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HOMEOWNERS INSURANCE

COURSE INSTRUCTIONS

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Chapter One: Introduction to Homeowners Insurance



A home often represents the largest investment its owner will ever make. Its contents include the most important possessions of its residents. Within these two reasons alone is enough motivation for most people to purchase insurance to protect their home and property. Add to these motivating

factors that most mortgage arrangements require some form of homeowners coverage and the result is that homeowners insurance is one of the most common forms of insurance purchased.

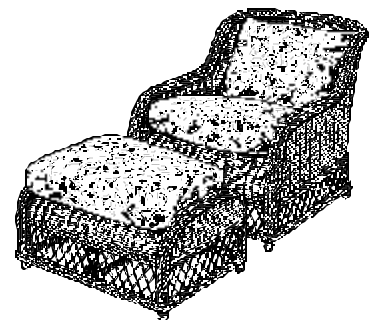
Coverage

Homeowners insurance provides property insurance protection against damage or loss to the home itself (the *home* is referred to as the *dwelling* within homeowners insurance forms), to structures attached to the dwelling, such as a garage, to other structures not attached to the dwelling, to personal property and to other items on *the residence premise*, such as trees and shrubs. The dwelling is generally insured against damage due to fire, windstorm, hail, theft, vandalism, and other perils such as falling objects, weight of ice, snow or sleet, freezing, and even volcanic eruption.

Other structures covered under homeowners policies include gazebos, detached garages, sheds, mailboxes, satellite dishes and other such structures on the premises. Usually the amount of coverage for other structures is limited to 10% of the total coverage on the dwelling.

Some of the landscaping around the home is also covered under homeowners policies through *trees, plants and shrubs* provisions. Generally coverage for these items is limited to 5% of the coverage on the dwelling. Trees, plants and shrubs are covered against many of the same perils as the home, but normally excluded from this coverage is damage due to windstorm. Since windstorm damage occurs with frequency to landscape items, windstorm insurance is too expensive for the average homeowner to purchase as part of trees, plants and shrubs coverage.

Personal property is also covered under homeowners policies. The coverage limit for most personal property is 50 – 70% of the amount of coverage on the house. However, policies include special limits of liability for certain items, such as coins, precious metals, valuable papers, watercraft, business property and other items. If more coverage is needed, liability limits may be increased through riders or endorsements, or by purchasing separate policies.



Personal property is also generally covered under homeowners policies against loss away from home – even when outside of the US. Many policies provide this *worldwide coverage* against property damage. Additional insurance can be purchased to protect property from theft away from home as well.

Another coverage offered under homeowners insurance is *loss of use* coverage. Loss of use coverage pays for additional expenses incurred because a covered loss makes all or a portion of the home not fit to live in. Included are such expenses as hotel bills and meals away from home. The normal expenses that the insured would have incurred were there no loss or damage to the

dwelling are not include in the amounts payable under the coverage. The loss of use coverage is generally limited to about 20% of the amount of coverage on the dwelling.

Liability Coverage

An important component of homeowners insurance is liability coverage. Liability insurance differs from property coverage in significant ways. Most importantly, instead of paying the insured for losses incurred, as property coverage does, liability insurance pays damages to a third party due to bodily injury or property damage caused by an insured. For example, if someone stumbles down a homeowner's steps and injures himself, liability insurance will pay for the injury done and for the medical care the injury necessitated. Liability coverage pays for both the covered damage or injury and the costs of defending an insured against a claim or suit arising from the damage or injury, even if the suit is groundless, false or fraudulent. Medical expenses to others are paid if the injury occurs on the homeowner's premises and the injured party has permission to be on the premises (or the *insured location*, as the residence premises may be referred to within the policy). Liability coverage does not apply to damage or injury that is intentional or is not accidental.

Liability and the Law

Because homeowners insurance includes liability coverage, the legal concepts applied to liability are important to understand. Liability insurance provisions spring from statutes relating to legal liability and from insurance contract law.

Common Law

Common law relies strongly on past court decisions, or *precedents*. Centuries ago in England, all law was based on the customs and traditions of the local people. When rule in England became united under Norman kings, judges appointed by the king would go from shire to shire to hold court and administer local law. Over time, the rulings of these judges built on and replaced popular customs. As the rulings made by these judges were used and modified by other judges, these judgments were applied throughout the land, resulting in common law.

The United States, as a former colony of Great Britain, generally adopted common law as the basis for civil law in most states. (The State of Louisiana is the only exception, its French roots resulting in the application of the Code Napoleon in the formation of its civil laws.) Common law is developed based on previous court rulings. Once a court makes a decision, other courts can use the decision and the arguments behind it when ruling on cases they hear. Because of this, common law is rooted in tradition and past decisions and yet can change and evolve over time.

Tort Law

Common law governs the remedies for *tortious acts*. A *tort* is an act that is committed by one party who causes injury or damage to another party or to another's property. The difference between an act that is a tort and one that is a crime is that a tort is a private wrong against a party or property, and a crime violates a public right. It is possible for an act to be both a tort and a crime, and therefore for the guilty party to be required to pay damages under tort law and also be punished under criminal laws.



A tort is not a breach of contract. Contract law provides the remedy for acts that are considered to be a breach of contract. As has been mentioned, in recent years, some acts that were traditionally the subject of contract law have become the subject of tort law.

A tort is remedied by an action for damages. A plaintiff brings suit against the *tortfeasor* – the party who is alleged to have committed the tort. The tortfeasor is the

defendant in the suit. The plaintiff seeks to be awarded *damages*, an amount of money, for the injury or damage caused by the defendant.

Torts may be either against a person or against property. Personal torts are actions such as false arrest, false imprisonment, malicious prosecution, assault, battery, libel, slander, or other forms of defamation. Property torts include the unauthorized use and assumption of control of another's property, unlawful entry on another's land (trespass), unreasonable and improper use by an individual of his or her own property that causes damage to the adjoining property (nuisance), and any act of negligence that causes damage to the property of others.

In order for a defendant to be required to pay damages, he or she must be found legally liable for the damages. Liability is generally based on establishing *negligence* on the part of the alleged tortfeasor. However, courts also award damages on the basis of *absolute liability*, *strict liability*, *and imputed or vicarious liability*. Before these other forms of liability are examined, negligence will be discussed.

Negligence

Negligence is the failure to use due and reasonable care. The standards for determining what reasonable and due care are can vary based on the tort and the parties involved. For example, professionals are generally held to a high standard of care by the courts. Many professionals are in a position of trust – they may be responsible for a customer's financial, health, housing, or family welfare. If those within a profession are generally expected to be expert, capable, thorough and competent, a court hearing a case against such a professional will judge that conduct that is less than expert, capable, thorough, or competent, as less than reasonable and due care. A non-professional involved in a negligence case may have less stringent standards applied when a court is determining whether negligence exists.

In order to establish the presence of negligence, four elements must exist:

1. a legal duty to act or to not act;
2. a breach of duty;
3. proximate cause between the breach of duty and the damage or injury; and
4. actual loss or damage.

Legal Duty

The law recognizes various duties owed. There is a legal duty to protect one another's rights and property. Reasonable and due care is another legal duty owed.

Breach of Legal Duty

Besides establishing that a legal duty is owed, a breach of that duty must be found in order for negligence to be present.

Proximate Cause

To establish negligence, there must be *proximate cause* between the breach of duty and damage and injury. Proximate cause is the legal doctrine that states that the breach of duty must launch an unbroken chain of events that results in the damage or injury in order for liability to be found.

Damage or Injury

A court must find that actual damage or injury occurred. A breach of legal duty may occur that does not cause harm. A fiduciary may make an unreasonable financial decision, but that decision may result in greater net worth for a customer. In such a situation, a court might determine that the fiduciary should be removed, but because no loss occurred, the maximum damages awarded may be expenses related to replacing the fiduciary.

Defenses Against Negligence

The courts recognize several different defenses against a claim of negligence. These include *intervening cause*, *last clear chance*, *contributory negligence*, *comparative negligence*, and *assumption of risk*.

Intervening Cause

Intervening cause is used to defend a case of negligence by eliminating the necessary element of proximate cause. An intervening cause breaks the chain of events leading to the injury or damage. If an intervening cause creates a new chain of events that led to the injury or damage, proximate cause between the breach of duty and the damage may not exist, and therefore, negligence may not exist.

Last Clear Chance

Another defense against negligence argues that the plaintiff had the last clear chance, or the final opportunity, to avoid the loss or damage. The plaintiff's failure to act, it is argued, caused the loss or damage, not the breach of duty on the part of the defendant.

Contributory Negligence

Contributory negligence was once a defense used in most states. It has been replaced in most of them by the concept of comparative negligence, but a few jurisdictions still recognize this defense. Under contributory negligence, if the plaintiff is found to have in any way contributed to the damage or loss, no damage award will be made.

Comparative Negligence

Comparative negligence rules weigh the proportionate amounts of negligence contributed by all parties in the damage suit. If the plaintiff is found to have contributed to the damage or injury, damages are not dismissed. Instead, the award to the plaintiff is reduced by the amount of his or her own responsibility for the loss.

Assumption of Risk

Under the assumption of risk defense, the defendant must prove that the plaintiff understood the risks involved, including the possibility of the damage and injury in question, and yet allowed the act to occur. Under such a scenario, the plaintiff is said to have assumed the risk of the activity, and so cannot hold another liable for resulting harm.

Liability Without Negligence

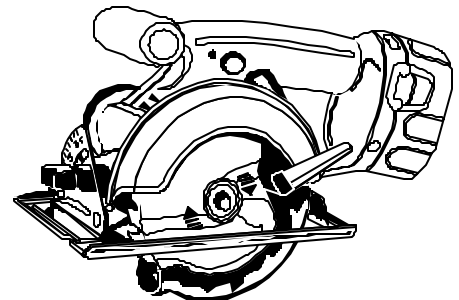
As mentioned, there are forms of liability recognized by the courts without the necessity of establishing negligence in the manner discussed above. A court may award damages based on absolute, strict or imputed liability.

Absolute Liability

Negligence does not have to be proven when an activity is considered *indisputably hazardous*. A party conducting an indisputably hazardous activity is considered to have *absolute liability* for any damage or injury that arises from the activity. Examples of indisputably hazardous activities are keeping wild animals or handling dangerous materials.

Strict Liability

Strict liability is a term first used by the courts in 1962. In that year, the California Supreme Court found a power tool



manufacturer strictly liable for an injury caused by a piece of wood that flew out of the tool and hit the operator in the head (Greenman v. Yuba Power Products, Inc., 59 Cal. 2d 57, 27 Cal Rptr. 697, 377 P 2d 897 (1963)). Strict liability was applied because a defect in the product was found to have allowed the piece of wood to fly out of the machine. This inaugurated the precedent that a product defect that causes damage or injury can establish liability without requiring negligence on the part of the manufacturer.

Imputed or Vicarious Liability

Imputed or vicarious liability occurs when another party is held responsible for a negligent party's actions. Employers are generally held to be liable for the actions of their employees under the concept of imputed liability.

Types of Damages Awarded in Liability Suits

If the defendant is found to be legally liable, the court will require the defendant to pay damages to the plaintiff. These damages can include compensatory or actual damages, general damages, nominal damages, and punitive damages.

Compensatory Damages

Compensatory or actual damages are moneys paid to compensate for the financial loss for which the defendant is liable. These are also sometimes referred to as *special damages*.

General Damages

General damages are charged to the defendant to pay for a loss or injury that is a direct consequence of the tort committed, but not for financial loss. An example of general damages is an award for pain and suffering.

Nominal Damages

Nominal damages may be charged in a situation where loss or injury was negligible. They are small awards made in order to show that the liable party was responsible.

Punitive Damages

As the name suggests, *punitive damages* are awarded in order to punish the liable party. They are generally awarded if the court determines the responsible party acted in a malicious, vicious, or willful manner. Besides punishing the liable party, punitive damages also may have the purpose of acting as a deterrent to others, making an example of the defendant, or to teach the defendant a lesson.

Liability coverage is an important part of homeowners coverage today. Without it, a liability claim against a homeowner may be financially devastating. Even if the homeowner is found innocent, the costs to defend oneself against a liability suit can deplete an average person's financial resources.

Exclusions From Homeowners Coverage

Homeowners insurance does not cover all loss or damage occurring to insured property. Some losses are excluded altogether and others are partially excluded or subject to coverage limits. In some cases, losses are excluded but can be covered through the purchase of an endorsement or rider. Other losses are excluded because they are more appropriately covered under other types of policies. As an example, most losses to business property should be covered under businessowners or commercial insurance forms. Still other types of losses are excluded because no insurance is available to cover them, such as losses due to war.

