



# FIRST-TIME HOMEBUYERS

WORKBOOK



# WELCOME TO DREAMBANK DREAM ACADEMY!

Are you ready to say goodbye to the days of renting and hello to your first home? From getting pre-approved for a mortgage to understanding the closing process, there's a lot to know about buying a home. That's why the American Family Insurance DreamBank has created an easy-to-follow first-time home buying workbook that aims to provide you with many of the steps, tips and advice that can be helpful in order to begin your home buying journey with confidence. Take a look, browse the chapters and learn everything from where to start when buying a home for the first time, to closing day and beyond.

**Let's get started!**



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## DREAM ACADEMY PROTIP:

Track your progress by completing the fillable fields of this digital workbook. Be sure to save your progress each time you complete a new section of course content!

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# CHAPTER 1: SAVING FOR A HOME

## How to Start Saving for a House

Making the decision to buy your first home is undeniably exciting! And while you may be eager to get your foot in the door of potential homes, it's key to take time and be savvy about the process. **The most important step to take before beginning the home buying process is to start saving your money.** Before you can step over the threshold of any home, you'll need to know what you can afford and how much of a down payment you'll be making.

### 5 STEPS TO START SAVING

You're probably planning on taking out a loan and paying a mortgage for your new home. But you'll still need to cover the cost of a down payment, which comes out of your own pocket. That's why it's so important to start saving now.

#### STEP 01

#### Decide How Much Home You Can Afford

So, how much home can you actually afford? On average, buyers should shoot for a mortgage payment that is 25-30 percent of their monthly take-home income. Mortgage payments that are higher than that can cause financial stress, so be realistic.

#### RESOURCE



#### How Much House Can I Afford?

Take a look at our tips for assessing your finances so you can start searching for a home priced right for you.

[VIEW NOW >](#)



## STEP 02

### Estimate How Much You Need for a Down Payment

**Your mortgage payment is largely dependent on the size of the down payment of the house.** For instance, a mortgage payment with a 20 percent down payment will be lower than if you put 10 percent down. How much of a down payment can you afford to make? Can you make a bigger down payment up front so your mortgage rate comes down and better meets your budget?

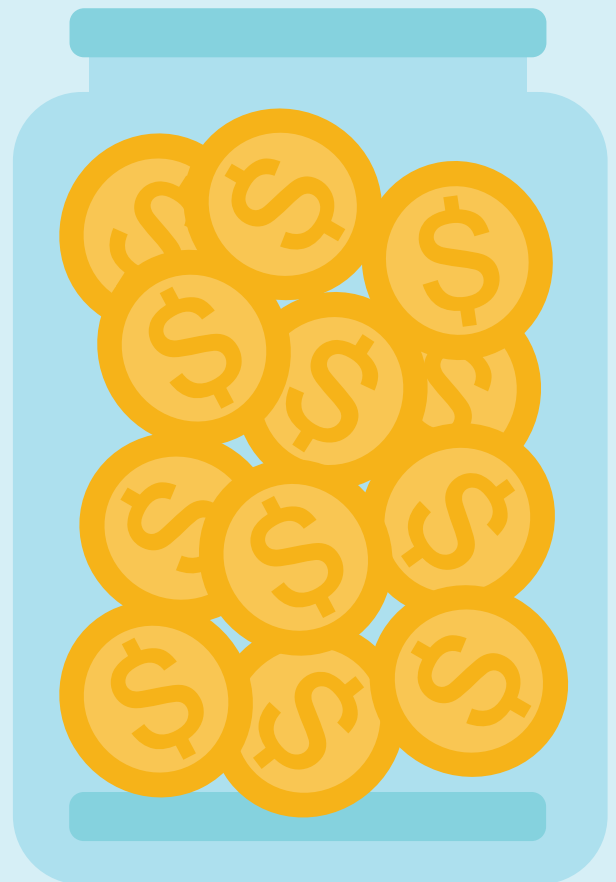
Keep in mind, you'll also be paying closing costs and mortgage fees, so you'll need to start saving for more than just your down payment.

## STEP 03

### Create a Savings Timeline

It's time to think about when you plan on **actually purchasing a home**, since this will guide your savings timeline. You'll need to decide how much time you want to spend saving for a house and how much you need to save per month to reach your identified down payment budget.

The aggressiveness of your savings goals depends on how long you're planning on saving for your down payment. Do you want to have enough saved for a down payment, closing costs and mortgage fees in one year? That'll be much more intensive than a two-year or more plan, but it's doable if you have a plan in place! Sit down and review your current budget to create a realistic savings timeline.



## STEP 04

### Build a Home Savings Plan

Now that you know how much you want to save and have decided on a target monthly savings, it's time to put a plan in place. Start by reviewing your current budget to identify ways you can cut back on costs or if there are ways you can make more income.

There are countless ways to save each month, with some methods more vigorous than others:

-  **BUILD A BUDGET**
-  **SET UP AN EMERGENCY FUND & SAVE ANY EXTRA INCOME**
-  **AUTOMATE YOUR SAVINGS**
-  **FIND A ROOMMATE OR MOVE TO A LESS EXPENSIVE RENTAL**
-  **WORK ADDITIONAL HOURS OR START A SIDE HUSTLE**
-  **MINIMIZE ELECTIVE SPENDING**

## STEP 05

### Improve Your Credit Score

When it comes to buying a home, your credit score plays a vital role. Improving your buyer's credit score will increase your chance of being approved for a mortgage and it'll give you more leeway to put down a smaller down payment.

#### RESOURCE



#### 14 Tips for Building Up Your Credit

Looking to improve your credit score? Check out these no-nonsense suggestions for building a stronger credit record.

[VIEW NOW >](#)

As you start saving for your first home, **keep your end goal in mind.** Knowing you'll soon be stepping into a home you can call your own will serve as motivation to stick to your budget.



NOTES







## CHAPTER 2:

# UNDERSTANDING LOANS & MORTGAGES

## A Guide to Different Home Loan & Mortgage Options

Once you've saved up enough money for a down payment on a house, you're ready to meet with a mortgage lender to learn about your mortgage options. Stay ahead of the game by learning the home loan basics before that meeting, and you'll be ready to get a mortgage pre-qualification.

### HOW MORTGAGES WORK

To start, understanding mortgages is important.

**A mortgage is a loan from a bank or creditor to help you finance the purchase of a home.** The home you buy will technically be owned by the bank until you pay back the loan. If you fail to pay back the loan, your lender can take over the house, which is known as a foreclosure.

### DIFFERENT TYPES OF HOME LOANS AND MORTGAGES

Keep in mind, there are many types of home and mortgage loans available aside from what's included, **so take the time to dig into your options and find what works best for your financial situation.** Get in the know by taking a look at some of the most popular options.

#### Your Mortgage Payment Includes Several Separate Payments:



##### PRINCIPAL

Your principal balance is how much you borrowed to buy the home. For example, if your loan is for \$300,000, your beginning principal balance is \$300,000.



##### INTEREST

When you borrow money from a lender, you'll pay interest, which is the amount they charge for loaning you money.



##### TAXES

As a homeowner, you'll pay property taxes. This amount is usually calculated based on the value of your home.

## COMPARE SOME OF THE MOST POPULAR MORTGAGE OPTIONS:



### Government Guaranteed Mortgage

- ✦ Low down payment
- ✦ Higher monthly payments
- ✦ Higher interest rates, fixed

.....

The Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) have home loan options that are great for first time home buyers because they typically have lower down payment requirements and allow more people to qualify.



### Fixed-Rate Mortgage (15-year term)

- ✦ Higher down payment
- ✦ Higher monthly payments
- ✦ Lower interest rates, fixed

.....

