**Why Do I Need Homeowners Insurance?**

By Pat Kelley



Pat Kelley

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It pays to read your mortgage and insurance documents.

***Homeowners insurance is a good way to protect your assets in the event of a catastrophe such as a fire. A home is the largest*** [**asset**](http://www.ehow.com/info_8061587_do-need-homeowners-insurance.html) ***for most people, and losing a home could result in the loss of a lifetime's of work. Most banks also require people with mortgages to hold a homeowners insurance policy.***

The Banks

* + The banks require homeowners insurance because it protects their interests in the [event](http://www.ehow.com/info_8061587_do-need-homeowners-insurance.html) of a major loss. A homeowner who loses everything in a fire is unlikely to have the money or inclination to pay the mortgage. A homeowner’s policy gives the homeowner the means to do that.

Loss of Coverage

* + There are often big drawbacks to letting homeowner’s policy lapse. Most mortgage contracts give the banks the authority to buy insurance on behalf of the homeowner. The bank can then charge the homeowner for the policy. These "force-placed" policies are often more expensive than what a homeowner can obtain on his own.

Type of Coverage

* + Your bank may also specify the type of coverage you must have. Some banks will require you to have coverage for the actual cash value of a home. This is the amount of money that a house is worth on the open market. Other banks will require you to have insurance to cover the replacement value of the home. This is the cost to rebuild your house. Depending on your situation, one could be higher than the other. Replacement value of an older home may exceed its cash value if the home is made of brick or stone and other materials.

Additional Insurance

* + Most insurance policies specifically exclude risks that cause extensive damage to a large number of homes in a specific area. Insurance against floods, for example, require separate policies, usually through the National Flood Insurance Program. Windstorm insurance -- which protects against hurricanes -- are also usually sold separately. Your bank may require either or both of these types of policies if you live in areas that are at high risk for these perils. Damage from mold may also be excluded.