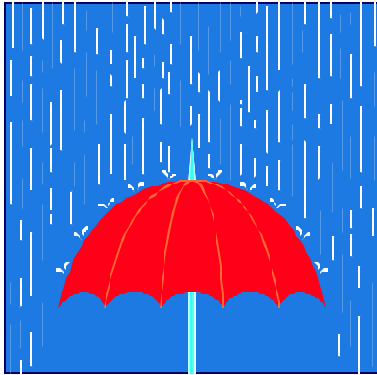
Common Exclusions

Business Property

Loss or damage to property used in a home business is limited to \$2500 under most policies. Losses in excess of this amount are excluded.

Floods

Loss or damage due to floods is excluded from most homeowners policies under water damage exclusions. Flood damage is excluded because the risk of flood is not pertinent to most homeowners and for those with the risk, flood insurance does not fit within the parameters of a fundamental principle of insurance. Insurance is offered based on the idea that many people will pay affordable premiums for protection against risks that happen infrequently enough and/or with a severity level at a low enough point that premiums contributed will allow all claims to be paid. If flood insurance is offered, the only people who are likely to pay for the insurance are those who are at high risk to incur flood damage, meaning the frequency and severity of claims makes the insurance unattractive to insurers to offer and too expensive for the average purchaser. Because of these factors, flood insurance was virtually impossible to obtain until the federal government intervened. In 1968, the federal government developed a flood



insurance program currently under the auspices of the Federal Emergency Management Agency, or FEMA. The federal flood insurance program is known as NFIP, or the National Flood Insurance Program.

Under NFIP, a community that is at risk for flooding must agree to join the program. The NFIP requires that the community take certain flood management steps in order to participate. Under the NFIP's regular program, insurance through this program covers homes on a replacement cost basis up to \$250,000 and personal property up to \$100,000. NFIP offers some coverage outside of flood hazard areas, but the coverage is limited to \$20,000 for a dwelling and \$5000 for contents. Under the emergency program, which is the initial phase of a community's participation in the NFIP, a single-family home is covered for only \$35,000 and contents are covered for up to \$10,000.

Private insurers are given an incentive to participate through the government's promise to reimburse the insurer for losses above premium received (plus income earned on the premium) that are incurred by the insurer. In 1990, over 200 private insurers were participating in NFIP. By 1996, this number had decreased to about 85, possibly because the number of floods occurring in the United States recently has weeded out those insurers not willing or not capable of insuring such losses. A later chapter will discuss the policy provisions of the Dwelling Policy offered through the NFIP.

Earthquakes

Earthquakes are also generally excluded from homeowners forms, for basically the same reasons as flood insurance, but property risks associated with earthquakes can be covered through the purchase of an endorsement. Some states, including California, require that any insurer offering insurance in the state also write earthquake insurance.

Windstorms

In certain areas within some states, damage due to windstorms is excluded from homeowners forms. The areas where windstorm coverage is excluded are those with high occurrences of powerful windstorms and include parts of Alabama, Florida, Louisiana, Mississippi, North Carolina, South Carolina and Texas. Within these states, state-run or regulated programs are in place to help provide insurance to properties with a high risk of windstorm damage that would be otherwise uninsurable. Generally, any agent who offers homeowners insurance in these states also offers windstorm coverage available through state programs.

The state programs often include requirements for coverage, such as wind-resistant construction on recently built or remodeled structures. Structures may also be subject to various coverage limits and restrictions.

Crime

Theft or crime coverage is part of the personal property coverage of most homeowners policies. However, in certain high-crime areas, such coverage is excluded. Also excluded in high-crime areas is certain damage due to vandalism and malicious mischief. However, there is a Federal Crime Insurance Program, administered by FEMA, which offers crime insurance in areas where coverage would otherwise be denied. In order to qualify for this coverage, the insured must install certain security devices.

FAIR Plans

Many states have insurance regulations that require that insurance be available to people who cannot obtain coverage through the standard market. The group of regulations which include these provisions are known as FAIR plans, or Fair Access to Insurance Requirements plans. The regulations vary from state to state, but generally, FAIR plans involve a group of participating insurers who offer insurance to those outside of the standard market. In many states with FAIR plans all property insurers doing business in the state must participate in the FAIR plan. The insurer may be required to write a volume of FAIR plan policies based on the total amount of business written in the state. Approximately thirty states have FAIR plans, including Connecticut and Pennsylvania.

Excluded Persons

State and federal governments have plans in place to assist people located in high-risk areas to get insurance, but people with high risk behavior still may be excluded from being able to purchase homeowners insurance. People who may not be able to purchase homeowners insurance are those:

- who have been convicted of committing arson or attempted arson within the last five years
- who have been convicted of improper use of explosives or destruction of property within the last five years
- who have filed a claim of more than \$2000 in the last five years wherein there was evidence of fraud or arson
- whose property is being used for illegal or dangerous purposes
- who have had a policy cancelled due to nonpayment of premium in the last two years

Determining Coverage Amounts

One of the most critical issues regarding homeowners insurance is determining the appropriate amount of coverage. To do so, three concepts related to the valuation of home and property are important to understand: replacement cost, market value and actual cash value.

Replacement Cost

Replacement cost, or rebuilding cost, refers to the cost to rebuild an insured dwelling and other structures. Rebuilding costs of a home may be estimated by taking the square footage of a home and multiplying by the construction cost per foot, which can be obtained from a local home builders association. Another method used to determine rebuilding or replacement values is to have an appraisal done on the property.

Market Value

A home's market value should never be confused with its replacement value. Purchasers of homeowners insurance cannot rely on market value as an accurate measure of needed insurance coverage. Rather, since a home that is damaged will have to be repaired or rebuilt, replacement value is the important figure to determine.

Market value can be very different from replacement value. For one thing, market value includes the value of the land on which the dwelling sits. Replacement value does not. Market value can be dependent on factors that have little or no impact on rebuilding values. For example, the neighborhood surrounding a home may be run down, decreasing the market value of the home. Conversely, the neighborhood may become a popular bedroom community to a metropolis, increasing the home's market value. The home site may provide a beautiful view, or may be next to an eyesore. However, the cost to rebuild the home will not be greatly affected by whether the home next door is a dump or a dream, nor by how popular the home's location. Another difference between rebuilding costs and market values is that over time rebuilding costs tend to go in only one direction: up. Market values may swing either up or down.

Actual Cash Value

Actual cash value is used in the loss settlement calculations of some policy provisions. While replacement value is the amount needed to replace the property with like kind and quality, actual cash value is replacement value less depreciation.

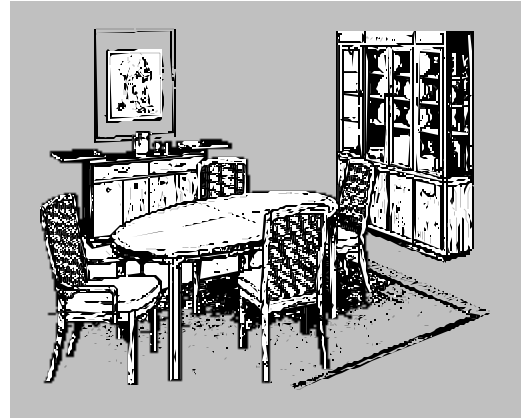
Guaranteed Replacement Coverage

Most professionals recommend the purchase of *guaranteed replacement value* coverage. Under guaranteed replacement value coverage, the insurer will pay for the amount to replace or rebuild the home, subject to certain limits, even if the replacement value has gone up since the policy was purchased. Guaranteed replacement policies vary regarding the method used to calculate the payable guaranteed replacement value. Some policies make an annual adjustment for inflation, increasing coverage by a certain percentage each year. Other policies guarantee replacement value without the use of automatic increases.

In order to qualify for guaranteed replacement coverage, an insurance amount equal to at least 80% of the replacement value must be in force. The reasons for this requirement are because, 1) most homes are not totally destroyed, so 80% coverage is sufficient, and 2) if policyholders purchase too little insurance, the insurer does not accumulate sufficient premium to cover losses. These reasons are behind the concept of *coinsurance*, which is important in all forms of property insurance.

Coinsurance

Insurance is priced so that each unit costs the same amount. Insurers do not charge higher rates for the first unit of insurance purchased than for the last unit purchased (although discounts may apply for insurance over certain amounts). Rates are set under the assumption that claims as a proportion of the total insurance amount provided will normally be relatively small. In the case of homeowners coverage, claims will commonly be made because a picture window is broken, a kitchen fire breaks out, or a storm causes a tree to fall on a corner of a home. Few claims will be filed for amounts that meet or come close to the total value of property insured. If insurance is purchased for a relatively small amount of the property's value, the insurer would have little remaining premium remaining to pay larger claims after paying claims related to lower amounts of insurance, since, as mentioned, the premium charged is generally an equal proportion of each thousand dollars of insurance purchased. The requirement of coinsurance is the insurer's response to the potential problem small coverage percentages create. Without coinsurance requirements, premium rates would have to be increased for small amounts of insurance.



Under coinsurance provisions, the insured must bear a percentage of the loss if the required 80% of coverage is not in force. Generally, the calculation to determine the amount the insurer is liable for when less than 80% of the replacement value is in force is as follows:

$$\frac{(\text{Upper Limit of Coverage})}{(\text{Coinsurance Percentage} \times \text{Actual value of Property})} \times \text{Actual Loss Amount}$$

Assume the value to replace the property at the time of loss is \$200,000 and the required coinsurance percentage is 80%. If the insured purchased \$100,000 of insurance and a loss of \$20,000 occurred, the insurer would pay \$12,500:

$$\frac{(\$100,000)}{(80\% \text{ of } \$200,000)} \times \$20,000 = \$12,500$$

Actual Cash Value Coverage

As mentioned, another coverage option insurers offer is *actual cash value* coverage. Obviously, actual cash value coverage is less expensive than replacement value coverage since actual cash value of property will tend to decrease over time, whereas replacement value will increase. Some policies that offer replacement value coverage on the dwelling offer actual cash value coverage on personal property. In order to get replacement coverage on personal property under such a policy, additional insurance must be purchased.

Personal Property Coverage

One of the important steps in determining the appropriate amount of personal property coverage is through the taking of inventory and keeping records of larger household items. Insurance companies generally offer to customers an inventory worksheet for this purpose, and in some states such forms are available through the consumer affairs section of the insurance commissioner's office (a sample inventory form is in Chapter Six). Inventory records can also be in the form of photographs or videos of household items. It is recommended that homeowners take pictures of the contents in every room, in storage areas and in closets and cupboards. The homeowner should assign a value to all these items, if possible with the help of receipts, to come

up with the value of personal property. Valuable personal property items should be appraised in order to ascertain their worth.

Keeping good records of personal property is not only important to determine the amount of insurance to purchase, but is also critical should a claim need to be filed. For personal property that is damaged or destroyed but cannot be documented, the claimant will generally receive a specified limited amount in payment. Personal property that can be documented is subject to the normal coverage limits within the policy.

In order to ensure that insurance will pay a sufficient amount to replace property, guaranteed replacement coverage is needed. Actual cash value personal property coverage will pay for the depreciated value of property, which may not be enough to replace the television, stereo system and dishwasher with a new model with the same or similar features as the destroyed model.

When More Coverage Is Needed

An increase in homeowners insurance may be necessary even if guaranteed replacement coverage is purchased. As mentioned, in order to qualify for full coverage, insurance of at least 80% of the replacement value must be in force at the time of the claim. Some policies with replacement coverage provisions include a limit of insurance. Under such policies, in order to receive full replacement value on damaged or destroyed property, the limit of insurance must be high enough to cover full replacement value.

Generally, an increase in coverage is necessary when a home is improved or an addition is built. Coverage amounts may also need to be raised if the value of personal property has grown. Agents should review homeowners coverage regularly with policy holders to ensure appropriate coverage amounts are in place.

Endorsements

Many endorsements are available for homeowners forms. Among them are building code coverage endorsements, inflation coverage endorsements, home office endorsements, and more. Through the use of endorsements, homeowners policies can be made to meet the needs of most homeowners' coverage needs.

Zoning Law / Ordinance Endorsements (Building Code Coverage)

Zoning Law/Ordinance endorsements, also known as Building Code Coverage, protects against the risk of increased construction costs due to building codes. For example, in some areas susceptible to earthquakes or hurricanes, buildings must be constructed to minimize potential damage from these risks. These building codes generally apply to all new construction, including remodeling and rebuilding. The requirements within these codes can add significant amounts to construction costs.

Homeowners policies generally pay to replace property with property of *like kind and quality*. They do not pay for construction materials and systems that are unlike the original materials and systems even if building codes require using them. In order to obtain coverage that will pay for materials required by building codes, a Zoning Law/Ordinance Endorsement can be purchased. This coverage is important for those in areas with building codes enacted as a response to high risk of damage as well as those in older homes. Older homes, if they must be rebuilt, are likely to require the use of different construction materials and wiring than that which was used in the original home.

