



Wisconsin Office of the
**COMMISSIONER
OF INSURANCE**

Consumer's Guide to Insurance Needs When Buying a Home

Your insurance needs to change when you buy a home and it's not just homeowners insurance. Learn about homeowners insurance, private mortgage insurance, title insurance, flood insurance, and other insurance options to consider.

Wisconsin Office of the Commissioner of Insurance

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Disclaimer

This guide is intended as a general overview of current law in this area but is not intended as a substitute for legal advice in any particular situation. You may want to consult your attorney about your specific rights. Publications are updated annually unless otherwise stated and, as such, the information in this publication may not be accurate or timely in all instances. Publications are available on OCI's website at oci.wi.gov/Publications. If you need a printed copy of a publication, use the online order form (oci.wi.gov/Pages/Consumers/Order-a-Publication.aspx) or call 1-800-236-8517. One copy of this publication is available free of charge to the general public. All materials may be printed or copied without permission.

File a Complaint

If you have a specific complaint about your insurance, refer it first to the insurance company or agent involved. If you do not receive satisfactory answers, contact the Office of the Commissioner of Insurance (OCI).

- Reach out to OCI (1-800-236-8517, ocicomplaints@wisconsin.gov) to speak with our staff. If sending an email, please indicate your name and phone number.
- File a complaint with OCI. You can file a complaint online at oci.wi.gov/complaints. If you would like to file your complaint by mail, visit oci.wi.gov/complaints, email ocicomplaints@wisconsin.gov, or call 1-800-236-8517 for a form.

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Introduction

Purchasing a home can be overwhelming and stressful. The more you know and understand the process, the less stressful it will be. For most people, a home is more than just a roof over their heads, it's also their most valuable asset. That's why it is important to insure it properly. This publication discusses some of the [insurance](#) requirements and costs associated with purchasing a home.

Homeowners Insurance

Homeowners insurance is a package [policy](#) providing property insurance protection to your home and personal belongings and liability insurance protection to you and your family members if you are found negligent for injury or property damage to someone else. Most lenders require you to carry enough homeowners insurance to cover the amount of your mortgage. This may be either too little or too much [coverage](#) for your individual needs. If there is damage or destruction to the property, and you do not have enough homeowners insurance, the lender's investment may be the only portion covered. This may pay off the mortgage, but you will lose any money you invest.

Generally, your lender requires you to have a homeowners insurance policy in force at the time of [closing](#). Your lender will usually request a copy of the policy and cover page showing coverage amounts.

Your lender will also require you to name the lending institution as a loss payee (i.e., protects the lending institution in case of loss). You are not required to purchase insurance from the insurer recommended by your lender. However, if

you fail to keep your coverage in force, the lending institution will purchase coverage protecting its interest and you may have to pay for this coverage. This type of coverage is typically more expensive than an insurance policy you may purchase and provides less coverage.

Buying Homeowners Insurance

Before buying homeowners insurance, you need to understand the difference between “[replacement cost](#)” and “[actual cash value](#).”

Replacement cost is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality, without deducting for [depreciation](#). Depreciation is the decrease in home or property value since the time it was built or purchased because of age or use.

Most homeowners insurance policies contain replacement cost coverage on the home and actual cash value coverage on [personal property](#). To qualify for full replacement cost coverage, the building is required to be insured at 80% to 90% of the replacement cost. The amount of replacement cost coverage available is limited to the amount of insurance you choose to buy. The coverage amount is stated on the [declarations page](#) of your policy.

It is important to discuss with your insurance agent the appropriate coverage amount for your situation.

If you purchase an amount less than 80% to 90% of the amount required to have replacement coverage, your insurance company will not be obligated to pay the total amount of loss to your home even if there is a small loss. The “loss settlement” section of your policy explains how the settlement is calculated.

Do not confuse replacement cost with [market value](#). Market value is a real estate term describing the current value of your home if you were to sell it, including the price of the land.

Most homeowners insurance policies include an inflation guard. This automatically increases the value of your policy as the value of your home increases. *Even with an inflation guard, homeowners should check with their insurer periodically to determine whether their home is fully insured.*

Actual cash value is the value of your property when it is damaged or destroyed. This is usually figured out by taking the replacement cost and subtracting depreciation. Contents coverage (i.e., furniture, computers, television sets, and appliances) is usually calculated on an actual cash value basis. For example, a \$500 chair may have a reasonable “life span” of 20 years. If it is destroyed after 10 years, due to depreciation its actual cash value will be much less than \$500.

