the federal

government's National Flood Insurance Program (www.floodsmart.gov), but can be purchased from the same agent or company representative who provides you with your home or renter's insurance. Make sure to purchase flood insurance for the structure of your house, as well as for the contents. Excess Flood Protection, which provides higher limits of coverage than the NFIP in the event of catastrophic loss by flooding, is available from some insurers. Keep in mind that there is a 30-day waiting period before the insurance is valid.

2. Do I have enough insurance to replace all my possessions?

Most homeowner's insurance policies provide coverage for personal possessions for approximately 50 percent to 70 percent of the amount of insurance you have on the structure of your home. So if you have \$100,000 worth of coverage on the structure of your home, you would be covered for \$50,000 to \$70,000 worth of the contents of your home, depending on the policy.

The best way to determine if this is enough coverage is to conduct a home inventory, which details everything you own and the estimated cost to replace these items if they were stolen or destroyed by a disaster. You can download the III's free home inventory software at <http://www.knowyourstuff.org>.

You can insure your possessions in two ways: by their actual cash value or their replacement cost. Make sure you review with your agent or company representative which type of coverage is best for your particular situation.

- **Cash Value Policy**
This coverage pays the cost to replace your belongings minus depreciation.
- **Replacement Cost Policy**
This coverage reimburses you for the full current cost of replacing your belongings.

To illustrate the difference between the two types of policies, suppose, for example, a fire destroys a 10-year-old television set in your living room. If you have a replacement cost policy for the contents of your home, the insurance company will pay to replace the TV with a comparable new one. If you have an actual cash value policy, it will pay only a small percentage of the cost of a new TV set because the old TV has been used for 10 years and is worth a lot less than its original cost. Some replacement cost policies specify that the new item be purchased by the insurance company as they may be able to purchase at a bulk or special rate. The price of replacement cost coverage is about 10 percent more than that of actual cash value.

3. Do I have enough insurance to protect my assets?

Homeowner's insurance doesn't just protect the structure or contents of your home, it also provides liability protection. This covers you against lawsuits for bodily injury or property damage that you or your family members may cause to other people. It also pays for damage caused by pets. Liability insurance pays for both the cost of defending you in court and for any damages a court rules you must pay-up to the limits of your policy. Most homeowner's insurance policies provide a minimum of \$100,000 worth of liability insurance, but higher amounts are available.

It is important to purchase enough liability insurance to protect your assets. If the standard liability coverage in your homeowner's policy is not sufficient, you may need an excess liability, or umbrella policy, which provides additional coverage over and above what is covered in your home (and auto) insurance policy, according to the III.



\$50,000 prize for best saving idea

TIAA-CREF is looking for new ideas on how to raise the U.S. saving rate from its current 4 percent to 10 percent in two years.

Any U.S. citizen age 18 or older who submits an idea has a shot at the \$50,000 grand prize, and colleges with the most entries from students, faculty, staff and alumni will receive a \$25,000 endowment from TIAA-CREF.

The U.S. Department of Commerce says the United States personal savings rate is at 4 percent, well below what it needs to be, according to TIAA-CREF.

Any U.S. citizen age 18 or older can enter. The final due date for submissions is **JULY 20**.

More information is available at <http://www.tiaa-cref.org/public/land/raisetherate/index.html>.



Help for struggling homeowners

If you'd like to refinance your mortgage to a lower rate but think you can't because you owe more than 80% of the home's value, there is good news. The federal government's Home Affordable Refinancing Program (HARP) allows refinancing to a lower rate regardless of the loan-to-value ratio and can include subordination of an existing second mortgage to the new loan.

HARP requires you to be current on your mortgage (not more than 30 days late paying in the last 12 months), your loan must be held by Fannie Mae or Freddie Mac, and the property must be a one- to four-unit residence.

Another federal program, Home Affordable Modification Program (HAMP), modifies a mortgage for a homeowner who is struggling to make payments because the interest rate has increased or he or she has less income. The home must be the primary residence, the mortgage balance must be \$729,750 or less, the mortgage must have been initiated before Jan. 1, 2009, and the mortgage payment (including taxes and insurance) must exceed 31 percent of the homeowner's gross income.

In trying times, of course, the scam artists will always appear. Here are some tips from the government to avoid being taken:

- Beware of anyone who asks you to pay a fee in exchange for a counseling service or modification of a delinquent loan.
- Scam artists often target homeowners who are struggling to meet their mortgage commitment or anxious to sell their homes. Recognize and avoid common scams.
- Assistance from a HUD-approved counselor is FREE. See the web site listed below for information.
- Beware of people who pressure you to sign papers immediately, or who try to convince you that they can "save" your home if you sign or transfer over the deed to your house.
- Do not sign over the deed to your property to any organization or individual unless you are working directly with your mortgage company to forgive your debt.
- Never make a mortgage payment to anyone other than your mortgage company without their approval.

More information is available at the federal government's web site: <http://www.makinghomeaffordable.gov/>



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