Inflation Endorsements

An inflation endorsement provides an automatic increase in coverage annually. Some insurers use a specified percentage, e.g. 5%. Others use an inflation index as the basis for calculating any annual increase in coverage.

Earthquake Coverage Endorsements

In order to add earthquake coverage to a standard homeowners form, an earthquake coverage endorsement is used. Rates for such coverage vary, based on the location of the dwelling, the type of home to be covered and the home's construction.

Home Office Endorsement

A home office endorsement is used to insure business property located in the home. If additional liability insurance is needed because customers visit the home office, or because of the risks of liability associated with the work done in the office is not included under homeowners insurance, the homeowners insurer may not offer appropriate coverage. Liability coverage for businesses and professionals is covered through Professional Liability and Errors and Omissions Forms and through Commercial and Businessowners Liability Forms.

Personal Article Floaters

Some types of personal property should be covered by more insurance than is provided through standard homeowners forms. Standard homeowners policies limit coverage for jewelry, precious stones, silverware, coins, stamps and other potentially highly valuable property. In order to fully protect items such as these, Personal Article Floaters can be used.

A *floater* is an inland marine policy form. Inland marine insurance, which is also the type of insurance that covers a variety of inland transportation risks, provides broad, *all risk* coverage. All risk coverage is coverage that protects against damage or loss caused by any peril, except those specifically excluded from coverage. Personal property coverage issued through inland marine forms is referred to as a *floater* because the coverage applies wherever the property is located.

The types of property that can be covered under personal article floaters include jewelry, furs, silverware, cameras, fine arts, musical instruments, stamps, golf equipment and coins. New property within these categories is covered for thirty days after purchase as long as the insurer is notified of the purchase within the thirty-day period and premium is paid retroactive to the date of purchase. Most insurers require an appraisal to determine the value of the property to be insured. A detailed description of the property is also needed.

Rates for floater coverage depend on the property being insured, the crime rate in the area the property is normally located and whether the property is kept in the home, is protected by some sort of security device or is kept in a safety deposit box.

Homeowners Insurance Rates

Homeowners insurance rates are based on several factors. Factors include location, type of construction, the replacement cost of the home and age of the home.

Location

The location of a home is important in determining the rate of premium charged because location can impact the type of risks to which a home is subject. Some locations have a statistically high risk of crime and vandalism. Other locations have relatively poor police or fire protection. Still others are more subject to damage due to climatic factors, such as susceptibility to windstorms, hailstorms, or the likelihood of wild fires.

Cost of Replacement

Of course, the cost of replacement impacts the overall premium charged to protect a home. Replacement costs can vary from region to region. Labor costs are higher in Long Island than in Little Rock, for example. The cost of construction materials is also dependent upon where the home is located. The higher the cost of construction, the higher the premium charged by the insurer.

Construction Type

The insurer charges different rates based on whether a home is made of brick, stucco, wood or recycled tires. Construction elements such as whether steel or wood framing is used, what type of material the roof is composed of and what type of foundation the home sits upon all contribute to the rate charged for the insurance.

Age of Home

New homes may be charged lesser rates than older homes because current construction standards result in homes with a lower likelihood of extensive damage from fire or storms.

Inspection and Consumer Reports

Insurers also may utilize inspection and consumer reports to determine rates charged, or even whether or not a home or homeowner is insurable.

Inspection reports are reports created through an on-site examination of the residence premises. The premises are inspected to verify information provided on the application and to get a first-hand view of the physical condition of the home and surrounding property. The inspector, who may also be the writing agent, will perform such functions as looking for any hazardous conditions, checking that safety devices such as smoke alarms are in place, and verifying the construction type of the buildings. If the inspector finds any problems, such as the lack of sufficient railing on stairs or the lack of smoke alarms, the problems will have to be rectified before insurance is issued.

The insurer may also use *consumer reports* as a source of information before rates are set or insurance issued. The Fair Credit Reporting Act regulates the use of consumer reports. Under the Act, consumer reports are defined as *any written, oral or other communication of any information by a consumer reporting agency which has a bearing on a consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living and which is collected for the purpose of serving as a factor in establishing eligibility for insurance, credit, employment purposes and other uses found in the Act.*

Insurers may use consumer reports for specified purposes only. According to the Act, insurers may use information within a consumer report only in connection with the underwriting of insurance involving the consumer. The consumer must specifically authorize the issuance of the report to the insurer unless the consumer is involved with the insurer in a *firm offer of credit or insurance*. A firm offer of insurance is an offer of insurance that will be honored if the consumer, based on the information within the consumer report, meets the criteria of the insurer to select the consumer for the offer. The consumer report must be used to determine whether to extend insurance to the consumer.

Consumers have certain rights and the consumer reporting agency has certain duties pertaining to consumer reports:

- The consumer has the right to receive the information found in a consumer report.
- The consumer has the right to dispute the accuracy of a report.

- If the reporting agency is notified of a dispute, the agency must reinvestigate the disputed information within thirty days.
- If any item is found to be inaccurate or incomplete, it must be deleted or modified in accordance with accurate information.
- If after a disputed item is reinvestigated, the agency finds that the disputed information is not incorrect, the consumer may file a statement with the agency regarding the disputed information, which the agency must include in subsequent reports.

Information on a consumer report is important to an insurer because it may point to risks associated with providing insurance to the applicant. As mentioned earlier, certain behaviors, such as having committed arson, preclude a person from being able to purchase homeowners insurance. Information about a criminal record can obviously be important to an insurer. A consumer report may also identify the applicant as being deeply in debt. A policyholder who is deeply in debt poses a *moral hazard* to an insurer. A moral hazard is the risk that an insured will try to receive payment from the insurer by committing a moral wrong, such as purposefully damaging property. Persons deeply in debt are statistically more likely to cause such purposeful damage.

Many states have requirements regarding the use of consumer reports. The agent may have to provide a disclosure form, often referred to as a *notice of information practices*, regarding the use of information including consumer reports, and may be required to have the applicant sign the disclosure. Regulations may require that the notice be provided at application or no later than policy delivery. Required disclosures or notices generally contain the following types of information:

- Whether information will be collected from persons other than the applicant;
- What types of information can be collected, the sources that may be used to collect the information, and the techniques used to collect the information;
- The reasons information is collected, e.g., for business purposes, to prevent crime or fraud, to be provided to insurance regulatory authorities or criminal authorities to protect the insurer if there is reason to believe criminal activity has occurred, in order to obtain actuarial data, for marketing purposes or for audit purposes;
- The rights of the consumer with regard to the information collected;
- A statement explaining that the information may be disclosed to other persons.

State regulations may specify the exact language and format the disclosure must use, or may contain guidelines for the disclosure. Some states allow an abbreviated form of the disclosure to be provided, as long as the consumer can request a detailed version.

State regulations also generally exclude the use of *pretext interviews*, which are interviews conducted by someone who pretends to be someone he is not, pretends to represent someone he is not representing, misrepresents the true reason for the interview, or will not identify himself after being asked to do so. Instead, any agent or representative of an insurer must disclose if questions asked will be used for marketing or research purposes, must follow regulations regarding the preparation or request of a consumer report, must provide the required notices or disclosures and respond as regulations require if information reported is disputed.

Premium Discounts

Many insurers that offer homeowners insurers offer premium discounts under certain circumstances. Some of the more common types of premium discounts from homeowners insurance rates are discussed below:

Smoke Detectors and Sprinkler Systems



Insurers generally will reduce premiums by two to five percent if smoke alarms are installed. Some insurers will give a discount of as much as 20% if sprinkler systems are installed in the home.

Non-Smoker

Non-smokers do not just get better rates on health insurance, but under many homeowners policies as well. Households with smokers have a higher risk of fire, so insurers often offer discounts to households of non-smokers.

Fire Resistant Construction Materials

Some insurers offer discounts if fire resistant materials have been used in the construction of the home.

New Home

Some insurers offer a premium discount during the first few years after a home is built. New homes are at lower risk for damage from certain perils; weight of ice and snow and electrical shorts are less likely to cause damage to a new home. The discount may decrease each year after the first year, and disappear after five or ten years.



Security Systems

Homes with security systems can also qualify for a premium discount. The type of security system can affect the amount of the discount. A security system that notifies the police will generally qualify for a larger discount than a system that sounds an alarm on the

homeowner's property only.

Multiple Policyholder

If the same insurer is used for automobile and homeowners coverage, a premium discount may be given.

Longtime Policyholder

Insurers also may give premium discounts to customers who have had policies with them for a certain period. Some will reduce the premium by a small percentage for those who have had insurance with them for five years and an even greater percentage after ten years.

Mature Policyholder

Another premium discount available from some insurers is given to policyholders fifty-five years and older. This discount is based on the fact that seniors are home more often than younger individuals, and so are in the home to spot a fire should one start, and because seniors tend to do a better job of maintaining their homes than do younger individuals.

Chapter Two: Homeowners Forms

Standardized forms have been created for the use of insurers offering homeowners policies. A service agency for the property-casualty industry called ISO, or Insurance Services Office, has written and filed with the states many standardized homeowners forms and endorsements. Insurers use the standardized forms as the basis for their policies, but, unless state regulations

prohibit, an insurer may change some of the provisions in the standardized forms and add special features to them.

There are six ISO forms used for homeowners policies. These are HO-1, the basic form, HO-2, the broad form, HO-3, the special form, HO-4, the tenants form, HO-6, the condominium form, and HO-8, the modified coverage form. Each form has its own special features and uses.

HO-1

The HO-1 basic form is not available in all areas because some state regulators have not approved its limited coverage for sale in their respective states. It is also not purchased by consumers as often as other forms in areas where it is approved because of its limited coverage. Protection against damage due to falling objects, the weight of ice, snow or sleet, accidental discharge of water or steam from household appliances, freezing, volcanic eruption and other perils covered in the other HO forms are not insured against through the HO-1 form.

HO-2

The HO-2 broad form is a *named peril* form. A named peril form is one that names each peril it protects against. Seventeen perils are named within the HO-2 form, including those listed above as not covered under the HO-1 form and the perils of fire, lightning, windstorm, hail, riot, vandalism and more.



HO-3

The HO-3 special form is an *all risk* form and provides dwelling and other structure coverage against all perils except those specifically excluded from coverage. The personal property coverage is the same broad coverage provided through the HO-2 form.

HO-4

The HO-4 tenants form is a form used by renters. It does not cover the dwelling, since the renter does not own the dwelling. It covers personal property against basically the same perils as the HO-2 and includes essentially the same liability coverage.

HO-6

The HO-6 condominium form includes limited dwelling coverage. Its personal property and liability coverage is similar to that found in the HO-2 and HO-3 forms.

HO-8

The HO-8 modified coverage form is used to cover older homes. It includes valuation provisions not found in the other HO forms because the older homes it was designed to cover often have replacement values that far exceed the home's market value. Some state regulators are not comfortable with the limits placed on the coverage due to the form's valuation provisions and so have not approved the HO-8 form for use in their states.

Eligibility for Coverage

In order to purchase homeowners insurance, the named insured and the dwelling must meet certain requirements. The dwelling must be exclusively used as a residence, although incidental use as an office, studio and private or professional school are allowed. Generally, no more than two families can occupy the dwelling, although in some states as many as four families are allowed. No more than two additional boarders per family can reside in the dwelling. The named insured must be an owner-occupant of the dwelling, and unless the named insured is a renter, the homeowners policy cannot be used to cover personal property only.



Important Definitions

The homeowners forms include important definitions that help describe the terms of the coverage. A few other definitions, not found in the form but used within its provisions, are also included below.

Bailee

A bailee is an entity that is paid a fee to have temporary possession of property owned by another party. Homeowners policies do not apply coverage provisions for the benefit of bailees.

Bodily Injury

The liability section of the policy includes coverage for bodily injury. *Bodily injury* means bodily harm, sickness or disease. It includes the required care, loss of services and death that result from the injury.

Business

As mentioned, business related property and business related activities are subject to exclusion or limited coverage under homeowners policies. *Business* is defined to include trade, profession or occupation.

Insured

Under a homeowners policy, *insured* includes the named insured and the named insured's relative or other persons under the age of 21 who are in the care of the named insured or the named insured's relatives. Insureds must be residents of the named insured's household. Under the liability section of a standard homeowners policy, an insured with respect to animals or watercraft also includes any person or organization legally responsible for them with the permission of the insured, as long as the animals or watercraft are not used for business purposes.

Insured Location

The *insured location* is a term used under the liability coverage. It includes:

- the residence premises;
- that part of any other premises, other structures and grounds that are used by the named insured as a residence and which is listed in the declarations or which is acquired during the policy period;
- any premises used by the named insured in connection with the residence premises or a residence acquired during the policy period;
- any part of the premises that is not owned by an insured and where an insured is temporarily residing;

- vacant land, excluding farm land, that is owned by or rented to an insured person;
- individual or family cemetery plots or burial vaults of an insured; and
- any part of a premises that is occasionally rented to an insured, as long as it is not rented for business purposes.