Most policies pay for losses to your contents on an actual cash value basis, but a better option is replacement cost coverage. Although the cost is higher, in most cases, the extra protection may be worth it. Replacement cost coverage is available for an additional [premium](#).

Lender-Placed Insurance

If you have a mortgage, your lender will require you to have a homeowners insurance policy to protect the property from loss. Usually, the lender will collect information on your homeowner’s policy in order to verify coverage is in place. If the lender finds you do not have coverage, they may work with an insurer to issue an insurance policy to protect the lender’s interest. The lender will add the cost of the policy to your mortgage bill.

These policies, known as lender-placed policies, are usually much more expensive than a homeowner’s policy you could have purchased. These policies are also written to protect the lender’s interest in your property and not the interests of the homeowner. It is important for a homeowner to replace the lender-placed policy with their own policy as soon as possible. If you changed coverage and did not notify your lender, you should provide them with policy information. Most lender-placed insurance policies will provide a refund of premiums if the consumer can show coverage was already in place.

The Wisconsin Insurance Plan

If you try several insurers and cannot find coverage, you most likely can be insured through the Wisconsin Insurance Plan (WIP). WIP is a risk-pooling arrangement in which all companies selling property insurance in the state share the risk of insuring homeowners who have difficulty getting coverage with regular insurance companies.

WIP provides basic insurance coverage for the properties it insures including damage from fire, wind, vandalism, vehicle damage, and theft. Other causes of loss are also covered. Homeowner policies include personal liability coverage.

All properties insured by WIP must first be rejected for coverage by a licensed insurance company. When a property is rejected, the owner is notified of the existence of WIP. *All licensed agents must assist a property owner in applying to WIP. However, WIP does not have sales agents.*

WIP is property insurance of the last resort. Consider WIP only if you cannot obtain insurance from any other insurance company.

For more information on the WIP, contact WIP at:

Wisconsin Insurance Plan
2115 10th Avenue, Suite 201
South Milwaukee, WI 53172

(414) 291-5353 Phone
(414) 291-5365 Fax
wisinsplan.com

OCI has a publication explaining the basic coverages included in homeowners and renters insurance policies, the types of policies, what you should do if you have a loss, and the Wisconsin Insurance Plan. The publication Consumer's Guide to Homeowners Insurance is available on OCI's website at oci.wi.gov/HomeGuide or by calling 1-800-236-8517.

Private Mortgage Insurance (PMI)

Private mortgage insurance is a type of insurance to protect lenders against losses due to borrower default and subsequent foreclosure on the home. This protection is provided by private mortgage insurance companies and allows lenders to accept lower down payments than would normally be allowed.

When deciding if a mortgage loan should be made, a lender wants to make sure that the property in question can be sold without a loss in the event the borrower defaults. If a borrower applies a down payment of 20%, the lender only has to lend 80% of the property's value. If the lender had to foreclose on the property and sell it for 80% of its value, the lender would not lose any money.

Private mortgage insurance is used with conventional financing only. A [conventional mortgage](#) is a loan not obtained under a government-insured program. Conventional mortgage loans are typically held by institutional investors such as Fannie Mae, Freddie Mac, banks, or insurance companies.

Private mortgage insurance is usually paid by the home buyer but the lender is the [insured](#) and receives any insurance benefits. If the lender pays for the private mortgage insurance, they will generally pass the cost on to the borrower. The buyer has some influence over the choice of insurer but ultimately the lender must be satisfied it will be able to recoup any losses in case of default.

Private mortgage insurance can be paid on either an annual, monthly, or single premium plan. Premiums are based on the amount and terms of the mortgage and will vary according to [loan-to-value ratio](#), type of loan, and the amount of coverage required by the lender.

Under an **annual plan**, an initial one-year premium is collected up front at closing, with monthly premiums collected along with the mortgage payment each month thereafter. **Monthly plans** let a borrower pay the lender every month along with the regular mortgage payment. Under a **single premium plan**, the entire premium covering several years is paid in a lump sum at closing. Typically, homebuyers choose to add the amount of the lender's single premium mortgage insurance premium to the loan amount. By doing this, homebuyers can reduce their closing costs and increase their interest deduction.