With fixed-rate home loans, you get to lock in your mortgage rate. This is a very popular option because it gives borrowers a set amount that is due monthly. If you get a fixed-rate mortgage you can pick the loan length to fit your budget.



### Fixed-Rate Mortgage (30-year term)

- ✦ Lower down payment
- ✦ Lower monthly payments
- ✦ Higher interest rates, fixed

.....

With fixed-rate home loans, you get to lock in your mortgage rate. This is a very popular option because it gives borrowers a set amount that is due monthly. If you get a fixed-rate mortgage you can pick the loan length to fit your budget.



### Adjustable-Rate Mortgage (ARM)

- ✦ Lower down payment
- ✦ Lower monthly payments
- ✦ Lower interest rates to start, but variable over time

.....

An adjustable-rate mortgage is often called an ARM. Rather than locking in a rate for the entire length of the loan, ARMs change over time. The benefit to this type of mortgage is it often starts with a lower interest rate. At set dates throughout the loan, the interest rate is adjustable based on market conditions.

## DOWN PAYMENTS AND PRIVATE MORTGAGE INSURANCE

Private mortgage insurance typically goes by the acronym **PMI**. Simply put, lenders feel more comfortable giving a home loan to borrowers who can put at least a 20 percent down payment on the home purchase. If you don't have the full 20 percent, you'll have to pay PMI. This insurance is designed to protect the lender in case you quit making your home loan payments.

### TIP



Keep track of your payments and once you believe you've hit 20 percent in equity, let your lender know so they can remove the PMI from your payments.

## CHOOSING YOUR FIRST MORTGAGE

A little research goes a long way in the world of homeownership. You're already on your way by taking the time to learn some of the common terms and the basics of home loans. Continue your positive momentum by talking to several different types of lenders to see who offers the best rates and conditions. Getting referrals from your friends and talking to your regular banker is also a great way to start!

## GETTING A MORTGAGE PRE-APPROVAL

Another smart move to make before shopping for a home is getting pre-approved for a mortgage, rather than pre-qualified. **Getting pre-approved shows a seller that your financing is in order and you're serious about purchasing a home.** Want to know more? Check out the Resource below!

### RESOURCE



### The Difference Between a Preapproval and Prequalification

What's the difference between the two? Here's everything you need to know about pre-approvals and pre-qualifications.

[VIEW NOW >](#)





**A LITTLE RESEARCH  
GOES A LONG WAY  
IN THE WORLD OF  
HOMEOWNERSHIP**

NOTES





# CHAPTER 3:

# HOW TO SHOP FOR A NEW HOUSE

## How to Start Looking for a House

Once your budget is in place and your mortgage has been pre-approved, it's time for the fun part — house hunting! Though it's an exciting pursuit to find a home to call your own, **it's important you keep some best practices in mind** to get the most out of shopping for a home. Take a look at the following list of key steps to take when house shopping.

### STEP 01

#### Research Home Options

Start with some preliminary research to help you find out the types of homes that are available in the area you want to live in, common home features you like, as well as the average asking price in the market. Doing this will help you better understand your options during the home buying process.

### STEP 02

#### Determine Wants and Needs for Your New Home

Another way to be most efficient, realistic and organized when looking for your new home is to make a list of needs and wants. Your needs list will include things your future home absolutely must have, while your wants list should include things that would be nice to have, but you can live without or add later on. This list will be informed by the initial research you did and will be incredibly helpful when working with a realtor. Use the Dream Home Worksheet on the following pages to easily capture your home needs and wants.





# FINDING YOUR DREAM HOME

Use this helpful worksheet to start honing in on which factors matter most to you as you search for your dream home! If you're buying with a partner or a spouse, this can be a great discussion guide to help you both get on the same page. When you're finished, share with your real estate agent!



## NAME(S)

## BUDGET (How much do you want to spend on your home?)

Preferred budget range:

\$  to \$

Max budget (for the **perfect** home):

\$

## HOME TYPES YOU WILL CONSIDER (Mark all that apply)

☐

Single-family house (detached/free-standing)

☐

Townhome (or other attached home)

☐

Condominium or co-op building

☐

Other:

☐

Multi-family home (such as a duplex)

## MINIMUM REQUIREMENTS ("I won't consider any homes that don't have AT LEAST...")

Number of bedrooms:

Number of bathrooms:

Number of parking spots:

## PREFERRED REQUIREMENTS ("I'd really like a home that has...")

Number of bedrooms:

Number of bathrooms:

Number of parking spots:

## IDEAL SIZE (How much space do you need?)

At least:

sq. ft.

No more than:

sq. ft.

## Once you find your dream home, protect it with a customized homeowners insurance policy!

American Family Insurance offers special coverages and discounts you won't find anywhere else, helping you prepare for the unexpected while taking control of what you pay for insurance.

Visit [amfam.com/home-quote](https://amfam.com/home-quote) or contact your local agent.





### ACCEPTABLE CONDITIONS (Mark all that apply)

- |   |   |
|---|---|
| <input type="checkbox"/> Turn-key/move-in ready | <input type="checkbox"/> Moderate work needed         |
| <input type="checkbox"/> Minor fixes needed     | <input type="checkbox"/> Complete renovation required |

### LOCATION (Where do you want to be?)

Preferred neighborhoods/areas:

Neighborhoods/areas to avoid:

### NEARBY ("I want to be close to..." Mark all that apply)

- |  |   |
|--|---|
| <input type="checkbox"/> Public Transit:                     | <input type="checkbox"/> Schools:             |
| <input type="checkbox"/> Subway stop                         | <input type="checkbox"/> Elementary School    |
| <input type="checkbox"/> Bus stop                            | <input type="checkbox"/> Middle School        |
| <input type="checkbox"/> Light rail/commuter rail/train stop | <input type="checkbox"/> High School          |
| <input type="checkbox"/> Shopping (retail)                   | <input type="checkbox"/> Park/recreation area |
| <input type="checkbox"/> Shopping (grocery stores)           |   |

### SCHOOL DISTRICT (Is there a specific school district you want to live in?)

School district(s):

### AGE OF HOME (Do you want a brand-new home or do you prefer a more historical home?)

I prefer a home that is (mark all that apply):

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> New construction (brand new) | <input type="checkbox"/> Built in the last 40 years  | <input type="checkbox"/> Recently remodeled or renovated                    |
| <input type="checkbox"/> Built in the last 10 years   | <input type="checkbox"/> Built in the last 100 years | <input type="checkbox"/> In original condition<br>(no remodels/renovations) |
| <input type="checkbox"/> Built in the last 20 years   | <input type="checkbox"/> 100 years old or older      |   |

The age of the home is:

- |   |   |   |
|---|---|---|
| <input type="checkbox"/> Very important to me | <input type="checkbox"/> A little important to me | <input type="checkbox"/> Not at all important to me |
|---|---|---|

### STYLE OF HOME (Do you have a strong preference for specific home builds?)

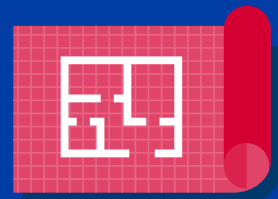
I prefer a home that is (mark all that apply):

- |                                    |                                    |  |                                   |
|------------------------------------|------------------------------------|--|-----------------------------------|
| <input type="checkbox"/> Ranch     | <input type="checkbox"/> Cape Cod  | <input type="checkbox"/> Tudor         | <input type="checkbox"/> Log home |
| <input type="checkbox"/> Colonial  | <input type="checkbox"/> Farmhouse | <input type="checkbox"/> Mediterranean | <input type="checkbox"/> Cottage  |
| <input type="checkbox"/> Craftsman | <input type="checkbox"/> Victorian | <input type="checkbox"/> Contemporary  | <input type="checkbox"/> Other:   |





The style of the home is:





- |   |
|---|
| <input type="checkbox"/> Very important to me       |
| <input type="checkbox"/> A little important to me   |
| <input type="checkbox"/> Not at all important to me |





# WHICH FEATURES MATTER THE MOST TO YOU?



Complete the worksheet below to show your preferences.