Occurrence

The term *occurrence* is generally used in relation to the liability coverage. An occurrence is defined to mean an accident, including continuous or repeated exposure to substantially the same general harmful conditions that result in bodily injury or property damage.

Prejudgment Interest

Prejudgment interest is interest paid based on the amount of time from when the damage or loss occurred and judgment is passed.

Property Damage

Property damage is defined to mean physical injury to, destruction of, or loss of use of tangible property.

Residence Employee

Homeowners policy may include coverage of a residence employee's property and may apply certain portions of the liability coverage to injury occurring to a residence employee. A *residence employee* is an employee of an insured whose duties are related to the maintenance or use of the residence premises, including household or domestic services. A residence employee is not someone who is an employee of a business of an insured.

Residence Premises

A *residence premises* is the dwelling, other structures and grounds or part of any other building where the insured resides and which is listed as the residence premises on the policy declarations. If the policy includes coverage for a two, three or four family dwelling, *residence premises* also means such a dwelling as long as the named insured resides in at least one of the family units shown in the declarations.

Subrogation

Subrogation is an important concept in property insurance. To subrogate means *to substitute*. The insurer's rights are substituted for the insured's rights to collect damages from another party if an insurer pays damages on behalf of an insured. For example, if an insurer pays the insured for loss to a tree that was damaged by a vehicle, the insurer has the right to recover damages from the driver of the vehicle that ran into the tree. The insured cannot collect twice, once from the insurer and once from the driver. Subrogation allows the insurer to be reimbursed for recoverable damages, which helps keep premium costs lower for policyholders.

Homeowners Coverage

The homeowners forms that include dwelling coverage have the following sections and coverage types:

- Section I – Property Coverages
 - Coverage A – Dwelling
 - Coverage B – Other Structures
 - Coverage C – Personal Property
 - Coverage D – Loss of Use
- Section II – Liability
 - Coverage E – Personal Liability
 - Coverage F – Medical Payments to Others

Coverage A – Dwelling

The dwelling coverage applies to the dwelling on the residence premises and also to the structures attached to the dwelling, such as a garage or carport. Materials and supplies located on or next to the residence premises that are used to construct, alter or repair the dwelling or the other structures on the residence premises are also covered through the provisions of Coverage A.



The dwelling coverage does not apply to land, including the land on which the dwelling is located.

Coverage A is not found in form HO-4, the tenants form. HO-6, the condominium form, provides one thousand dollars of dwelling coverage. Generally, the condominium association should have insurance that covers the buildings the association owns.

The Coverage A under HO-6 also covers alterations, appliances, fixtures and improvements in the part of the building that contains the residence premises. It covers real property pertaining to residence premises, property that is the responsibility of the insured under a condominium association agreement and other structures solely owned by the insured at the insured location.

Coverage B -- Other Structures

Homeowners policies cover the other structures on the residence premises that are set apart from the dwelling by clear space. The coverage also applies to structures connected to the dwelling by only a fence, a utility line or similar connection.

The other structures coverage does not apply to structures used in whole or in part for a business or rented to anyone who is not a tenant of the dwelling, unless it is used solely as a private garage.

Generally, the other structures coverage amount is limited to 10% of the limit of liability that applies to Coverage A.

The other structures coverage is not found in the HO-4 form.

Coverage C – Personal Property

Personal property is generally covered while anywhere in the world. Property away from the residence is normally covered for 10% of the personal property coverage limit. If the insured requests, the personal property owned by others while on a residence premises that is occupied by the insured can also be covered. The insured can also request that the personal property owned by a guest or residence employee be covered while in any residence occupied by an insured.



Excluded from personal property coverage are:

- Animals, birds and fish
- Motorized vehicles, other than certain trailers, off-road recreational vehicles, golf-carts, motorized lawn

- mowers, tractors, electric wheelchairs and other similar vehicles
- Property owned by boarders (who should cover their property through their own HO-4 coverage)
 - Property owned by renters of an apartment owned by or rented out by an insured (like boarders, renters should purchase their own insurance to cover their personal property)
 - Business data and records, although the cost of blank recording or storage media and packaged software is covered
 - Property rented to others off of the residence premises

Certain personal property items are subject to special limits of liability. As was discussed in the last chapter, additional coverage for many of these items can be obtained through personal article floaters. The chart on the following page describes the personal property subject to these special limits of liability and the standard limit of liability applying to each category of personal property.

Coverage D – Loss of Use

Loss of use coverage pays for additional living expenses related to maintaining the insured's normal standard of living if the residence premises is uninhabitable due to a covered peril. The uninhabitable residence premises must be the insured's principal place of residence in order for the coverage to apply. The insured can choose, as an alternative to the payment of additional living expenses, to be paid the fair rental value of the part of the residence where the insured lives, minus any expenses not required while the premises cannot be lived in.

If the uninhabitable premises is rented out or held for rental by the insured, the insurer will pay fair rental value, minus any expenses that do not continue while the premises is not fit to live in.

Personal Property With Special Limits of Liability

Personal Property Description	Special Limit of Liability
Money, bank notes, bullion, gold, silver, platinum, coins and medals.	\$200
Securities, accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, personal records, passports, tickets and stamps.	\$1000, regardless of the medium on which the material exists.
Watercraft, including their trailers, furnishings, equipment and outboard engines or motors.	\$1000
Trailers not used with watercraft.	\$1000
Loss by theft of firearms.	\$2000
Loss by theft of silverware, silver-plated ware, goldware, gold-plated ware and pewterware, including flatware, hollowware, tea sets, trays and trophies made of or including silver, gold or pewter.	\$2500
Property on the residence premises used at any time or in any manner for any business purpose.	\$2500
Property away from the residence premises used at any time or in any manner for any business purpose.	\$250
Loss to electronic apparatus while in or upon a motor vehicle or other motorized land conveyance if the electronic apparatus is equipped to be operated by power from the electrical system of the vehicle or conveyance while retaining its capability of being operated by other sources of power.	\$1000
Loss to electronic apparatus while not in or upon a motor vehicle or other motorized land conveyance if the electronic apparatus is equipped to be operated by power from the electrical system of the vehicle or conveyance while retaining its capability of being operated by other sources of power, is away from the residence premises and is used at any time or in any manner for any business purpose.	\$1000

Additional Coverages

The homeowners forms include some additional coverages. Some of these additional coverages have a specified limit of liability and others are paid as a part of the property's applicable policy limit. Unless specifically stated, these additional coverages are found in all the homeowners forms.

Debris Removal

Reasonable expenses are paid for the removal of debris of covered property if a peril insured against caused the loss, and for ash, dust, or particles from a volcanic eruption that has caused direct loss to a building or to property contained in a building. If the damage to the property and the debris removal expense is greater than the limit of liability that applies to the damaged property, an additional 5% of that limit of liability will apply. Otherwise, these debris removal expenses are included in the limit of liability that applies to the damaged property.

Generally, an additional \$500 limit applies to the removal of trees felled by the perils of windstorm or hail, trees felled by the peril of the weight of ice, snow or sleet, or a neighbor's trees felled by a peril insured against under the personal property coverage.

Reasonable Repairs

The reasonable repairs coverage pays the reasonable costs incurred by the insured to take necessary measures to protect covered property against further damage. If repairs to other damaged property are part of these necessary measures, the insurance covers these repairs if the repaired damaged property is covered by the insurance and if the cause of the damage is also covered. There is no increase in the limit of liability for the reasonable repairs coverage.

Trees, Shrubs and Other Plants



Trees, shrubs and other plants on the residence premises are covered if damaged by the perils of fire, lightning, explosion, riot or civil commotion, aircraft, vehicles not owned or operated by a resident of the residence premises, vandalism or malicious mischief or theft. An additional 5% of the limit of liability that applies to the dwelling is available for this coverage. No more than \$500 is available from any one tree, shrub or plant.

Fire Department Service Charge

The policy pays up to \$500 for fire department charges if the insured must pay them due to an agreement or contract with the fire department. This coverage does not apply to damage to property within a city or municipality that is within the fire station's service district.

Property Removal

If covered property must be removed in order to protect it against a covered peril, it is protected against direct loss from any cause. The maximum time frame this coverage applies to property removed is thirty days.

Credit Card, Fund Transfer Card, Forgery and Counterfeit Money

There is an additional \$500 limit of liability available to cover the legal obligation of the insured to pay due to:

- The theft or unauthorized use of credit cards or fund transfer cards
- Loss caused by forgery or alteration of any check or negotiable instrument
- Loss through the acceptance in good faith of counterfeit US or Canadian currency

Not covered under this provision is the use of a credit card or fund transfer card by a resident of the insured's household, by a person who has been entrusted with either type of card or by an insured who has not complied with the terms and conditions under which the card was issued. Also not covered is loss out of business use or through the dishonest use by an insured.

Loss Assessment

If a named insured is charged a loss assessment by a corporation or association of property owners, and the loss is a direct loss to the property caused by a covered peril (other than earthquake, land shockwaves or tremors before, during or after a volcanic eruption), standard homeowners policies will pay up to \$1000 for the insured's share. Not covered is a loss assessment charged by a government body.

Glass of Safety Glazing Material

Also covered is the breakage of glass or safety glazing material that is part of a covered building, storm door or storm window. Damage to covered property by glass or safety glazing material that is part of a building, storm door or storm window is also covered.

Collapse

Under the HO-2, HO-3, HO-4 and HO-6 forms, additional coverage for collapse is included. Collapse coverage pays for direct physical loss to a building or any part of a building caused by:

- Perils insured against under the personal property coverage
- Hidden decay
- Hidden insect or vermin damage
- Weight of contents, equipment, animals or people
- Weight or rain that collects on a roof
- Use of defective materials or methods in construction, remodeling or renovation if the collapse occurs during construction, remodeling or renovation.

This coverage is included in the limit of liability applicable to the damaged property.

Landlord's Furnishings

The HO-1, HO-2 and HO-3 forms include coverage for appliances, carpeting and other household furnishings in an apartment on the residence premises that is regularly rented or held out for rental to others by an insured. The coverage applies only if loss is caused by any peril insured against except theft. The policy will pay up to \$2500 for any one loss under this coverage.

Building Additions and Alterations

The HO-4 form includes additional coverage for fixtures, installation and improvements made or acquired at the insured's expense. The maximum coverage limit for building additions and alteration is 10% of the personal property coverage.

Perils Insured Against

The forms vary somewhat regarding the perils insured against. Form HO-4 has no dwelling coverage, so the perils insured against within the form apply only to the personal property coverage. The perils insured against under the HO-6 form, which like the HO-4 form is a named peril form, apply to the limited dwelling coverage that is within the HO-6 form, and to the personal property coverage. Personal property under both the HO-4 and HO-6 is covered with the same perils insured against

Perils Insured Against by Form - Dwelling Coverage

(Note: Form HO-3 provides *all risk* coverage on the dwelling, so covers all perils except those specifically excluded. All other homeowners forms discussed provide *named peril* coverage for the dwelling. Form HO-8 uses special loss valuation clauses that differ from the other forms. The HO-6 form has limited dwelling coverage.)

Peril	Form
Fire or Lightning	HO-1, HO-2, HO-6, HO-8
Windstorm or Hail	HO-1, HO-2, HO-6, HO-8
Explosion	HO-1, HO-2, HO-6, HO-8
Riot or Civil Commotion	HO-1, HO-2, HO-6, HO-8
Aircraft	HO-1, HO-2, HO-6, HO-8
Vehicles	HO-1, HO-2, HO-6, HO-8 (HO-2 contains expanded coverage)
Smoke	HO-1, HO-2, HO-6, HO-8 (HO-2 contains expanded coverage)
Vandalism or Malicious Mischief	HO-1, HO-2, HO-6, HO-8
Theft	HO-1, HO-2, HO-6, HO-8
Falling Objects	HO-2, HO-6
Weight of Ice, Snow or Sleet	HO-2, HO-6
Accidental Discharge or Overflow of Water or Steam	HO-2, HO-6
Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging	HO-2, HO-6
Freezing	HO-2, HO-6
Sudden and Accidental Damage From Artificially Generated Electrical Current	HO-2, HO-6
Volcanic Eruption	HO-1, HO-2, HO-6, HO-8

as the HO-2 form, except that the HO-6 form has expanded coverage under the peril of accidental discharge or overflow of water or steam.

HO-3 provides *all risk coverage*, also known as *open peril coverage*, which applies to the dwelling, but the personal property coverage within the HO-3 form is named peril coverage, and provides coverage for the same perils as those found in the HO-2 form. The HO-2 form has the broadest coverage, and so includes perils insured against not found in forms HO-1 and HO-8. The HO-2 form also has expanded coverage provisions related to the perils of vehicles and smoke. The HO-8 form includes many of the same perils as the HO-1 form and uses special loss valuation provisions that serve to limit coverage.