The decision of when to cancel the private insurance coverage does **not** depend solely on the degree of your equity in the home. The final say on terminating a private mortgage insurance policy before 22% equity buildup is reserved jointly for the lender and any investor who may have purchased an interest in the mortgage. *Because of the wide variation in lender, investor, and state requirements, it is necessary to consult your lender on cancellation requirements.* However, according to federal law, the mortgage insurance will be automatically terminated when the loan is paid down to 78% of the original property value.

Title Insurance

When purchasing a home or other real estate, you do not receive the land itself. What you acquire is the [title](#) to the property, which may be limited by rights and [claims](#) asserted by others.

Protections against hazards of title are available through a unique coverage known as [title insurance](#). Title insurance is purchased for a one-time premium and is a safeguard against losses arising from hazards and defects already existing on the title.

Title insurance protects the insured from losses as the result of claims on one's ownership of real estate. It insures from problems occurring even before the insured possesses the title. The following are some of the most common problems covered by title insurance:

- Fraudulent or misrepresented [deeds](#), releases, etc.
- Recording mistakes
- Undisclosed missing heirs
- Unfiled [liens](#)
- Incompetency of previous sellers
- Erroneous interpretations of wills
- Bankruptcy
- Fraudulent or forged deeds

The [title insurance policy](#) obligates the insurer to pay you if the policy does not disclose things affecting the title that may be found by examining public records, including deeds, mortgages, wills, divorce decrees, court [judgments](#), tax records, liens, encumbrances, and maps. The title search determines who owns the property, what debts are owed against it, and the condition of the title.

Another feature of title insurance is the obligation of the insurer to defend you against claims of others covered by the policy, regardless of their validity. A title insurance company must defend your title in court, subject to certain limitations, and if it loses, the company pays covered losses up to the face amount of the policy.

Types of Title Insurance

There are two types of title insurance policies: owner's coverage and lenders or mortgagee protection.

Owner's Title Insurance

Owner's title insurance is usually issued in the amount of the real estate purchase and lasts as long as the insured or his/her heirs have an interest in the property.

Lender's Title Insurance

The amount of lender's title insurance decreases and eventually disappears as the loan is paid off. Most lenders require

mortgagee title insurance as security for their investment, just as they may require other types of coverage as investor protection.

Do I Need Both Types of Coverage?

Yes, when you borrow money to buy a home, the lender typically (see exceptions and exclusions below) requires you to buy title insurance to protect its interest in case of foreclosure. This is to make sure whoever sells you the property has a legal right to do so.

A lender's policy does not protect you. Similarly, the prior owner's policy does not protect you. If you want to protect yourself from claims by others against your new home, you will need an owner's policy. When a claim does occur, it can be financially devastating to an uninsured owner. If you buy an owner's policy, it is usually much less expensive if you buy it at the same time and with the same insurer.

The owner's policy remains in effect as long as you or your heirs own the property or are liable for any title warranties made when the property is sold. You should keep your policy, even if you transfer the title. Your owner's title policy cannot be transferred to a new owner. If the new owner wants an owner's title policy, there must be a new policy issued.

Buying Title Insurance

Title insurance is sold both directly by [title insurers](#) and by their agents in a specific geographic area because of the need to examine local records. In exchange for the premium, the [title insurance agency](#) searches local records to trace the ownership and sale of the property.

Title insurance is significantly different from other forms of insurance in its nature. Many people mistake title insurance for casualty insurance. Casualty insurance provides coverage for losses due to unforeseen future events, such as if your house burns down or a tornado takes off the roof. Title insurance eliminates risks and prevents losses in advance by extensively searching records and examining titles to the property for defects arising from past events.

Title insurance companies and agents are licensed by OCI. Title insurance is sold directly by an insurance company through a [title insurance agent](#). A title agency is authorized by a title insurance company to issue policies for the company. In all states, agents and insurance companies must be licensed to sell insurance. To find out the name of the insurance company [underwriting](#) a title insurance policy, you will need to call the title agency and ask for the name of the insurance company and the name of the title insurance agent. Licensing information about agents and companies can be found on OCI's website at oci.wi.gov/Lookup or by calling 1-800-236-8517.

Cost of Title Insurance

Most of the cost for title insurance involves searching public land records, tax assessor records, and court documents analyzing them for [risk](#), clearing matters to be disposed of, and preparing the necessary documents.