HOME FEATURES	 Strongly Prefer	 Slightly Prefer	 Indifferent	 Want to Avoid!
Belongs to a Homeowners Association (HOA) or similar				
Number of bedrooms (put your numbers in the appropriate column(s))				
Number of bathrooms (put your numbers in the appropriate column(s))				
Garage – attached (number of stalls: _____)				
Garage – detached (number of stalls: _____)				
Single story/no stairs				
Central heating				
Baseboard heating				
Radiant heating (e.g., in floor)				
Boiler/radiators				
Central air conditioning				
Fireplace (write wood, gas or electric in the appropriate column(s))				
Waterfront property				
Pets allowed: <input type="checkbox"/> Dog(s), number: _____ <input type="checkbox"/> Cat(s), number: _____ <input type="checkbox"/> Other: _____				
Open floor plan				
Updated kitchen				
Gas stove				
Walk-in pantry				
Laundry room/area in basement				
Laundry room/area on the first floor				
Laundry area in the bedroom				
Walk-in closet				
Finished basement				
Hardwood floors				
Carpeted floors				
Linoleum, laminate or other man-made flooring				
Other: _____				

YARD FEATURES	 Strongly Prefer	 Slightly Prefer	 Indifferent	 Want to Avoid!
Lot size (put number of sq. ft. in the appropriate column(s))				
Large yard				
Small yard				
Deck or patio				
Screened-in porch				
Three-season porch				
Pool				
Water feature (such as a fountain, pond, etc.)				
Nice landscaping				
Mature trees				
Fenced-in yard, low fencing (e.g., 3ft to 5ft tall)				
Fenced-in yard, privacy fencing (e.g., 6ft to 8ft tall)				
Garden box or plot				
Shed or barn				
Other:				

COMMUNITY FEATURES	 Strongly Prefer	 Slightly Prefer	 Indifferent	 Want to Avoid!
Rural/country living				
City center/downtown				
Metropolitan area (in or near the city, but not in the city center/downtown)				
Suburban/commuter				
Small town (not suburbs)				
Other:				

**Your dream home is a big investment. Make sure it has the robust protection it needs with a customized homeowners insurance policy from American Family Insurance.**

Why choose American Family to insure your dream home?

- ✓ **Special coverages** you can't find anywhere else to help protect your home — and all the dreams that grow in it.
- ✓ **Great discounts** to help you take control of what you pay for insurance — combine multiple discounts to maximize your savings!
- ✓ **Personalized service** from a local agent who you can rely on for friendly service, helpful resources and so much more.



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### STEP 03

## Find a Realtor

Speaking of realtors, now is the time to find a realtor that you trust to walk you through the process of shopping for and purchasing a home. Your realtor will schedule home showings, draft up purchase documents and monitor new homes in the market. Handing over that wants and needs list will help your realtor understand your expectations versus what you can actually afford. With their help, you'll be confident about which homes you want to make an offer on.

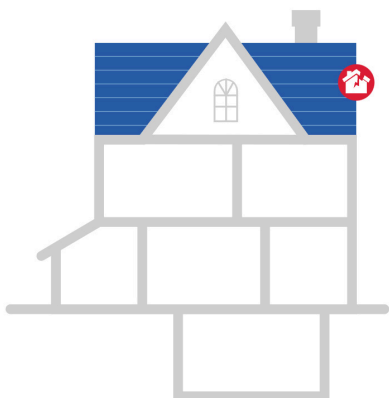
### STEP 04

## Visit Multiple Properties

Now that your realtor knows the type of home you're looking for and your price point, they'll find listings that you can visit. Your realtor will walk you through the home so you can tour the property and ask questions. **Shopping for a home takes time and patience.** You may fall in love with the first home you visit, but keep in mind other people are placing offers just like you. Take the time to visit a number of properties so you have options in case you don't get the first home you want.

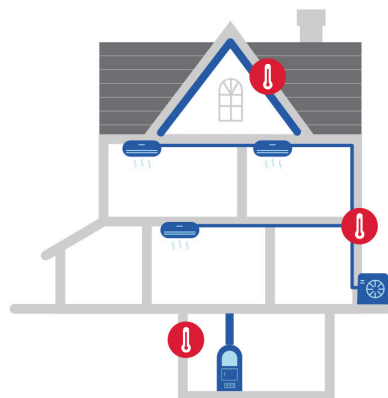
## WHAT TO LOOK FOR WHEN BUYING A HOUSE

It's understandable that you'll be attracted to certain features more than others in a home, **but there are key features you'll want to pay attention to when touring a home:**



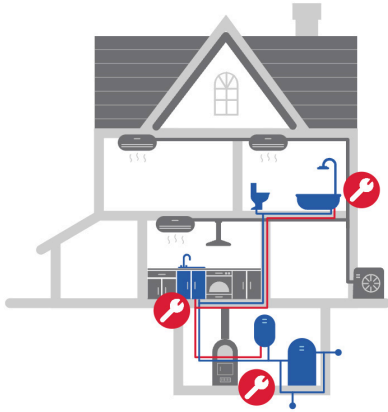
### OLD OR DAMAGED ROOF

An old or damaged roof will need to be repaired or replaced, which isn't usually a cheap upgrade. Keep this in mind when viewing homes and making your offer.



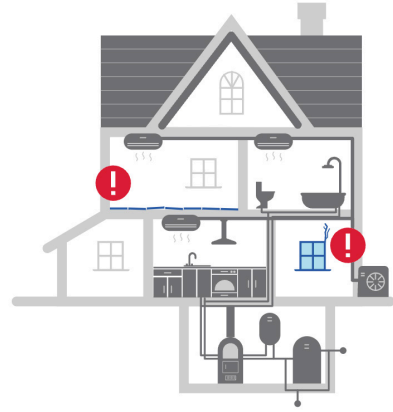
### TEMPERATURE

You want your new home to be comfortable, right? Temperature features can help with that. Make sure the furnace is in good shape and up to date, as well as any heating and cooling systems, since those can be expensive to repair. Investing in a well-insulated house can reduce heating and cooling costs, so make sure the home is properly insulated by checking areas like the attic and heating ducts.



### PIPES AND PLUMBING

Though you probably won't be able to see the pipes and plumbing, it's important that you have the pipes checked for leaks or damage.



### FOUNDATION ISSUES

Large gaps, uneven floors, cracks above windows — all foundation issues that could be expensive to repair down the road. Pay close attention to the foundation as you tour each home.

Though a home inspector will be completing a professional, in-depth review of the home, paying attention yourself and recognizing damage in the home will be useful when choosing your initial bid amount and you'll be more mindful of potential necessary repair costs that may arise.



# SHOPPING FOR A HOME TAKES TIME AND PATIENCE

NOTES



# CHAPTER 4:

# PUTTING AN OFFER ON A HOUSE

## Tips for Making an Offer on a House

You've found the home of your dreams — now it's time to make an offer! But how do you make an offer on a house? And how do you know how much to offer on a house so that it's both fair to you and attractive to the sellers? Don't fret — we've got some tips to help you navigate the often confusing waters of house bidding.