Fire or Lightning

All forms include coverage for direct physical loss caused by the peril of fire and lightning.



Windstorm or Hail

The coverage for the peril of windstorm or hail does not include loss to the inside of a building or the property contained in a building that is caused by rain, snow, sleet, sand or dust unless the direct force of wind or hail damages the building and causes an opening in a roof or wall and rain, snow, sleet, sand or dust enter through the building. If watercraft and their motors, trailers and furnishings are inside a fully enclosed building, they are covered under this peril.

Explosion

All forms also cover direct physical loss to property covered within the form that was caused by the peril of explosion.

Riot or Civil Commotion

The peril of riot or civil commotion is also covered under all the forms.

Aircraft

The peril of aircraft includes self-propelled missiles and spacecraft as well as aircraft.

Vehicles

The HO-2 form includes expanded coverage for vehicles.

Smoke

The HO-2 form includes expanded coverage for smoke when compared to the HO-1 and HO-8 forms, excluding only smoke caused from agricultural smudging or industrial operations. The peril of smoke under the more limited forms includes only smoke from a fireplace.

Vandalism or Malicious Mischief

The peril of vandalism and malicious mischief does not include loss to property on the residence premises if the dwelling has been vacant for thirty days immediately before the loss.

Theft

The peril of theft includes attempted theft and loss of property from a known place when it is likely that the property has been stolen. Excluded from this peril is loss caused by theft:

- Committed by an insured
- In or to a dwelling under construction
- From that part of a residence premises rented by an insured to someone other than an insured (such loss should be covered by the renter's own insurance)

This peril also does not include loss caused by theft that occurs off the residence premises of property while at any other residence owned by, rented to, or occupied by an insured, except while an insured is temporarily living at such another residence. It also does not include theft of watercraft, their trailers, outboard motors, trailers or campers, if the theft occurs off the residence premises.

Falling Objects

Falling objects coverage is not included under the HO-1 or HO-8 forms. The peril of falling objects does not include loss to the inside of a building or to property contained in the building unless the roof or an outside wall of the building is first damaged by a falling object. Damage to the falling object itself is also not included.

Weight of Ice, Snow or Sleet

This peril is also not included under the HO-1 or HO-8 forms. Physical loss due to the weight of ice, snow or sleet that causes damage to a building or to property contained in the building is covered under this peril. Not included in this coverage is loss to an awning, fence, patio, pavement, swimming pool, foundation, retaining wall, bulkhead, pier, wharf or dock.

Accidental Discharge or Overflow of Water or Steam

This peril covers physical loss caused by the accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning or automatic fire protective sprinkler system or from within a household appliance. This peril does not include:

- Loss on the residence premises if the dwelling has been vacant for more than 30 consecutive days prior to the loss
- Loss to the system or appliance from which the water or steam escaped
- Loss caused by or resulting from freezing
- Loss on the residence premises due to accidental discharge or overflow that occurs off the residence premises.

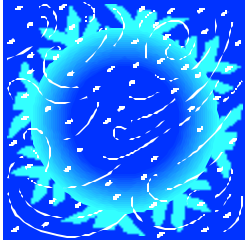
The HO-2, HO-3 and HO-6 forms also include coverage to pay for the tearing out and replacement of any part of the building on the residence premises that is necessary to repair the system or appliance from which the steam or water escaped.

Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging

Another peril included on the HO-2 and HO-3 forms and not included in the HO-1 and HO-8 forms is the peril of sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water system, an air conditioning or automatic fire protective sprinkler system, or an appliance for heating water.

Freezing

The peril of freezing includes direct physical loss due to the freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a housing appliance. If the home on the residence premises is vacant, this coverage does not apply unless reasonable care has been taken to maintain heat in the building or to shut off the water supply and drain the system and appliances of water.



Sudden And Accidental Damage From Artificially Generated Electrical Current

This peril protects against direct physical loss due to sudden and accidental damage from artificially generated electrical current and does not include loss to a tube, transistor or similar electronic component.

Volcanic Eruption

All forms now cover volcanic eruption. The peril of volcanic eruption does not include loss caused by earthquake, land shock waves or tremors.

Exclusions

All the forms include the following exclusions. The HO-3 form includes additional exclusions related to the Dwelling and Other Structures coverages.

Ordinance or Law

Loss caused directly or indirectly by the enforcement of any ordinance or law regulating the construction, repair or demolition of a building or other structure is excluded from coverage.

Earth Movement

Excluded from coverage is loss caused directly or indirectly by earthquake, including land shock waves or tremors before, during or after a volcanic eruption, by landslide, mine subsidence, mudflow, or earth sinking, rising or shifting, unless as a result of the earth movement, loss from fire, explosion or the breakage of glass or safety glazing material which is part of a building, storm door or storm window, ensues. The insurer will pay only for the ensuing loss. This exclusion does not apply to loss by theft.

Water Damage

Also excluded from coverage is water damage. Water damage means:

- Flood, surface water, waves, tidal water, overflow of a body of water, or spray from any of these, whether or not driven by wind;
- Water which backs up through sewers or drains, or which overflows through a sump; or
- Water below the surface of the ground, including water which exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, swimming pool or other structure.

Direct loss due to fire, explosion or theft that results from water damage is not excluded.

Power Failure

Loss due to the failure of power or other utility service is excluded from coverage if the failure takes place off the residence premises. If a peril insured against ensues from such power failure, such ensuing loss is covered.

Neglect

Loss caused by neglect, which means neglect of the insured to use all reasonable means to save and preserve property at and after the time of loss, is not covered.

War

Loss due to war is not covered. War is considered to include all of the following along with any consequence of the following:

- Undeclared war, civil war, insurrection, rebellion or revolution;
- Warlike act by a military force or military personnel; or
- Destruction, seizure or use for a military purpose.



Nuclear Hazard

Loss due to nuclear hazard is generally excluded. However, direct loss by fire that results from the nuclear hazard is covered.

Intentional Loss

Losses that arise out of any act committed by or at the direction of an insured and with the intent to cause a loss are excluded.

Section I - Conditions

Conditions within a policy define and limit the circumstances under which claims will be paid. The conditions discussed below refer specifically to Coverages A, B and C.

Insurable Interest and Limit of Liability

The insurer is not liable in any one loss, even if more than one person has an insurable interest in the covered property, nor to the insured for more than the amount of the insured's interest at the time of loss, nor for more than the applicable limit of liability.

Your Duties After Loss

It is critical that duties after loss are performed according to contract specifications in order to receive all benefits under the policy. These duties will be discussed more fully in the chapter entitled *Homeowners Claims*. The homeowners forms state that the named insured must see that the following steps are taken after a loss on covered property:

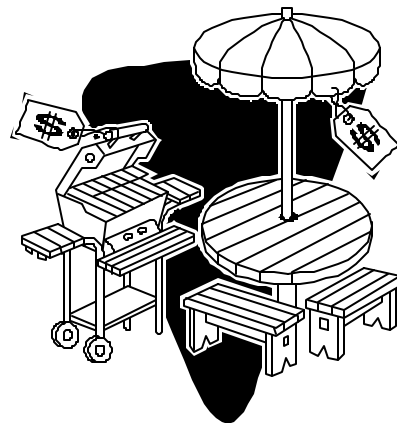
- Prompt notice must be given to the insurer or its agent.
- The police must be notified if the loss was due to theft.
- The credit card or fund transfer card company must be notified of loss to which the Credit Card or Fund Transfer Card Coverage applies.
- The property must be protected from further damage. If repairs are required, the insured must make reasonable and necessary repairs and keep an accurate record of the repair expenses.
- An inventory must be prepared of the damaged personal property and must include the quantity, description, actual cash value and amount of loss. Bills, receipts and related documents that justify the figures must be attached.
- The insured must, as often as the insurer requires, show the damaged property, provide the insurer with records and documents requested and allow the insurer to make copies of them, and must submit to examination under oath.
- A signed, sworn proof of loss must be sent to the insurer within sixty days of the insurer's request that includes, to the best of the insured's knowledge:
 1. The time and cause of loss;
 2. The interest of the insured and others in the property involved and all liens on the property;
 3. Other insurance which may cover the loss;
 4. Changes in the title or occupancy of the property during the term of the policy;

5. Specifications of damaged buildings and detailed repair estimates;
6. The inventory of damaged personal property within the damaged buildings;
7. Receipts for any additional living expenses incurred and records that support the fair rental value; and
8. Evidence or affidavit that support a claim under the Credit Card, Fund Transfer Card, Forgery and Counterfeit Money coverage that states the amount and cause or causes of loss.

Loss Settlement

Both actual cash value and replacement value is used in deriving the total loss settlement under most homeowners forms.

Personal property, awnings, carpeting, household appliances, outdoor antennas and outdoor equipment (whether or not attached to buildings), and structures that are not buildings, are settled at actual cash value at the time of loss, but not for more than the amount required to repair or replace.



Buildings that are covered under Coverage A or B are settled at replacement cost without deduction for depreciation. The actual amount paid is dependent upon whether the amount of insurance is more or less than 80% of the replacement cost of the building.

If the amount of insurance from the policy on the damaged building is 80% or more of the full replacement cost of the building immediately before the loss, the insurer will pay the cost to repair or replace, after application of deductible and without deduction for depreciation, but will not pay more than the least of the following amounts:

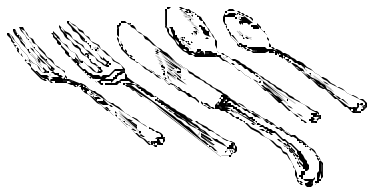
- The limit of liability under the policy that applies to the building;
- The replacement cost of the part of the building that is damaged for like construction and use on the same premises; or
- The necessary amount actually spent to repair or replace the damaged building.

If the amount of insurance in the policy on the damaged building is less than 80% of the full replacement cost of the building immediately before the loss, the insurer will pay the greater of the following amounts, but will not pay more than the limit of liability that applies to the building under the policy:

- The actual cash value of that part of the building damaged; or
- That proportion of the cost, after application of deductible and without deduction for depreciation, to repair or replace that part of the building damaged, which the total amount of insurance in the policy on the damaged building bears to 80% of the replacement cost of the building.

For example, if the insurance coverage is less than 80% of the full replacement cost, the policy coverage is \$200,000, the actual cash value of the building damaged is \$250,000, and the replacement cost is \$325,000, the amount the insurer will pay is \$192,500 (assuming replacement cost valuation is used based on the policy requirements). This amount is calculated based on the following:

80% of replacement cost of \$325,000 = \$260,000
 Proportion of the insurance amount, \$200,000 to 80% of replacement cost, \$260,000 = 77%
 77% of replacement cost, \$250,000 = \$192,500



The calculation above is simplified. The insurer actually excludes some items to determine replacement cost, such as excavations, foundations and undersurface supports. Other amounts are added in, such as mandated safety glazing. The insurer may use appraisals in addition to records supplied by the insured in order to calculate loss settlement values.

Under standard homeowners policies, the insurer will not pay more than the actual cash value of damage until actual repairs or replacement is complete. Once complete, the insurer will calculate the loss settlement as described in the policy. However, if the cost or repair or replace the damage is less than 5% of the amount of insurance on the building and the amount is less than \$2500, the insurer will settle the loss whether or not actual repair or replacement is complete.

The insured has the right to make claims on an actual cash value basis; the insured may disregard replacement cost loss settlement provisions.

Loss to a Pair or Set

There is a special condition related to loss to a pair or set because calculating such loss is unique. If part of a tea service or a set of silverware is damaged, the value of the entire set can be diminished by a greater amount than the value of the separate pieces of property damaged. In some cases, the value of a pair or set is greater than the sum of its parts.

Therefore, the insurer promises to either:

- Repair or replace any part of the set in order to restore the pair or set to its value before the loss; or
- Pay the difference between actual cash value of the property before and after the loss.

Glass Replacement

Loss for damage to glass caused by a peril insured against is settled on the basis of replacement if safety glazing materials are required by ordinance or law.

Appraisal

In certain cases, the insurer or the insured may request an appraisal. If the named insured and the insurer do not agree on the amount of loss, either party may demand an appraisal. If such a demand is made, each party then chooses a competent appraiser within 20 days after receiving a written request from the other. An umpire is then chosen by the two appraisers. If the two appraisers cannot agree upon an umpire within 15 days, the insured or the insurer may request that a judge of a court of record in the state where the residence premises is located make the choice. The appraisers set the amount of loss separately. If the appraisers submit a written report of an agreement to the insurer, the amount agreed upon will be the amount of the loss. If they fail to agree, the appraisers must submit their differences to the umpire. An appraisal amount agreed to by any two will be used as the amount of loss under this provision. Each party must pay its own appraiser and bear the other expenses of the appraisal and umpire equally.