Unlike other insurance premiums, a title insurance premium is paid only once. The policy is effective as long as the title or "ownership" remains in the name of the insured or his or her heirs. Title insurance, unlike other types of insurance coverage, does not have to be renewed.

Exceptions and Exclusions

Title insurance protects you against problems someone else caused in the past and not those you caused or those unrelated to you or the lender's property interests.

A title insurance policy contains [exclusions](#) and exceptions. It does not cover losses under those exclusions or exceptions. You should consider discussing the policy's exceptions and exclusions with a title insurance agent or attorney before closing any real estate purchase. Schedule B of your title policy lists exceptions and exclusions on the Exclusions page.

Alternatives to Title Insurance

You may be given alternatives to traditional title insurance coverage. For example, in rural areas, many transactions are done with an [abstract](#) of title with an attorney's opinion. Sometimes these transactions do not fall under insurance regulation. You should carefully consider any alternatives to see if they meet your needs. Some title insurance alternatives do not provide insurance coverage or any type of protection for the owner. Those plans are designed to satisfy the needs of lenders. The cost of the plan is passed on to the consumer the same as title insurance or other title opinion costs.

Ask the provider of the alternative plan what insurance, legal opinion on ownership, or other protection the plan provides to protect your investment in ownership of the property. Find out if you receive an owner's policy of title insurance.

Federal Housing Administration and Veterans Administration Mortgages

You may be eligible for a loan insured through the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs ([VA](#)). FHA and VA insurance also protect the lender against borrower default under a government program rather than through the private enterprise system.

The FHA and VA programs enable lenders to arrange financing for the borrower with minimal or no down payment. When borrowing under these programs, you will pay a Mortgage Insurance Premium (FHA) or a Funding Fee (VA) to insure the mortgage. This is similar to private mortgage insurance on a conventional loan. These insurance premiums may be paid out-of-pocket at the time of closing or financed by increasing the mortgage amount.

Although many of the insurance policies discussed above are required as protection for a lender, they can be very beneficial to the borrower as well. Homeowners, flood, and title policies can ease a homeowner's financial burden in the event of unpleasant surprises, while mortgage insurance allows a buyer to get into a home with a minimal down payment.

Flood Insurance

Homeowners insurance does not cover most flood damage. To obtain flood coverage, you must purchase it from the National Flood Insurance Program (NFIP). Flood insurance is mandatory for federally backed mortgages on structures located in special flood hazard areas.

NFIP is a federal program enabling property owners to purchase insurance protection against losses from flooding. This insurance is designed to provide an insurance alternative to disaster assistance to meet the escalating costs of repairing damage to buildings and their contents caused by floods.

Participation in NFIP is based on an agreement between local communities and the federal government. If a community will implement and enforce measures to reduce future flood risks to new construction in special flood hazard areas, the federal government will make flood insurance available within the community as financial protection against flood loss occurrences.

NFIP is administered by the Federal Insurance & Mitigation Administration, a component of the Federal Emergency Management Agency (FEMA), and an independent agency. The Federal Insurance & Mitigation Administration has elected to have state-licensed companies' agents and brokers sell flood insurance to consumers. State regulators hold the insurance companies' agents and brokers accountable for providing NFIP customers with the same standards and level of service the states require of them in selling their other lines of insurance.

The lender must first determine whether the structure is in a Special Flood Hazard Area (SFHA). For all properties in an SFHA, lenders must require flood insurance when making, increasing, extending, or renewing a loan. This requirement

only applies when the structure is in the SFHA, not the lot. Lenders must ensure coverage remains in effect for the life of the loan.

If a loan has [escrows](#) for taxes, insurance, or for any other reason, the lender must then escrow for flood insurance too. Lenders are required to notify borrowers if their home is in an SFHA and allow buyers 45 days to purchase flood insurance. After 45 days, lenders have the statutory authority to force place (obtain a policy) coverage for flood insurance.

If a buyer believes the flood zone determination was in error, the buyer and the lender must jointly request a review from FEMA with supporting technical information.

The best person to help you buy flood insurance is the agent or the insurance company from whom you obtain your homeowners or automobile insurance. However, flood insurance may be bought through any licensed property or casualty insurance agent in Wisconsin.

Some insurance companies issue flood insurance policies, in partnership with the federal government, as a service and convenience for their policyholders. In those instances, the insurance company handles the premium billing and collection, policy issuance, and loss adjustment on behalf of the federal government. These insurance companies are called Write Your Own insurers. If your agent or insurance company is not in the Write Your Own program, you may be referred to another agent or insurance company involved in the program. Your agent may also order the policy for you directly from the federal government.