Keep these tips in mind as you put in an offer for the home you want. Remember that your real estate agent will also assist you in writing and submitting an offer when the time comes. Between the help of your realtor and by following the tips below, you'll have plenty of know-how and confidence to make an offer.

### PUT IN AN OFFER WITH PRE-APPROVAL

There's a difference between being pre-qualified and pre-approved for a mortgage. If you're already pre-approved by a lender, then you know how much your lender is willing to give you for your mortgage. Knowing what you can afford is key, not only for making an offer on a house but for shopping within your budget. Another advantage of being pre-approved is that you will get a pre-approval letter from your lender, showing you're ready to buy and have your financing lined up.

### MAKE AN OFFER WITH CONTINGENCIES

Quite often an offer to purchase a home comes with some contingencies. Not having contingencies may make your offer more attractive, but in some situations they're necessary. Examples of contingencies when bidding on a house include:

**Home sale contingency.** The most common contingency in a home offer is the sale of the buyer's home. This means that the prospective buyer has to sell the home they're living in before they're able to buy a new one. Sometimes this can cause a delay — which the seller may want to avoid. However, for first time home buyers, this contingency isn't an issue.

**Inspection contingencies.** While you can remove inspection contingencies to make your offer more attractive, you probably shouldn't. Most buyers still want the property checked thoroughly by an inspector to make sure it's sound and there aren't any unexpected surprises. Having this clause is not likely to make your offer less attractive than others and you'll appreciate the insight.



## HAVE EARNEST MONEY READY

Buyers put up earnest money to prove that they're serious about buying. It's similar to putting a deposit on an item — you'll get it back when you buy or you'll lose it if you're the reason the sale falls through. That's a real simplification, but you get the idea. A typical earnest amount is in the range of 1-2 percent of the asking price, but different types of property and different markets may drive demand higher.

### TIP



**You may also want to offer more in earnest when making an offer on a home to prove you're ready to buy.**

## CONFIRM LEGAL REQUIREMENTS

A home purchase can be tricky due to the paperwork and legal requirements — and they vary by city and state. If you have a realtor working with you, they'll be able to provide you with the appropriate paperwork. If you don't have a realtor you may benefit from having a real estate attorney to help you make an offer on a house.

## CHOOSING HOW MUCH TO OFFER ON A HOUSE

We'll admit, choosing the right offer price is one of the most stressful decisions of the home buying process, but there are a few tips you can keep in mind to help alleviate the pressure and better guide your decision for how much to offer on a home.

## Tips for Making an Offer

### RESEARCH

**Know the Market.** A big part of shopping for a home should be researching your target market. As you look around you'll become familiar with local price trends. But, if you dig deeper, you'll be even more prepared to make an offer on a house. Research the selling prices of recently sold homes in the area. These are known as home comparisons and give you a great idea of local home values.

### PAUSE

**Don't Be Overzealous.** You may want the home so much that you're willing to offer more than the asking price. And in very competitive markets, this can be the trend. The problem is, if the housing bid is more than the appraised value you probably won't get a mortgage. Lenders look closely at appraisals because they also want to make a smart financial decision.

### NEGOTIATE

**Understand the Seller's Perspective.** Try to learn what you can about the seller through open houses and speaking with realtors. If their home has been on the market a long time they might be willing to accept a lower offer. And, if they've already moved they also might be willing to accept even less to eliminate that extra mortgage. If seasonality plays into your region, this could make the sellers more motivated.

## SUBMITTING YOUR HOME BID

Once your bid has been submitted, the seller will review the bid and either accept, deny or come back with a counter offer. If your offer is accepted, it's important to remember that the deal isn't complete until the papers have been signed.

It can be stressful to bid on a home you want only to be outbid or denied an offer. But remember — you've come so far in the home buying process. Be patient, positive and keep looking. Soon enough you'll be turning the key to your first home!



**YOU'VE COME SO FAR  
IN THE HOME  
BUYING PROCESS!**

NOTES





## CHAPTER 5:

# THE HOME INSPECTIONS AND APPRAISAL PROCESS

## What to Expect With Home Inspections and Appraisal

Once your offer is accepted on a home, you'll have a few weeks to conduct a full home inspection and appraisal before closing on the house. Inspections are vital since they'll determine any major damage to the home that needs repairs, while appraisals are important for mortgage approvals to confirm the house is worth the price.

So, does a home inspection or appraisal come first? Typically, even though a home inspection isn't always required, it's a good idea to have the inspection done before your appraisal. Why? Well, if the inspection comes back with major, expensive issues, you may not want to go through with purchasing the home. Having the inspection done first can save you money on an appraisal, which can get pricey. If you were to get the appraisal done first only to find out during the inspection you don't want the home, you might be out \$500 or more.

Understanding the process and costs of a home inspections and appraisals can be tricky, but is important since they are key pieces in your home buying journey.

### WHAT IS A HOME INSPECTION?

A home inspection is an examination of the condition of a home that helps identify any damage or repairs needed before the sale of a home. While it's important for you to pay attention to potential damage in each home you visit, a home inspection is conducted by a certified home inspector.

### WHAT TO EXPECT FROM A HOME INSPECTION

A home inspector does a thorough examination of your home that includes looking at its exterior and interior. They'll take a close look at the home's structural integrity, the roof, plumbing and electricity, and many other features of the home.



# HOME INSPECTION CHECKLIST

Your house hunt is over — you’ve finally found the one you see a future in! Before you pack the moving truck, make sure your soon-to-be home is in great shape.

To help make sure your new home is in great shape, hire a professional home inspector. A good, trustworthy home inspector will help you identify any safety concerns and structural issues with your new home, and will also take into consideration your own checklist of concerns.

## WHY DO I NEED A HOME INSPECTION?

Although paying for the home inspector is typically your responsibility as the buyer, a home inspection is one of the most useful tools you have at your disposal. This is because the inspector will let you know if there are problems and can point out good aspects of the home, too. You can use the inspection report to decide if the home is really the right buy for you and can help you get a fair price.

It’s also important to note that your mortgage lender will typically require your home be inspected, as it’s often part of the appraisal to ensure what they’re lending you is a fair representation of the actual market value of the home and the property’s condition is as described.

## Exterior Home Inspection Checklist

Once you have a home inspector, make sure they’re checking out these key things on the exterior of your home:

- ☐ All windows, doors and frames
- ☐ Exterior structures: Fences, sheds, decks, driveways, sidewalks, patios, retaining walls
- ☐ Drainage system
- ☐ Landscape, including yard, trees and walkways
- ☐ Structure of the home, including the foundation
- ☐ Roof
- ☐ Siding and other exterior surfaces
- ☐ Evidence of past water damage/standing water

## Interior Home Inspection Checklist

Your home inspector will also take a look at the interior of your home, so be sure they have a look at the following:

- ☐ Attic and upper crawlspaces
- ☐ All doors, windows and frames
- ☐ Floors, walls, ceilings and insulation of all rooms
- ☐ Light switches, electrical outlets and general health of electrical system
- ☐ Heating/cooling system
- ☐ Sump-pump and sewage system
- ☐ All major appliances and appliance outlets
- ☐ Plumbing system
- ☐ Any cabinets or fixed features of the home
- ☐ Fireplace
- ☐ Evidence of past water damage
- ☐ Stairways and handrails
- ☐ Smoke and carbon monoxide detectors

A professional home inspector will know exactly what to do, but keep this list in your back pocket and double check that they’re giving your future home the attention it deserves.