Other Insurance

If other insurance applies to a loss covered by the policy, the insurer will pay the proportion of the loss that the limit of liability the policy bears to the total amount of insurance covering the loss.

Suit Against Us

No action can be brought against the insurer unless the policy provisions have been met and the action is started within one year after the date of loss.

Our Option

If the insurer gives the insured written notice within thirty days after the insurer receives a signed, sworn proof of loss, the insurer has the option to repair or replace any part of damaged property with like property.

Loss Payment

The insurer will adjust all losses with the named insured. Payment will be made to the named insured unless some other person is named in the policy or is legally entitled to receive payment. Loss payments will be made within sixty days after the insurer receives the proof of loss and either reaches an agreement with the named insured, a final judgment is entered, or there is a filing of an appraisal award with the insurer. In some states, the number of days in which payment must be made is regulated.

Abandonment of Property

The insurer does not have to accept property abandoned by the insured.

Mortgage Clause

It is common for a home to be purchased through a mortgage. The mortgagee has an interest in the dwelling and may be entitled to benefits from the policy. If a mortgagee is named in the policy, any loss payable under Coverage A or Coverage B will be paid to the mortgagee and the named insured, based on the interest each party holds in the property. If there is more than one mortgagee named in the policy, the order of payment will be the same as the order of precedence of the mortgages. If the insurer denies a claim to the insured, the coverage as it applies to the mortgagee will not be denied as long as the mortgagee:

1. Notifies the insurer of any change in ownership, occupancy or substantial change in risk if the mortgagee becomes aware of any such change;
2. Pays any premium due under the policy on demand if the named insured has neglected to pay the premium; and
3. Submits a signed, sworn statement of loss within 60 days after receiving notice from the insurer of the named insured's failure to do so.

The conditions in the policy relating to *appraisal*, *suit against us*, and *loss payment* apply to the mortgagee.

If the insurer decides to cancel or not to renew the policy, the mortgagee will be notified at least ten days before the date of cancellation or nonrenewal takes effect.

If the insurer cancels or does not renew the policy, the insurer will notify the mortgagee at least ten days before the date cancellation or nonrenewal takes place. Cancellation and nonrenewal provisions may be regulated by state insurance departments.

If the mortgagee is paid for a loss by the insurer and the named insured is denied payment, the insurer is subrogated to all the rights of the mortgagee that are granted under the mortgage on the property. At the insurer's option, the insurer may pay to the mortgagee the whole principal on the mortgage, plus any accrued interest. If the insurer does so, the insurer receives a full assignment and transfer of the mortgage along with all securities held as collateral to the mortgage debt. Subrogation does not impair the right of the mortgagee to recover the full amount of the mortgagee's claim.

No Benefit to Bailee

The homeowners policy does not recognize any assignment or grant any coverage that benefits a person or organization that holds, stores or moves property for a fee.

Nuclear Hazard Clause

Under the homeowners forms, a *nuclear hazard* is defined to mean any nuclear reaction, radiation, or radioactive contamination, all whether controlled or uncontrolled or however caused, or any consequence or any of these. Loss caused by a nuclear hazard is not considered loss by fire, explosion or smoke. However, direct loss by fire that results from the nuclear hazard is covered.

Recovered Property

If the insured or the insurer recovers any property for which the insurer has made payment under the policy, the insured or the insurer must notify the other party of the recovery. At the insured's option, the property will be returned to or retained by the insured or it will become the insurer's property. If recovered property is returned to or retained by the insured, the loss payment from the insurer will be adjusted based on the amount the insured received for the recovered property.

Volcanic Eruption Period

If one or more volcanic eruptions occur within a 72-hour period, they will be considered as one volcanic eruption.

Section II – Liability Coverages

Section II of the homeowners forms contains the Liability Coverages. The Liability Coverages include personal liability and medical payments to others. The provisions within the Liability Coverage are the same in all of the homeowners forms.

Coverage E - Personal Liability

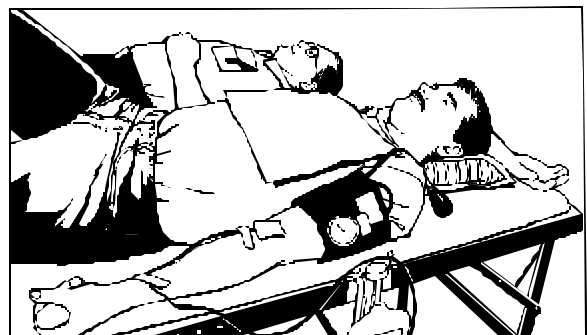
If a claim is made or a suit brought against an insured for damages because of bodily injury or property damage caused by an occurrence covered by the insurance, the insurer will pay, up to the limit of liability, for damages for which the insured is legally liable. Damages include prejudgment interest.

The insurer will provide a defense for the insured, even if a suit is groundless, false or fraudulent. The insurer may investigate and settle any claim or suit that the insurer decides is appropriate. The insurer's duty to settle or defend ends when the amount paid for damages reaches the applicable limit of liability.

Coverage F - Medical Payments to Others

Under the medical payments coverage, the insurer will pay the necessary medical expenses that are incurred or medically ascertained within three years from the date of an accident causing bodily injury. Medical expenses are defined to mean reasonable charges for medical, surgical, x-ray, dental, ambulance, hospital, professional nursing, prosthetic devices and funeral services. The medical payments coverage does not apply to the named insured, a covered spouse, or regular residents of the insured's household except residence employees. The policy applies to people other than those listed above. It applies :

- To a person who is on the insured location with the permission of an insured, or
- To a person who is off the insured location as long as the bodily injury:
 1. Arises out of a condition on the insured location or the ways immediately adjoining the insured location;



2. Is caused by the activities of an insured;
3. Is caused by a residence employee in the course of the residence employee's employment by an insured; or
4. Is caused by an animal owned by or in the care of an insured.

Section II - Exclusions

Exclusions from the personal liability and medical payments coverage include the following:

Expected or Intended Injury or Damage

Bodily injury or property damage that is expected or intended by the insured is excluded.

Business Liability

Bodily injury or property damage that arises out of or in connection with a business that is engaged in or by an insured is excluded. Such liability should be covered through professional, commercial or businessowners liability forms.

Rented Premises

Generally, bodily injury or property damage that arises out of the rental or holding for rental of any part of any premises by an insured is excluded. However, this exclusion does not include the rental or holding for rental of an insured location:

- On an occasional basis if used only as a residence;
- In part for use only as a residence, unless a single family home or unit is intended for use by the occupying family to lodge more than two roomers or boarders; or
- In part, as an office, school, studio or private garage.

Professional Liability

Bodily injury or property damage that arises out of the rendering of or failure to render professional services is excluded. Many professional liability and errors & omissions insurance forms are available to cover the risks associated with professional liability.

Uninsured Location

Also excluded is bodily injury or property damage that arises out of a premises that is not an insured location, whether owned by an insured, rented to an insured or rented to others by an insured.

Motor Vehicles

Bodily injury or property damage is also excluded that arises out of:

- The ownership, maintenance, use, loading or unloading of motor vehicles or all other motorized land conveyances owned or operated by or rented or loaned to an insured;
- The entrustment by an insured of a motor vehicle or any other motorized land conveyance to any person; or
- Vicarious liability for the actions of a child or minor using a conveyance excluded in paragraph 1 or 2 above.

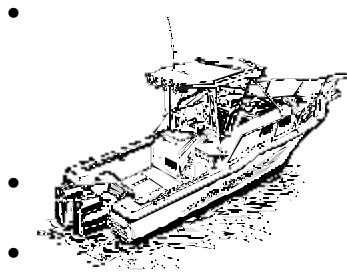
Not included under this exclusion is bodily injury or property damage that applies to:

- A trailer not towed by or carried on a motorized land conveyance;
- A motorized land conveyance designed for recreational use off public roads, not subject to motor vehicle registration and:
 1. Not owned by an insured or
 2. Owned by an insured and on an insured location;
- A motorized golf cart when used to play golf on a golf course;
- A vehicle or conveyance not subject to motor vehicle registration which is:

1. Used to service an insured's residence;
2. Designed for assisting the handicapped; or
3. In dead storage on an insured location.

This exclusion also does not apply to bodily injury to a residence employee that arises out of and in the course of the residence employee's employment by an insured.

Watercraft



Bodily injury or property damage that arises out of:
 the ownership, maintenance, use, loading or unloading of an excluded watercraft is excluded. An excluded watercraft is defined to mean those that are principally designed to be propelled by engine power or electric motor, or are sailing vessels, whether owned by or rented to an insured.
 The entrustment by an insured of an excluded watercraft to any person; or
 Vicarious liability for the actions of a child or minor using an excluded watercraft.

This exclusion does not apply to watercraft which are not sailing vessels and which are powered by:

- Inboard or inboard-outdrive engine or motor power of 50 horsepower or less not owned by an insured,
- Inboard or inboard-outdrive engine or motor power of more than 50 horsepower not owned by or rented to an insured;
- One or more outboard engines or motors with 25 total horsepower or less;
- One or more outboard engines or motors with more than 25 total horsepower if the outboard engine or motor is not owned by an insured;
- Outboard engines or motors of more than 25 total horsepower owned by an insured if:
 1. The insured acquires them prior to the policy period and the insured declares them at policy inception or the insured's intention to insure is reported to the insurer in writing within 45 days after the insured acquires the outboard engines or motors; or
 2. The insured acquires them during the policy period.

This exclusion also does not apply to watercraft that are sailing vessels that are less than 26 feet in overall length, or that are 26 feet or more in overall length and are not owned by or rented to an insured. Also not excluded are watercraft that are stored. This exclusion does not apply to bodily injury to a residence employee that arises out of and in the course of the residence employee's employment by an insured.

Aircraft

Also excluded is bodily injury or property damage that arises out of:

- The ownership, maintenance, use, loading or unloading of an aircraft;
- The entrustment by an insured of an aircraft to any person; or
- Vicarious liability for the actions of a child or minor using an aircraft.

The definition of *aircraft* is any contrivance used or designed for flight, other than model or hobby aircraft that is not used or designed to carry people or cargo.

This exclusion also does not apply to bodily injury to a residence employee that arises out of and in the course of the residence employee's employment by an insured. Aircraft can be insured through Aviation Insurance policies.

War

Bodily injury or property damage that are caused directly or indirectly by war is excluded, including:

- Undeclared war, civil war, insurrection, rebellion or revolution and any consequence of these;
- Warlike act by a military force or military personnel and any consequence of these; and
- Destruction, seizure or use for a military purpose and any consequence of these.

Discharge of a nuclear weapon is considered under the policy to be a warlike action even if such discharge is accidental.

Communicable Disease

Also excluded is bodily injury or property damage arising out of the transmission of a communicable disease by an insured.

Abuse

Bodily injury or property damage that arises out of sexual molestation, corporal punishment or physical or mental abuse is also excluded.

Drug Use

Bodily injury or property damage that arises out of the use, sale, manufacture, delivery, transfer or possession by any person of a Controlled Substance(s) as defined by the Federal Food and Drug Law as defined by the Federal Food and Drug Law at 21 U.S.C.A. Sections 811 and 812 is excluded. Controlled Substances include but are not limited to cocaine, LSD, marijuana and all narcotic drugs.

This exclusion does not apply to legitimate use of prescription drugs by a person following the orders of a licensed physician.

Exclusions to Coverage E - Personal Liability

Certain exclusions apply solely to the personal liability coverage.

Liability

Liability for any loss assessment that is charged against the insured as a member of an association, corporation or community of property owners is excluded. Also excluded is liability under any contract or agreement except for written contracts that directly relate to the ownership, maintenance or use of an insured location, or where the liability of others is assumed by the insured prior to an occurrence, unless excluded elsewhere in the policy.

Property Damage

Various types of property damage are excluded from the personal liability coverage. Property damage:

- To property owned by the insured, and
- To property rented to, occupied or used by or in the care of the insured,

is excluded.

Bodily Injury

Certain bodily injury is also excluded from the personal liability coverage.

- Bodily injury to any person eligible to receive any benefits that are:
 1. voluntarily provided; or
 2. required to be provided to the insured;

under any workers' compensation law, non-occupational disability law, or occupational disease law is excluded.

- Bodily injury for which an insured under the policy is also an insured under a nuclear energy liability policy, or would be an insured under that policy but for the exhaustion of its limit of liability is excluded.

A nuclear energy liability policy is one issued by American Nuclear Insurers, Mutual Atomic Energy Liability Underwriters, Nuclear Insurance Association of Canada or any of its successors;

- Bodily injury to the named insured, the named insured's relatives, or other persons under the age of 21 and in the care of the named insured or the named insured's relatives is also excluded.

Exclusions to Coverage F - Medical Payments to Others

Certain forms of bodily injury do not qualify for coverage under Coverage F.

