



# GREENLEAF FINANCIAL GROUP

PRACTICAL SOLUTIONS | PERSONAL ADVICE | PROGRESSIVE IDEAS

**Hello Jennifer:**

**Welcome to  
The Greenleaf Guide**

January 2012 Newsletter



**Question**

*I am a recently retired 68-year old. A*

## **Homeowners Insurance: Do You Understand Yours?**

Recent insurance commercials have made many people wonder how their homeowners insurance works. This is understandable -- its disconcerting to think you are buying insurance to protect yourself from risks only to find out after a disaster that your insurance wasn't very effective.

Here's what you need to know and look into now -- *before* you have to file a claim.

### **Beware of Loopholes**

Although you likely have a standard "all-perils" policy that will replace or repair your home and personal belongs if they are damaged or destroyed, most such policies have numerous loopholes. All of the coverage is limited by specific dollar amounts and most policies have separate limits, typically \$1,000, for jewelry, artwork, firearms, and electronics. Many "perils" are explicitly excluded. Flood damage, for example, is never covered.

*friend in similar circumstances has a reverse mortgage. What is a reverse mortgage and how can I tell if it is right for me?*

#### **Answer**

Reverse mortgages are a way for seniors to convert home equity into cash. Homeowners must be at least age 62 and the maximum you can borrow is limited by the equity in your home. In essence, you give up your home equity for a lump sum of cash, a line of credit, or monthly payments.

Since lower home values have made selling or refinancing less attractive, reverse mortgages have become more common the past few years. However, you must weigh the tradeoffs carefully.

For starters, reverse mortgages have significant costs. An upfront cost of 10% has been common in the past, though costs have fallen over the past few years.

Origination fees can be up to 2% of a home's value, but are capped at \$6,000. Closing costs vary, but are usually about another 2% of the loan amount.

Depending upon the loan, there may be additional mortgage insurance fees of as much as 1.25%. And since this is a loan, you pay an interest rate. Some rates are fixed, others are variable.

In addition, you are still the homeowner responsible for repairs, property taxes, and insurance.

#### **Customize Your Perils**

Analyze your area's hazards, be they earthquakes or sewage backups. If you live in an old house and it is damaged in a fire, you might need a building permit and extra repairs to meet contemporary codes. Make sure these costs and hazards are covered.

#### **Itemize Your Valuables**

To cover valuable items, such as jewelry or a collection, you have two choices. You may add a rider or you can raise the limit on coverage for that item's category. Deductibles, however, will apply to the latter and will likely not apply if the item is lost.

#### **Understand Replacement Cost**

Since insurance companies prefer to pay as little as possible, it is up to you to make sure your policy would fully rebuild or repair your home.

Forget about the real estate market -- replacement cost is all about construction costs. For insurance purposes, the value placed on your dwelling is the amount of money it takes to rebuild your house. It does not include the value of any land. It is not the same thing as your home's market value and it has nothing to do with your mortgage.

Assuming you aren't a homebuilding expert, how do you get an accurate estimate of what it would cost to rebuild your house?

1. The best method is to hire a contractor to inspect your house. Expect to pay about what an appraiser would charge, which is around 0.1% of the estimate. Although not inexpensive, this method gives you the best documentation should you ever need to fight your insurance company.

2. For a much smaller amount, you can use online tools such as [AccuCoverage](#) or [HomeSmart Reports](#). These are similar to what insurance

On the plus side, you get to stay in your home. Your reverse mortgage is repaid (with interest) when you sell your house, move out for 12 months or more (such as a stay in a nursing home), or die.

For seniors with their savings tied up in their home (and who don't intend to leave homes debt-free to their children), a reverse mortgage may be a good fit to supplement your cash flow. The older you are and the lower the interest rate, the more you can borrow.

If you want extra income, a monthly payment or line of credit could be the answer to your retirement income worries. A lump sum, instead, could pay off an existing mortgage or make home improvements. Just be sure you fully understand all the costs and fees. A good place to read more and try out some calculators is at [AARP's](#) reverse mortgage site.

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companies use, but you must enter good data.

#### **Take an Inventory**

Next, inventory your home's contents. The burden of proof is all yours. Take pictures of every room and email them to a relative or keep copies outside of your home. Use the free inventory worksheets from [United Policyholders](#) or free software from the [Insurance Information Institute](#).

#### **Consider Some Wiggle Room**

Replacement-cost coverage (known as RCV) is better than actual cash value coverage (ACV) because the latter will use depreciated values. Even with RCV, it makes sense to buy "extended replacement cost," which typically adds 20% or 25% beyond the policy's limits. Good news -- this will only increase your premiums by about 10%. Moreover, if you find yourself in an area with widespread damage, such as a hurricane, local builders will be in high demand and that will cover increased repair costs.

#### **Buy Flood Insurance**

Damage from water main breaks -- or any kind of rising water or flooding -- always requires flood insurance. You can buy it through the National Flood Insurance Program at [www.floodsmart.gov](http://www.floodsmart.gov) or through your insurance agent. Do it now -- there's a 30-day waiting period for the national program.

#### **Check Your Insurer**

Shopping around is always a good idea, but cheaper is not always better. Be sure to check your current insurer out on your state insurance website. Start with the National Association of Insurance Commissioners [map](#). Looking for an independent agent? Try [www.iiaba.org](http://www.iiaba.org).

#### **More Reasons to Review Your Policy**

Your home is one of your biggest assets and is worth protecting. You can increase your coverage

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**by thousands of dollars for under \$100 per year.  
Make it a priority to know your coverage and be  
sure to update it after a remodeling project or  
major home improvement.**

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