### RESOURCE



### Expanded Home Inspection Checklist

Go in-depth and learn more about how to prepare for a home inspection, what home inspectors look for, what happens if the home inspector finds a problem, what to do after a home inspection and more!

[VIEW NOW >](#)

## HOW LONG DOES A HOME INSPECTION TAKE?

Home inspections usually take two to three hours, but the time to complete the inspection depends on a number of things, like how large the property is, the condition of the house and inspection requirements by state.

## HOW MUCH DOES A HOME INSPECTION COST?

According to HomeAdvisor, the national average cost of a home inspection is around \$325. The cost will differ depending on things like the size of the home, age of the home and any required testing for mold, asbestos or radon. Ask your inspector upfront how much they'll be charging you.

## WHO PAYS FOR A HOME INSPECTION?

Typically, the person planning on buying the home pays for the inspection, however, the cost of a home inspection may be included in the negotiation phase or closing phase of the process. In this case, the seller would be covering the cost. Whatever the case, make sure you and the seller communicate who is paying for the home inspector and who is conducting the inspection.

Keep in mind that the appraisal and home inspection are important to ensure you're not paying more than the home is worth. You can choose to be involved in the appraisal or inspection and ask as many questions as you'd like.



KEEP IN MIND THAT THE  
**HOME  
INSPECTION  
& APPRAISAL  
ARE IMPORTANT**

## SO WHAT EXACTLY IS A HOME APPRAISAL?

A home appraisal is an estimate of your property's value, based on factors like age, condition, building materials, neighborhood and sales of comparable nearby homes. Using these and other factors, the appraiser provides an analysis and conclusions about your property's value.

### The Home Appraisal Report Usually Includes:

- ✦ A street map showing the appraised property and comparable sales
- ✦ An exterior building sketch
- ✦ An explanation of how the square footage was calculated
- ✦ Photographs of the home's front, back and street scene
- ✦ Photographs of each property used as a comparison
- ✦ Other information that the appraiser uses to determine fair market value, such as market sales data, public land records and public tax records

## WHO PERFORMS HOME APPRAISALS?

The home appraisal process is conducted by third-party certified or licensed contractors hired by the lender. While they should be knowledgeable about real estate values, federal regulations also require them to be impartial and have no direct or indirect interest in the transaction. Don't be shy — it's always OK to ask the appraiser if they're certified and if they work with more than one lender. If the appraiser only works with one other lender, they may have outside interests — which could lead to an incorrect assessment.

## WHAT DOES AN APPRAISER DO?

A visit from the appraiser usually looks like this:

### Walk Through the Property

They'll walk through the property and run through a checklist identifying the value of the home and items that alter that value, which can either shift it up or down. You're encouraged to walk with them — you'll learn a lot!

### Review Financial Data

They'll review recent sales of similar properties and current market trends.

### Assess the Home

They'll assess things like the home's amenities, number of bedrooms and bathrooms, floor plan functionality and square footage.

### Consider the Potential Issues

They'll take note of conditions that adversely affect the property's value, such as needed repairs.

### Take Photos

They'll take photos of your home and property's layout.

## WHO PAYS FOR HOME APPRAISALS?

The buyer usually pays the fee at closing, although the seller can opt to pay it up-front. Typically, appraisals cost a few hundred dollars, although the property value, location and size can impact that cost.

## HOW LONG DO HOME APPRAISALS TAKE?

A typical property assessment takes a few hours — and if you're a buyer, you're encouraged to stick around since it's a great opportunity to learn more about the house! The reports can be expected within seven business days, though a busy market can slow turnaround times. The appraiser provides the final report to the lender, who will share it with the buyer.



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## CHAPTER 6:

# UNDERSTANDING HOMEOWNERS INSURANCE

## Understanding Homeowners Insurance Coverage

You have a lot to consider in the pursuit of finding your first home, which is why it can be easy to gloss over something like your home insurance options. But choosing homeowners insurance is actually one of the most important steps in the home buying process. Many first time homeowners choose a policy without doing enough research, but one of the smartest things you can do as a new homeowner is understand how to protect it.

### WHAT IS HOMEOWNERS INSURANCE?

Homeowners insurance is protection for your home that helps cover repairs or replacements to your home's structure, belongings and even covers you if you're liable for injury to another person or damage to their property.

### DO YOU NEED HOMEOWNERS INSURANCE BEFORE CLOSING?

**Yes. Most mortgage lenders require that a buyer has homeowners insurance before they purchase a home.** They'll request proof of insurance before they agree to closing. This is because they want to make sure their investment is protected, since they'll technically own the title of the home until you pay off the mortgage. So unless you're paying in cash, you'll need home insurance before closing.

### THE BASICS OF HOMEOWNERS INSURANCE

There's a lot to know about homeowners insurance, but learning about it doesn't have to be complicated or time consuming. We'll start with the basics about what you need to know before buying a home insurance policy.

### HOW DOES HOMEOWNERS INSURANCE WORK?

**Homeowners insurance is financial protection that helps cover damages to the interior and exterior of your home and your personal property up to your policy limits.** It also includes liability protection for you and your family members. It's designed so you'll have the funds to return your home and possessions, or additional structures on the property, back to normal if your home faces damage covered by your policy.

# WHAT MAKES UP A HOMEOWNERS INSURANCE POLICY?

Although homeowners insurance isn't required by law, typically your mortgage lender will require you to have it. Here's a high-level look at the main components of homeowners insurance: property coverage, liability coverage and other coverage options.

## Property Coverage

From fires and storms to vandalism and burglaries, property insurance helps you recover from accidental damage or destruction to your home and its contents. In the event you need to repair, rebuild or replace what's damaged or lost, homeowners insurance helps cover the costs, so you aren't stuck paying everything out of pocket.

**There are four basic categories of property coverage:**



### DWELLING PROTECTION

Dwelling coverage provides protection in the event your home and attached structures are damaged.



### PERSONAL PROPERTY COVERAGE

Personal property coverage helps pay for the cost of repairing or replacing belongings that are stolen or damaged.



### COVERAGE OF OTHER STRUCTURES ON YOUR PROPERTY

Other structures coverage covers damage to stand-alone structures like fences, toolsheds or detached garages.



### LOSS OF USE COVERAGE

Loss of use coverage helps with additional living expenses, including hotel costs and meals, in the case you have to temporarily relocate while repairs are made.

Like all insurance policies, your homeowners policy includes limitations on certain types of property, as well as a deductible — which is the amount you pay for each claim before the insurance kicks in.

## Liability Coverage

Let's say an accident occurs on your property — a visitor is injured after slipping on your icy sidewalk, or you're cutting down a tree and it falls on your neighbor's brand new car. Liability coverage helps financially protect you from paying expensive damages for which you are legally liable.

## Optional Coverage

For extra coverage and peace of mind, you can add optional coverage to your homeowners policy. Some optional coverages are itemized personal property, which covers things like jewelry, fine art and musical instruments. Other available options include coverage for identity theft, home day care, home office, equipment breakdowns and service line failures and more. Talk with your insurance agent to decide which coverage works best for your home.

Want to find out about more ways to protect your new home? Keep reading to learn about all your options for homeowners insurance coverage.



# COMPARE THE MAIN COMPONENTS OF HOMEOWNERS INSURANCE



## PROPERTY COVERAGE

### Dwelling Protection

Provides protection in the event your home and attached structures are damaged.

.....

Commonly Covers:

- ✦ Fire
- ✦ Wind
- ✦ Hail
- ✦ Lightning
- ✦ Smoke
- ✦ Explosion
- ✦ Vandalism
- ✦ Theft
- ✦ Falling objects

*\*Up to your coverage limits.*



## PROPERTY COVERAGE

### Personal Property

Pays for the cost of repairing or replacing belongings that are stolen or damaged.