- Bodily injury to a residence employee is not covered if the bodily injury occurs off the insured location and does not arise out of or in the course of the residence employee's employment by an insured is excluded.
- Bodily injury to any person eligible to receive benefits that are voluntarily provided or required to be provided under any workers' compensation, non-occupational disability law, or occupational disease law is also excluded.
- Bodily injury from any nuclear reaction, nuclear radiation or radioactive contamination, whether controlled or uncontrolled or however caused is excluded .
- Bodily injury is also excluded to any person, other than a residence employee of an insured, who regularly resides on any part of the insured location.

Section II - Additional Coverages

The Liability Coverage includes four additional coverages.

Claim Expenses

The insurer will pay expenses it incurs and costs taxed against an insured in any suit the insurer defends. It will also pay premiums on bonds required in a suit defended by the insurer, but will not pay for bond amounts that are more than the limit of liability for Coverage E. The insurer does not have to apply for or furnish the bonds involved.

Reasonable expenses that are incurred by an insured at the insurer's request, and including actual loss of earnings up to \$50 a day, for assisting the insurer in the investigation or defense of a claim or suit are also covered. Payment for prejudgment interest is included under the liability coverage.

First Aid Expenses

The insurer will pay for expenses related to first aid to others incurred by an insured for bodily injury covered under the policy. However, the insurer will not pay for first aid for the named insured or any other insured.

Damage to Property of Others

The insurer will pay, on replacement cost basis, up to \$500 per occurrence for property damage to the property of others caused by an insured. The insurer will not pay for property damage under Section II that is:

- Recoverable under Section I
 - Caused intentionally by an insured who is 13 years of age or older;
 - To property owned by an insured;
 - To property owned by or rented to a tenant of an insured or a resident in the insured's household; or
 - That arises out of:
 1. a business engaged in by an insured;

2. any act or omission in connection with a premises owned, rented or controlled by an insured, other than the insured location; or
3. the ownership, maintenance, or use of aircraft, watercraft or motor vehicles or all other motorized land conveyances.

This exclusion does not apply to a motorized land conveyance that is designed for recreational use off public roads and which are not subject to motor vehicle registration and are not owned by an insured.

Loss Assessment

Under standard homeowners forms, the insurer will also pay up to \$1000 for the insured's share of a loss assessment charged during the policy period by a corporation or association of property owners, if the assessment is the result of:

- Bodily injury or property damage not excluded under Section II; or
- Liability for an act of a director, officer or trustee while acting in the capacity of the director, officer or trustee as long as:
 1. The director, officer or trustee is elected by the members of a corporation or association of property owners; and
 2. The director, officer or trustee serves without deriving income for the exercise of duties that are solely on behalf of a corporation or association of property owners.

This coverage applies to loss assessments charged against the insured as an owner or tenant of the resident premises only. Not covered under this provision are loss assessments charged by a governmental body.

Regardless of the number of assessments, the limit of \$1000 is the most the insurer will pay for loss that arises out of:

- one accident, or
- a covered act of a director, officer or trustee. An act that involves more than one director, officer or trustee is considered a single act.

Section II - Conditions

Limit of Liability

The total liability under the personal liability coverage for all damages that result from any one occurrence cannot exceed the limit of liability of this coverage as listed in the declarations. The personal liability coverage limit of liability is the same regardless of the number of insureds, claims made or persons injured. It is considered that all bodily injury and property damage from any one accident or from continuous or repeated exposure to substantially the same general harmful conditions are considered to be the result of one occurrence.

The total liability under the medical payments coverage for all medical expenses payable for bodily injury to one person as the result of one accident will not exceed the limit of liability for this coverage shown in the declarations.

Severability of Insurance

The insurance applies separately to each insured.

Duties After Loss

If an accident or occurrence happens, the insured must perform the following duties as they apply:

- Give the insurer or its agent written notice as soon as possible. The notice must include:
 1. The identity of the policy and insured;

2. Reasonably available information regarding the time, place and circumstances of the accident or occurrence; and
 3. The names and addresses of any claimants and witnesses.
- Promptly forward to the insurer every notice, demand, summons or other process that relates to the accident or occurrence.
 - Help the insurer, at the insurer's request:
 1. To make settlement,
 2. To enforce any right of contribution or indemnify against any person or organization who may be liable to an insured,
 3. With the conduct of suits and attend hearings and trials, and
 4. To secure and give evidence and obtain the attendance of witnesses.
 - Regarding occurrences that fall under the *Damage to Property of Others*, submit to the insurer a sworn statement of loss and show the damaged property, if in the insured's control, to the insurer within sixty days after the loss.
 - The insured is not to make voluntary payments, assume obligations or incur expenses other than first aid to others at the time of bodily injury, except at the insured's own expense.

Duties of an Injured Person - Coverage F - Medical Payments to Others

There are special duties required of the injured person under the medical payments to others coverage. The injured person or their representative must give the insurer, as soon as practicable, written proof of claim, under oath if required, and must authorize the insurer to obtain copies of medical reports and records. The injured person must also undergo a physical exam by a doctor of the insurer's choice.

Payment of Claim - Coverage F - Medical Payments to Others

The insurer is not admitting liability by making payments under this coverage.

Suit Against Us

The insurer cannot have action taken against them unless the policy provisions have been complied with. No one has the right to join the insurer as a party to any action against an insured. No action regarding the personal liability coverage can be taken against the insurer until the obligation of the insured has been determined by a final judgment or an agreement signed by the insurer.

Bankruptcy of an Insured

Bankruptcy or insolvency on the part of the insured does not relieve the insurer of its responsibilities under the policy. Bankruptcy generally relieves an insured of debts. Under bankruptcy rules, an insured may therefore not be responsible for damages awarded under a lawsuit. However, several years ago many state legislatures decided that a liability insurer should pay harmed third parties even if an insured declared bankruptcy. State legislatures felt the third party should be able to collect damages and believed that since the insurance was paid for, the insurer should pay regardless of the bankruptcy. As more and more states adopted such legislation, insurers began making this bankruptcy condition a part of their liability policies, and today this clause is standard.

Other Insurance - Coverage E - Personal Liability

The insurance under Coverage E is excess over other valid and collectible insurance except insurance that is written specifically to cover as excess over the limits of liability that apply in the policy.

Sections I and II – Conditions

Several policy conditions apply to the coverages under Section I as well as those under Section II.

Policy Period

The homeowners policy coverage applies only to loss under Section I or to bodily injury or property damage under Section II which occurs during the policy period.

Concealment or Fraud

The entire policy is void if an insured has intentionally concealed or misrepresented any material fact or circumstance, engaged in fraudulent conduct or made false statements relating to the insurance.

Liberalization Clause

In some cases, an insured can receive broader coverage under a policy without having to pay additional premium. If the insurer makes a change that broadens coverage under the version of the policy purchased without charging additional premium, the change will apply to the insured's policy as of the date the change is implemented in the insured's state, if the implementation date falls within sixty days prior to or during the policy period. If a new version of the policy is issued, the liberalization clause does not apply to changes found in the new version.

Waiver or Change of Policy Provisions

Any waiver or change of a policy provision has to be in writing by the insurer in order to be valid.

Cancellation

It is common for states to have cancellation and non-renewal provisions that differ from the standard homeowners provisions. States may extend the period of time the insured has before a cancellation or non-renewal takes effect, or may limit the conditions under which a policy may be non-renewed by the insurer. The provisions of standard homeowners forms regarding cancellation include:

- The insured may cancel the policy at any time by returning the policy to the insurer or by letting the insurer know in writing of the date that the cancellation will take effect.
- The insurer may only cancel the policy for the reasons below, and the insurer must inform the insured in writing of the date that the cancellation takes effect. The procedures under which the insurer may cancel a policy include:
 1. If the insured has not paid the premium, the insurer must let the insured know in writing at least ten days before the date the cancellation is to take effect.
 2. If the policy has been in effect for less than sixty days and the circumstances do not involve renewing the policy, the insurer may cancel the policy for any reason by letting the insured know in writing at least ten days before the date the cancellation is to take effect.
 3. If the policy has been in effect for sixty days or more, or at any time if a renewal is involved, the insurer may cancel only if there has been a material misrepresentation of fact which if known to the insurer would have caused it not to issue the policy, or if the risk covered by the policy has substantially changed since the policy was issued. Such a cancellation can be effected through the notification of the insured in writing at least thirty days before the date the cancellation is to take effect.
 4. If the policy has been written for more than a year, the insurer may cancel for any reason at the anniversary by letting the insured know in writing at least thirty days before the cancellation takes effect.

If the policy is cancelled, the premium for the period from the date of cancellation to the expiration date is refunded on a pro rata basis. Refunds will be performed within a reasonable time after the cancellation is processed.

Nonrenewal

The insurer may elect not to renew a policy, according to the standard homeowners forms. Some states have regulations that govern the circumstances under which an insurer may not renew a policy. Under the standard policy, the insurer can notify the insured by delivering or mailing to the insured a written notice within thirty days before the expiration date stating that the insurer will not renew the policy. In many states, besides limiting the reasons under which an insurer is able to not renew a policy, the insurer is also required to state the reasons the policy is not being renewed within the notice.

Assignment

Assignments of a policy are not valid unless the insurer consents to the assignment in writing.

Subrogation

In some cases, an insured may have waived rights of recovery against another prior to a loss, and so recovery of loss cannot be undertaken against that party. If these rights have not been waived, the insurer may require that the insured assign his rights of recovery to the insurer, as was discussed earlier, through the process of subrogation. The insured must cooperate with the insurer in this matter.

Death

If death occurs to the named insured or spouse, the insurer will recognize the deceased's legal representative as the insured under the coverages applying to the premises and property of the deceased.

Summary

The homeowners forms can be used to cover most of the property and liability insurance needs of the homeowner. A home, its outbuildings, landscaping and contents can all be protected from most perils. Special coverages for certain types of property can be purchased and higher limits can be added to the forms to create a coverage package that fits the needs of individual homeowners.

Chapter Three: Flood Insurance

The flood insurance program administered through FEMA was briefly described in Chapter One. There are three policies offered through the National Flood Insurance Program: the Dwelling Policy, the General Property Policy and the Residential Condominium Building Association Policy. Following is a detailed examination of the FEMA Dwelling Policy.

The FEMA Dwelling Policy

The Dwelling policy form is used to insure residential structures, including individual condominium units, and their contents. The standard flood insurance policy Dwelling Form includes the following parts:

- Insuring Agreement
- Article 1 – Persons Insured
- Article 2 – Definitions
- Article 3 – Losses Not Covered
- Article 4 – Property Covered
- Coverage A – Building Property
- Coverage B – Personal Property
- Coverage C – Debris Removal
- Coverage D – Increased Cost of Compliance
- Article 5 – Special Provisions Applicable to Coverages A, B and C
- Article 6 – Property Not Covered
- Article 7- Deductibles
- Article 8 – Replacement Cost Provisions
- Article 9 – General Conditions and Provisions
- Article 10 – Liberalization Clause
- Article 11 – What Law Governs

Insuring Agreement

The Dwelling Form's insuring agreement states that FEMA, as the insurer, insures against all direct physical loss by or from flood as long as the insured has paid the correct amount of premium, FEMA's reliance of the accuracy of the information provided by the insured and the terms of the policy, the National Flood Insurance Act of 1968, as amended and Title 44 of the Federal Code.

The insurance pays based on the lesser of actual cash value, except as provided through Article 8's replacement provisions, of the property at the time of loss, or the amount it would cost to repair or replace the property with material of like kind and quality within a reasonable time after the loss.

Article 1 – Persons Insured

The policy insures the named insured, the named insured's legal representatives, any mortgagee and loss payee named in the application and declarations page and any other mortgagee or loss payee that exists at the time of the loss.

Article 2 – Definitions

Important definitions within the policy that are not found in or differ from those found in a standard homeowners policy include the following:

Association means the group of unit owners which manages the condominium building in which you, as the insured unit owner, maintain the insured's residence.

Base flood means the flood having a one percent chance of being equalled or exceeded in any given year.

Basement means any area of the building, including any sunken room or sunken portion of a room, having its floor subgrade (below ground level) on all sides.

Building means a walled and roofed structure, other than a gas or liquid storage tank, that is principally above ground and affixed to a permanent site, including a manufactured (i.e., mobile) home on a permanent foundation, subject to Article 6, paragraph H., and a walled and roofed building in the course of construction, alteration or repair.

Coastal High Hazard Area means an area subject to high velocity waters, including hurricane wave wash and tsunamis.

Condominium means a system of individual ownership of units in a multi-unit building or buildings or in single-unit buildings as to which each unit owner in the condominium has an undivided interest in the common areas of the building(s) and facilities that serve the building(s).

Condominium Association Policy means a policy of flood insurance coverage issued to an association pursuant to the Act.