For more information on flood insurance contact the Region V NFIP Office (covering IL, IN, MI, MN, OH, WI). Find the most up-to-date Region V contact information at <https://nfipservices.floodsmart.gov/NFIP-Regional-Support-Offices>.

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You can find information about flood insurance on OCI's website at oci.wi.gov/FloodDamage. You can also find information about settling a property insurance claim, what to do after a loss, and tips on what to do before a loss at oci.wi.gov/PropertyClaims or calling 1-800-236-8517.

Insurance Marketing

For the most part, insurance is sold directly or through an agent or broker. An [independent agent](#) may represent more than one, and sometimes several, insurance companies. An exclusive or captive agent sells solely for one insurance company or group of related companies. Independent agents, as well as exclusive agents, may place business with another company if the company(s) he or she represents does not write the type of insurance needed. A broker represents you in dealings with an insurance company.

When you first talk to an agent, be sure he or she is willing and able to explain various policies and other insurance-related matters. An agent should look for ways to get you the most protection at an affordable cost. Make certain your agent agrees to review your coverage from time to time, advises you about other financial services, and assists you when problems develop.

Many agents are interested in selling package products or services to as many people as possible. While there is nothing wrong with low-cost, standardized products, they should fit your needs. If you are not convinced a particular agent understands your needs and will give you the service you want, look for another agent.

Friends may have some recommendations. If not, try the internet. If you travel frequently, you may want to check with your company or agent to find out how to file a claim when you are out of the area.

In all states, agents and insurance companies must be licensed to sell insurance. Licensing information about agents and companies can be found on OCI’s website at oci.wi.gov/Lookup or by calling 1-800-236-8517.

Consumer Buying Tips

There are several items to keep in mind when buying almost any type of insurance:

- **Shop Around.** Insurance premiums can vary substantially from company to company, so it usually pays to check with several companies before making a final choice.
- **Choose a Deductible.** If you are buying homeowners insurance, you can often save money by purchasing a policy with a higher [deductible](#). A deductible is the amount of the claim for which you are responsible. The higher the deductible, the lower your premium. With a higher deductible, you could pay for relatively small expenses [out-of-pocket](#) and leave major losses to the insurance company.
- **Shop for Discounts.** Insurers give discounts when you package your auto and homeowners insurance.
- **Do Not Pay Cash.** Always pay the agent or insurance company with a check, money order, debit card, or credit card. This will be your proof of payment.
- **Take Advantage of “Free-Look” Periods.** Life insurance policies usually include a 10- or 30-day free-look period. This means you can return the policy within the free-look time and get the entire premium back.
- **Think Twice About Replacing a Life Insurance Policy with a New One.** A new policy may include waiting periods or exclusions covered in your existing policy.
- **Read Your Policy Carefully—Particularly Any Sections Relating to Exclusions and Limitations.** The time to understand your policy is before you have to make a claim.
- **File Claims Promptly.** The sooner you file claims, the sooner you will receive payment. Once an agreed dollar amount settlement has been reached, the insurance company is required, by law, to pay claims within 30 days or to pay interest on the claim amount.

While the price you pay is important, buying the least expensive policy may not be a good idea. Insurance sounding too good to be true probably is. However, looking only at benefits could result in paying a higher than necessary premium. You should consider all the following when choosing a company and a policy:

- | | |
|---|--|
| • Premium | • Renewability (how easily can your policy be canceled?) |
| • Benefits, including any coverage exclusions or limits | • Financial strength and reliability of the company |
| • Service (what is involved in making a claim?) | • Company management philosophy |

Problems with Insurance

If you are having a problem with your insurance, you may want to first check with the agent or company that sold you the policy. If the conflict is not resolved to your satisfaction or if you prefer, you can file a [complaint](#) with OCI. An online complaint form is available at oci.wi.gov/complaints.

OCI investigates complaints to determine if any insurance laws have been violated. If so, OCI may act against the agent or company. These actions include imposing fines or suspending or revoking licenses.

Make sure you have included detailed information about your insurance complaint. The more complete and accurate this information is, the more likely your complaint can be resolved. *Be sure to include the correct name of the insurance company and the details of your complaint.* Many companies have very similar names. Listing the wrong name may delay the investigation of your complaint.