.....

Commonly Covers:

- ✦ Fire
- ✦ Wind
- ✦ Lightning
- ✦ Smoke
- ✦ Explosion
- ✦ Theft
- ✦ Wildfire

*\*Up to your coverage limits.*



## PROPERTY COVERAGE

### Other Structures

Covers damage to stand-alone structures on your property.

.....

Commonly Covers:

- ✦ Detached garages
- ✦ Gazebos
- ✦ Sheds
- ✦ Swimming pools
- ✦ Fences

*\*Up to your coverage limits.*



## PROPERTY COVERAGE

### Loss of Use Coverage

Helps with additional living expenses in the event you have to temporarily relocate while repairs are made.

.....

Commonly Covers:

- ✦ Temporary living arrangements, like a hotel or apartment
- ✦ Increased food expenses, like restaurant meals
- ✦ Storage costs for household items

*\*Up to your coverage limits.*

# COMPARE THE MAIN COMPONENTS OF HOMEOWNERS INSURANCE CONT.



## OPTIONAL COVERAGE

### Liability Coverage

Helps protect you from paying expensive damage for which you are legally liable.

#### Commonly Covers:

- ✦ Injuries on your property
- ✦ Negligent acts of children or others
- ✦ Accidental damage to someone else's property
- ✦ Dog bites

*\*Up to your coverage limits.*



## LIABILITY COVERAGE

### Personal Umbrella

Provides an additional layer of liability coverage above your eligible policy limit.

#### Commonly Covers:

- ✦ Bodily injury liability
- ✦ Personal injury offenses
- ✦ Property damage liability
- ✦ Landlord liability
- ✦ Defense costs

*\*Up to your coverage limits.*



## OPTIONAL COVERAGE

### Itemized Personal Property

Extra coverage that allows you to add on protection for specific valuables.

#### Commonly Covers:

- ✦ Jewelry
- ✦ Fine art
- ✦ Musical instruments
- ✦ Furs
- ✦ Collectibles

*\*Up to your coverage limits.*



## OPTIONAL COVERAGE

### Additional Coverages

Here are some other, unique coverages you might be interested in.

#### Commonly Covers:

- ✦ Identity theft
- ✦ Equipment breakdown
- ✦ Home day care
- ✦ Sump pumps
- ✦ Home business
- ✦ Flash flood
- ✦ Matching siding
- ✦ Much more!

*\*Up to your coverage limits.*

## HOW MUCH INSURANCE DO YOU NEED FOR YOUR HOME?

There are a number of factors your insurance agent will look at in order to help you create a customized policy that's specific to your needs. **They'll consider things like the cost to rebuild your home, your home's age, your claims history and recreational additions,** like a trampoline or swimming pool.

It's important to have enough protection to cover the costs of rebuilding your home and replacing your possessions in the event of the unexpected.

## HOW HIGH SHOULD YOU SET YOUR DEDUCTIBLE?

When considering how much you want to pay, keep in mind you'll be required to pay a deductible if you file a claim. As previously noted, the deductible is the amount you'll pay out of pocket before your insurance company steps in. The lower your deductible, the higher your premium. You'll want to choose a deductible that you are financially comfortable with in the event of a loss. Your agent can help you decide upon the best approach, depending on your situation and budget.

## SAVING MONEY ON HOMEOWNERS INSURANCE

If you're looking to save money on homeowners insurance, talk to your American Family Insurance agent about the many available discounts. For example, we offer a discount for bundling policies, like home and auto insurance. You could also get a lower rate for having a home security system or smart home technology.

### DISCOUNTS



### Save on Your Home Insurance

Head to our homeowners insurance discounts to learn if you're eligible to save with American Family Insurance.

[VIEW NOW >](#)

## NEED MORE INFORMATION ABOUT HOMEOWNERS INSURANCE?

Reach out to an American Family Insurance agent to find the best coverage for your home and needs. They'll help you create a customized policy that works hard all year round to protect your home and lifestyle. If you'd like to take the first step in insuring your home, get a home insurance quote online.



# HAVE PEACE OF MIND WITH HOMEOWNERS INSURANCE

# Create a Home Inventory

Homeowners insurance policies offer coverage for your personal property items up to your coverage C limit. Before meeting with your agent, it'll be helpful to create a home inventory of the following types of items (among other items in your home) to make sure you're properly covered:

Asset	Value	Asset	Value
Antiques			
Arts			
Collectibles			
Computers			
Electronics			
Game Systems			
Musical Equipment			
Sound Systems			
Sports Equipment			
Furniture			
Clothing			
Books			

Your policy provides limited coverage for the items below up to the limit listed. Fill out this list to find out if you need additional coverage:

Asset	Coverage Limit	Asset's Value
Jewelry, Gemstones, Watches & Furs	\$2,000	
Money, Banknotes, Coins	\$300	
Stamps, Securities, Passports & Tickets	\$1,500	
Business Property	\$1,500	
Trading Cards & Comic Books	\$2,500	
Watercraft (including trailers & accessories)	\$1,500	
Flatware, Tableware	\$5,000	
Rugs & Tapestries	\$10,000	
Tools, Tool Boxes, Benches & Cabinets	\$7,500	
Firearms & Related Accessories	5,000	



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## CHAPTER 7:

# WHAT TO EXPECT ON CLOSING DAY

## What to Expect on Closing Day: A Checklist For Home Buyers

Closing on your first house is a time to celebrate — after all, it's an important milestone in your life! And it's the last step in buying your new home. The actual closing and paperwork can be tedious and sometimes a little overwhelming, but we're here to help. Here's what you should expect on closing day.

### HOW LONG DOES CLOSING ON A HOUSE TAKE?

Closing on a home usually takes place four to eight weeks after the offer on the home is accepted. This allows time for home inspections, home appraisals, funding and title searches.

### WHAT HAPPENS AT CLOSING?

On closing day, the ownership of the property is transferred to you, the buyer. This day consists of transferring funds from escrow, providing mortgage and title fees, and updating the deed of the house to your name. Basically, come closing day, you and the seller sign all the necessary papers to officially seal the deal.

### WHAT TO BRING TO A HOUSE CLOSING

**Be proactive and gather the following items that you'll bring with to the closing:**



#### CLOSING PAPERWORK

Bring all necessary paperwork with you to closing to make sure nothing is missing, different or overlooked. Some important documents include a photo ID, your home insurance certificate and cashier's or certified check.



#### CASHIER'S OR CERTIFIED CHECK

You'll pay your closing costs with a certified check or a wire transfer from escrow.



#### PROOF OF HOMEOWNERS INSURANCE

Lenders require an insurance policy before closing. Reach out to your agent to get your new homeowners insurance in place.



#### PHOTO ID

You'll need to bring a government-issued identification for the title company.

# HOME BUYER'S CHECKLIST BEFORE CLOSING

Before closing day, review the following checklist to ensure you've got everything in order to make the closing day process as smooth as possible.

## ☐ **Contact the Closing Agent**

Once you know who your closing agent is and where they're located, it's a good idea to contact their offices to see if they have any special instructions for you. They'll typically have a list of items you'll need to bring.

## ☐ **Review Your Closing Documents**

Legally, you should receive your closing documents three business days before closing. Make sure you read them prior to closing day so you understand what you're signing and check that there are no errors. Take notes if you have questions or concerns — you may want to address them before the closing.

## ☐ **Check the Basics**

Double check all of the basics — spelling, numbers, names, etc. — just to make sure there are no small errors that could turn into bigger issues down the road.

## ☐ **Check the Fees**

Your most recent loan estimate should be close to your closing disclosure. Some fees may change a little, but there shouldn't be any big surprises at this stage.

## ☐ **Review Seller Responsibilities**

Review your final walk-through checklist to make sure the seller has taken care of their responsibilities.

## ☐ **Be Payment Ready**

Expect to write that check for closing costs. Plan in advance if you're transferring funds from another account so they're cleared.

## ☐ **Bonus Closing Tip**

Write a nice note or give a small gift to the sellers. With a small act of kindness, you can make a fresh start in your new home on a positive note.

**Now that you've signed the papers and paid the seller — congratulations! We know it was a lot of work getting to this point.**



**WITH THE KEYS TO  
YOUR NEW HOME IN HAND,  
IT'S TIME TO CELEBRATE!**

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## CHAPTER 8:

# WHAT TO DO AFTER CLOSING ON A HOUSE

## Just Closed on Your First Home? Here's What to do Next

Pre-approval, understanding your mortgage, making an offer, closing on the home — there's a lot more to buying a home than deciding on the number of bedrooms you want. It can be a stressful process that takes time. But it's a process that has a rewarding end. Once you close, move in and start making the space your very own, you'll realize all the effort was worth it! And one of the best parts is you'll know that you took educated steps to get there.

### RESOURCES FOR NEW HOMEOWNERS

After closing you'll still have a few final steps to take care of, including:

- ✦ Changing your address
- ✦ Setting up utilities
- ✦ Cleaning your home
- ✦ Painting
- ✦ Moving in
- ✦ Decorating

#### RESOURCE



#### Moving Checklist

Get organized with our moving checklist that will help you stay on top of your move.

[VIEW NOW >](#)

Use the following resources to make your transition into your new home as smooth as possible.



#### Moving

[CHANGING YOUR ADDRESS >](#)

[POST-MOVE CHECKLIST >](#)



#### Home Maintenance

[DIY HOME IMPROVEMENTS >](#)

[HOME MAINTENANCE CHECKLIST >](#)



#### Homeowners Insurance

[WHEN TO REVIEW YOUR HOMEOWNERS INSURANCE >](#)

[QUESTIONS TO ASK YOUR HOME INSURANCE AGENT >](#)

[HOW HOME IMPROVEMENTS AFFECT INSURANCE >](#)



#### Smart Home

[BEGINNER'S GUIDE TO SETTING UP A SMART HOME >](#)

[SMART TECHNOLOGY FOR YOUR FIRST HOUSE >](#)

NOTES





A thick red line that starts with a slight upward slope, peaks, and then continues as a horizontal line to the right.

**ALL THE EFFORT WILL BE  
WORTH IT!**

# QUICK REFERENCE GUIDE: ADDITIONAL 'AT HOME' RESOURCES

Congratulations — you've completed the First-Time Homebuyers course and are well on your way to finding YOUR dream home! We know there's a lot of great information to consider and retain. This quick-guide of resources is designed to provide reference points at every stage of your journey as you continue in your pursuit of homeownership.



**Finding YOUR Dream Home**



**How Much Should You Pay for a House?**



**Saving for a Home**



**Home Buying Checklist**



**Closing on a Home**



**Closing Costs vs. Down Payments**



**The Cost of Selling a House**



**How to Increase Home Value for Appraisal**



**Moving Checklist**



**Understanding Insurance — Homeowners Insurance Deductibles Explained**



**Understanding Insurance — Personal Property Coverage**



**Understanding Insurance — Build a Policy that Fits Your Needs**



**Get a Homeowners Quote & Additional Guidance for Homeowners**

## KEEP DREAMING FEARLESSLY!



## GLOSSARY:

# HOMEOWNERS INSURANCE TERMS MADE SIMPLE

If you find yourself confused by insurance terms, you're not alone. Insurance jargon can seem complicated — that's why we're here to help! Our glossary of homeowners insurance terms will get you up to speed on language that will help you better understand your coverages and how they help you protect what matters most.

### A

**Actual cash value (ACV).** An estimate of the fair market value of your property (e.g. home, roof, belongings in your home) was before the loss occurred. Technically, ACV is what it would cost to replace your property minus depreciation, which is how much value the property has lost due to age and wear and tear since you bought it.

**Additional insured.** Refers to a person or party other than the policyholder who is added to the policy so they'll be covered.

**Additional living expense.** Coverage that pays for additional living expenses, such as hotel costs and meals, in case you have to temporarily relocate in the event your insured residence becomes uninhabitable due to a covered loss. Also known as *loss of use coverage*.

**Adjuster.** A representative of your insurance company who investigates your insurance claim. After investigating the claim, they'll work with you to determine the amount you'll be paid.

**Agent.** A qualified expert that's licensed to sell insurance on behalf of an insurance company. We believe your American Family agent is your advocate — they're knowledgeable about your insurance needs and always available and ready to help answer any questions you have regarding your insurance. Our agents are required to take exams

administered by the Department of Insurance and many continue their education throughout their careers to always be informed in order to offer expert guidance. We want you to have confidence that your insurance needs are being reviewed by the best in the business.

**Application.** A form created by an insurer that collects information about the property and person who wants insurance. An insurer relies on this information when deciding whether to issue a policy. You're required to sign your application to attest to the accuracy of the information.

### B

**Betterments.** See *Improvements*.

**Binder.** A temporary agreement declaring that the policy is in effect. A binder is used to prove to your lender that you have homeowners insurance when it's not possible to issue a policy immediately.

**Blanket coverage.** An insurance policy that provides coverage for a variety of items with only one limit of insurance. For example, instead of scheduling one building at \$10,000, one building at \$40,000 and one building at \$50,000, a blanket policy would be issued with a \$100,000 limit that covers all three buildings.

## C

**Cancel.** To terminate a contract or a policy.

**Cancellation.** The termination of your home insurance policy during the policy term.

**Catastrophe.** A disaster affecting a specific geographic area. They can cause injury, death or result in extensive property damage. Hurricanes, floods, tornadoes, and even large hailstorms are typical examples of catastrophes.

**Claim.** An insurance claim is when you make a request to your insurance company to pay you after a loss. If your insurance company validates the claim, you'll be issued a payment.

**Claimant.** A third party who makes a claim against you.

**Coverage.** The protection against financial loss provided by an insurance contract. Having home insurance coverage helps you recover financially in the event of the unexpected.

## D

**Damage.** Physical harm or loss of property.

**Damages.** The money that one party is legally obligated to pay another party.

**Declarations.** The page in a policy that shows the name and address of the insurer, the period of time a policy is in force, the amount of the premium and the amount of coverage.

**Deductible.** The amount of the damage or loss that you're responsible for before your company pays the balance on a claim.

**Depreciation.** A decrease in the value of your property (e.g. house, roof, stove, oven, etc.) due to wear and tear or becoming obsolete.

**Dwelling.** A structure for people to live in.

**Dwelling or building coverage.** The part of your homeowners insurance policy that helps pay to rebuild or repair the physical structure of your home if it's damaged due to a covered loss.

## E

**Effective date.** The date that your coverage goes into effect.

**Endorsement.** An add-on to your insurance policy that changes the coverage provided in your policy.

**Escrow.** Money placed in the hands of a third party until specified conditions are met.

**Exclusion.** Type of loss or a cause of loss that is specifically not covered by your homeowners insurance policy. Your policy will have a section labeled *exclusions* that will list them.

**Expiration date.** The date on which your insurance policy expires.

## F

**Fire resistive.** Refers to buildings made of steel and concrete or other nonflammable materials.

**Fire wall.** A fire resistive wall erected to slow or stop the spread of fire between parts of a building.

**Flood insurance.** Flood insurance protects against damage done by the rising or overflowing bodies of water. Your homeowners policy doesn't cover flooding, but you can buy flood insurance coverage separately. American Family offers flood insurance from the National Flood Insurance Program.

**Frame.** Refers to a variety of frame construction of either wood, metal, or timber (non-brick homes).

## G

**Garage.** Detached or attached structure which you store your vehicles in.

## H

**Hazard.** An action, condition circumstance or situation that makes the occurrence of a loss more likely.

**Homeowners insurance policy.** A homeowners insurance policy financially protects your home and your family with a combination of dwelling structure coverage, personal property and personal liability insurance.

**Housekeeping.** Generally refers to the overall care, cleanliness and maintenance of a property, and is a key factor when an underwriter considers accepting your policy.

## I

**Identity theft fraud expense protection.** Coverage that protects you from the costs related to restoring your identity. Having identity theft insurance with American Family Insurance means you'll have someone by your side every step of the recovery process to help make the process simpler, quicker and less expensive.

**Improvements.** Additions made to a building that increase its value. Fixtures, alterations, additions, installations and repairs are forms of improvements. Also known as *betterments*.

**Inflation protection.** Adjusts your home insurance policy limits to account for increases in costs to repair or replace your home or property due to inflation.

**Insurance.** Something people buy to protect themselves from losing money in the event of an accident or unexpected mishap. It's an agreement between you (the person being insured), and your insurance company, where you'll pay a certain amount up front — your premium. In the event of an accident, injury or other loss covered in your policy, you'll pay a small portion of the financial cost, known as the "deductible," and the insurance company promises to pay the balance.

**Insurance contract.** The document that is the agreement between your insurance company and you (the policyholder) detailing the terms and conditions of your insurance coverage.

**Insured.** The policyholder; the person(s) protected in case of a loss or claim.

**Insurer.** The insurance company that provides insurance coverage and services.

**Inventory.** A home inventory is a list of your possessions and their value that allows you to more easily and quickly settle claims and report losses on tax forms.

## L

**Lapse.** A policy that ends because you did not pay the premium amount.

**Larceny.** Theft of personal property.

**Lessee.** A tenant who has signed a lease.

**Lessor.** A person who rents his or her property to another under the terms of a lease.

**Liability insurance.** A part of your homeowners insurance that helps pay for damages owed for bodily injury or property damage that occurs on your property, or that from your activities. For instance, someone slipping on your floor.

**Limit of liability.** The maximum amount your insurance company has to pay for a claim. Always make sure to refer to your individual policy to understand your policy limits.

**Loss.** The injury or damage sustained by the insured that the insurance company agrees to cover.

**Loss history.** The losses you have suffered, and their values, over a certain period of time.

**Loss of use.** A part of your homeowners policy that provides reimbursement for living expenses when loss of or damage to property by a covered peril forces you to maintain temporary residence elsewhere. Also known as *additional living expense*.

**Loss payee.** Someone who receives insurance payments in the event of damage to property. The loss payee must have a financial interest in the property. Loss payees include property owners and mortgagees.

## M

**Manufactured home insurance.** Specialized coverage for mobile or manufactured homes.

**Market value.** What your home would sell for in the current market.

**Medical expense coverage.** Insurance that pays the cost of medical care to an injured person regardless of who is at fault for the accident.

**Mutual insurance company.** An insurance company that is owned by its policyholders — not stockholders.

## N

**Named-peril policy.** A policy in which you're covered only for the specific hazards named in your policy, such as wind, hail, fire, earthquakes, etc.

**Negligence.** When a person doesn't exercise reasonable care in a given situation, they may be considered to be negligent. One can be negligent as a result of doing something or not doing something.

**Non-renewal.** A decision by an insurance company not to renew a policy at its expiration date.

## O

**Open peril.** A form of insurance that provides coverage for all losses or damages except those that are specifically excluded in your policy.

**Other structure coverage.** The part of your homeowners insurance policy that covers the buildings on your property other than your home, such as a detached garage, barns and swimming pools.

**Over-insurance.** Insurance that exceeds the actual value of the property insured.

## P

**Perils.** The specific risk or cause of a loss covered by your insurance policy. Examples include explosion, collision, flood, fire, theft, vandalism, water damage, etc.

**Personal liability insurance.** Coverage that financially protects you in the event of an accident, whether at your home or away from it, that results in bodily injury or property damage that you're legally responsible for.

**Personal liability umbrella policy.** An extra layer of liability coverage over and above your primary insurance limits. If a loss exhausts your primary liability coverage, a personal liability umbrella policy can provide coverage for the excess damages.

**Personal property.** Refers to property such as clothes, furniture and other items you own that are not buildings.

**Physical hazard.** Danger of loss arising from the condition, occupancy or use of the property insured. Examples of physical hazards that may increase the probability of loss include unsafe or unclean conditions, cheap or flammable building materials, etc.

**Policy.** A formal written contract of insurance.

**Policy owner.** The person or party who owns an individual insurance policy. The policy owner is typically the person who pays the premium and has authority to make changes to a policy.

**Premium.** The amount of money an insurance company charges to provide coverage.

**Property insurance.** The insurance of real and personal property against physical loss or damage.

## R

**Real property or real estate.** Land and whatever is erected on or affixed to the land, such as buildings or structures.

**Reinstatement.** When an insurance company puts a policy back in force after it was lapsed because of nonpayment of renewal premiums.

**Renewal.** An extension of an existing policy for another policy period.

**Renters insurance.** Property insurance that provides coverage for someone renting the place where they live.

**Replacement cost value insurance (RCV).** Coverage that pays the replacement cost to restore or replace the damaged or destroyed property back to the condition it was in before the damage happened.

**Rider.** Mostly used in life insurance, a rider is a document that adds additional coverage to your policy.

**Risk.** The chance that a loss may occur.

## S

**Scheduled personal property.** If you have expensive items, such as jewelry or antiques, your homeowners policy may not be high enough to cover the full cost of replacing them. You can pay an additional premium to have them covered as scheduled personal property.

**Sump pump overflow coverage.** Provides insurance protection in the event your sump pump system fails and water overflow occurs and causes damage.

## T

**Tenant or renter insurance.** A form of homeowners insurance sold to persons who rent vs. own their homes. A tenant or renter policy combines personal property and personal liability coverage. It is like a homeowners policy, except that it does not include coverage for the building itself.

**Term.** The length of time for which a policy is written. For property policies, the policy period or term is typically 12 months.

**Third party interest.** A party (other than the policyholder and the company) having some interest in the subject matter of the policy, typically as mortgagee or lien holder.

**Total loss.** When your home is totally destroyed or the cost to repair or rebuild it exceeds the policy limit.

## U

**Umbrella insurance.** Umbrella insurance is additional liability coverage that offers limits over and above your homeowners and auto policies. It may also provide broader coverage than the policies that underlie it.

**Underinsurance.** When the limits of a property policy are less than would be needed to cover a total loss.

**Underwriter.** The person who accepts or rejects risks for an insurance company.

**Underwriting.** The process an insurance company uses to decide whether to accept or reject an application for a policy.

## V

**Vacant home insurance.** Insurance for a home you own that will be vacant for a period of time.



*This glossary represents only a brief description of terms and is not part of your policy. Insurance policy terms and conditions may apply. Coverage features and limits vary by state and may be subject to change. Some products are not available in every state. Please check with your agent and read the policy for exact details on coverages and exclusions.*





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**HOUSE**  
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