Direct Physical Loss By or From Flood means any loss in the nature of actual loss of or physical damage, evidenced by physical changes, to the insured property (building or personal property) which is directly and proximately caused by a flood (as defined in this policy).

Dwelling means a building designed for use as a residence for no more than four families and a single family dwelling unit in a condominium building.

Elevated Building means a non-basement building which has its lowest elevated floor raised above ground level by foundation walls, shear walls, posts, piers, pilings, or columns. Emergency Program Community means a community wherein a Flood Hazard Boundary Map (FHBM) is in effect and only limited amounts of insurance are available under the Act.

Expense Constant means a flat charge per policy term, paid by the Insured to defray the Federal Government's policywriting and other expenses.

Federal policy fee means a flat charge per policy term, paid by the Insured to defray certain administrative expenses incurred in carrying out the National Flood Insurance Program not covered by the expense constant. This fee was established by section 1307(a)(1)(B)(iii) of the National Flood Insurance Act of 1968, as amended, and is not subject to producers' commissions, expense allowances, or state or local premium taxes.

Flood means: A. A general and temporary condition of partial or complete inundation of normally dry land area from:

1. The overflow of inland or tidal waters.

2. The unusual and rapid accumulation or runoff of surface waters from any source.

3. Mudslides (i.e., mudflows) which are proximately caused by flooding as defined in subparagraph A-2 above and are akin to a river of liquid and flowing mud on the surfaces of normally dry land areas, including the insured's premises, as when earth is carried by a current of water and deposited along the path of the current. B. The collapse or subsidence of land along the shore of a lake or other body of water as a result of erosion or undermining caused by waves or currents of water exceeding the cyclical levels which result in flooding as defined in subparagraph A-1 above.

Improvements means fixtures, alterations, installations, or additions comprising a part of the insured building or condominium dwelling unit.

Manufactured home means a building transportable in one or more sections, which is built on a permanent chassis and designed to be used with or without a permanent foundation when connected to the required utilities. The term manufactured home does not include park trailers, and other similar vehicles. To be eligible for coverage under this policy, a manufactured home must be on a permanent foundation and, if located in a FEMA designated Special Hazard Area, must meet the requirements of paragraph H. of Article 6.

Mobile home means a manufactured home.

National Flood Insurance Program means the program of flood insurance coverage and floodplain management administered under the Act and applicable Federal regulations in Title 44 of the Code of Federal Regulations, Subchapter B.

Post-FIRM building means a building for which the start of construction or substantial improvement occurred after December 31, 1974, or on or after the effective date of the initial Flood Insurance Rate Map (FIRM) for the community in which the building is located, whichever is later.

Pre-FIRM rated building means a building for which the start of construction or substantial improvement occurred on or before December 31, 1974, or before the effective date of the initial FIRM for the community in which the building is located, whichever is later.

Probation Additional Premium means a flat charge per policy term paid by the Insured on all new and renewal policies issued covering property in a community that has been placed on probation under the provisions of 44 CFR 59.24.

Regular Program Community means a community wherein a FIRM is in effect and full limits of coverage are available under the Act.

Repetitive Loss Structure means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equaled or exceeded 25% of the market value of the structure at the time of each such flood event.

Residential condominium building means a building owned by the members of a Condominium Association containing one or more residential units and in which at least 75% of the floor area within the building is residential.

Special hazard area means an area having special flood, mudslide (i.e., mudflow), and/or flood-related erosion hazards, and shown on a FHBM or FIRM as Zone A, AO, A1-30, AE, A99, AH, AR, AR/A, AR/AE, AR/AH, AR/AO, AR/A1-30, VO, V1-30, VE, V, M or E.

Unit means a single family dwelling unit, owned by the named Insured, in a condominium building.

Valued policy means a policy contract in which the Insurer and the Insured agree on the value of the property insured, that value being payable in event of total loss.

Walled and Roofed means the building has in place two or more exterior, rigid walls and the roof is fully secured so that the building will resist flotation, collapse and lateral movement.

Article 3 – Losses Not Covered

The insurer only provides coverage for direct physical loss by or from flood, which means the insurer does not cover:

A. Compensation, reimbursement or allowance for:

1. Loss of use of the insured property or premises.
2. Loss of access to the insured property or premises.
3. Loss of profits.
4. Loss resulting from interruption of business, profession, or manufacture.
5. The insured's additional living expenses incurred while the insured building is being repaired or is uninhabitable for any reason.
6. Any increased cost of repair or reconstruction as a result of any ordinance regulating reconstruction or repair, except as provided in Coverage D - Increased Cost of Compliance.
7. Any other economic loss.

The flood insurance policy does not provide the loss of use and additional expenses coverage that homeowners forms normally do.

B. Losses from other casualties, including loss caused by:

1. Theft, fire, windstorm, wind, explosion, earthquake, land sinkage, landslide, destabilization or movement of land resulting from the accumulation of water in subsurface land areas, gradual erosion, or any other earth movement except such mudslides (i.e., mudflows) or erosion as is covered under the peril of flood.
2. Rain, snow, sleet, hail or water spray.
3. Land subsidence, sewer backup, or seepage of water unless, subject to additional deductibles as provided for at Article 7, (a) there is a general and temporary condition of flooding in the area, (b) the flooding is the proximate cause of the land subsidence, sewer backup, or seepage of water, (c) the land subsidence, sewer backup, or seepage of water damage occurs no later than 72 hours after the flood has receded, and (d) the insured building must be insured, at the time of the loss, for at least 80 percent of its replacement cost or the maximum amount insurance available under the National Flood Insurance Program.
4. Freezing, thawing, or the pressure or weight of ice or water.
5. Water, moisture, mildew, mold or mudslide (i.e., mudflow) damage resulting primarily from any condition substantially confined to the described dwelling or from any condition which is within the insured's control (including but not limited to design, structural or mechanical defects, failures, stoppages or breakages of water or sewer lines, drains, pumps, fixtures or equipment).



The flood insurance policy covers loss due to flood, as flood is defined within the policy. The perils listed here that are excluded from coverage under the flood policy can generally be covered through homeowners policies.

C. Losses of the following nature:

1. A loss which is already in progress as of 12:01 A.M. of the first day of the policy term, or, as to any increase in the limits of coverage which is requested by the insured, a loss which is already in progress as of 12:01 A.M. on the date when the additional coverage becomes effective.

The policy does not cover floods that have begun prior to the inception date and time of the policy.

2. A loss from a flood which is confined to the premises on which the insured's insured property is located unless the flood is displaced over two acres of the premises.

The federal flood management program is based on community participation and community management. The program is not set up to protect an individual property, exclusive of this community management, from loss due to flood.

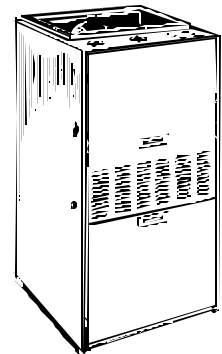
3. A loss caused by the insured's modification to the insured property which materially increases the risk of flooding.

The policy will not cover risk that the insured contributed to through modification of property.

4. A loss caused intentionally by the insured or any member of the insured's household.

Like any insurance policy, intentional loss is excluded from coverage.

5. A loss caused by or resulting from power, heating or cooling failure, unless such failure results from physical damage to power, heating or cooling equipment situated on the premises where the described building or unit is located, caused by a flood.



Loss due to power, heating or cooling failure does not meet the definition of flood within the flood policy.

6. Loss to any building or contents located on property leased from the Federal Government, arising from or incident to the flooding of the property by the Federal Government, where the lease expressly holds the Federal Government harmless, under flood insurance issued under any Federal Government program, from loss arising from or incident to the flooding of the property by the Federal Government.

If loss involves property that has been flooded by the Federal Government, the property is leased from the Federal Government, and the lease expressly holds the government harmless for such loss, the insurance does not cover such loss.

Coverage A – Building Property

Subject to Paragraph C. below, the insurer covers the insured's dwelling which includes:

A. A residential building, not a condominium, designed for principal use as a dwelling place for no more than four families, including:

1. Additions and extensions attached to and in contact with the dwelling by means of a common wall (but see Article 6, paragraph D.2.).
2. Materials and supplies to be used in constructing, altering or repairing the dwelling or an appurtenant structure while stored inside a fully enclosed building:
 - a. At the property address; or
 - b. On an adjacent property at the time of loss; or
 - c. In case of another building at the property address which does not have walls on all sides, while stored and secured to prevent flotation out of the building during

flooding (the flotation out of the building shall be deemed by the insured and the insurer to establish the conclusive presumption that the materials and supplies were not reasonably secured to prevent flotation, in which case no coverage is provided for such materials and supplies under this policy).

The policy does not cover construction materials that are not inside of a building or not secured to prevent flotation. The standard homeowners policies have not such restriction on construction materials.



3. As appurtenant structures, detached garages and carports located at the described premises, at the insured's option at the time of loss, in an amount up to 10% of the amount

of insurance the insured has purchased to cover the dwelling, including additions to the dwelling. By exercising this option, the insured reduces the amount of insurance available to cover other loss relating to Coverage A. This option may not be used to extend coverage to buildings:

- a. Occupied, rented or leased in whole or in part for dwelling purposes (or held for such use); or
- b. Used in whole or in part for business or farming

purposes (or held for such uses); or
c. Which are boathouses.

The coverage for appurtenant structures under the flood policy is similar to that found in homeowners forms, except that it also excludes buildings that are boathouses.

4. A building in the course of construction before it is walled and roofed subject to the following conditions:

- a. The amount of the deductible for each loss occurrence before the building is walled and roofed is two times the deductible which is selected to apply after the building is walled and roofed;
- b. Coverage is provided before the building is walled and roofed only while construction is in progress, or if construction is halted, only for a period of up to 90 continuous days thereafter, until construction is resumed; and
- c. There is no coverage before the building is walled and roofed where the lowest floor, including basement floor, of a non-elevated building or the lowest elevated floor of an elevated building is below the base flood elevation in Zones AH, AE or A1-30 or is below the base flood elevation adjusted to include the effect of wave action in Zones VE or V1-30. The lowest floor levels are based on the bottom of the lowest horizontal structural member of the floor in Zones VE or V1-30 and the top of the floor in Zones AH, AE or A1-30.

Homeowners policies generally cover any buildings that are under construction, along with theft of building supplies.

B. Or, the insurer covers the insured's single-family dwelling unit, including improvements therein owned solely by the insured, in a condominium building. The insurer also cover the insured's share of assessments made against the insured as a tenant in common in that building's common elements and the common elements of any other building of the insured's Condominium Association covered by insurance that is:

1. In the name of the insured's Condominium Association;
2. Provided under the Act; and

3. In an amount at least equal to the actual cash value of the building's common elements at the beginning of the current policy term or the maximum building coverage limit available under the Act, whichever is less.

Provided, with respect to coverage for single-family dwelling unit assessments:

1. Coverage is available only when each of the unit owners comprising the membership of the Association is also assessed by reason of the same cause and provided the assessment arises out of a direct physical loss by or from flood to the condominium building in which the insured's unit is located or to another condominium building of the Association, as to which the condominium documents (Articles of Association, Declarations, and the insured's Deed) impose upon the insured the responsibility for such an assessment). The deductibles provisions of Article 7 of this policy do not apply to assessments.

2. Assessments made by the Association to recoup the amount of a loss deductible incurred by the Association in connection with any condominium building or contents policy of insurance are not covered.

3. Assessments made by the Association in connection with loss of or damage to personal property, including any contents of any condominium building of the Association, are not covered.

4. Assessments made by the Association of a condominium building are not covered if the assessments are made to recoup loss not reimbursed to the Association, under a policy of insurance issued pursuant to the National Flood Insurance Program, by reason of the fact that the condominium building insured under such policy was not, at the time of the loss, insured in an amount equal to the lesser of 80% or more of the full replacement cost of the building or the maximum amount of insurance available under the National Flood Insurance Program.

The conditions surrounding the payment of assessments on behalf of the insured under the flood policy are similar to those found in homeowners forms, including the HO-6 form, although payment is only made if the assessment is due to a covered flood.

C. And the insurer covers fixtures including the following items of property, if owned solely by the insured, for which coverage is not provided under COVERAGE B - PERSONAL PROPERTY:

- Furnaces
- Wall mirrors permanently installed
- Permanently Installed Corner Cupboards,
- Bookcases, Paneling, and Wallpaper
- Venetian Blinds
- Central Air Conditioners
- Awnings and Canopies
- Elevator Equipment
- Fire Sprinkler Systems
- Built-in Dishwashers
- Garbage Disposal Units
- Outdoor Antennas and Aerials
- Pumps and Machinery for operating them
- Carpet Permanently Installed Over Unfinished Flooring
- Built-in Microwave Ovens
- Hot Water Heaters, Including Solar Water Heaters
- Ranges and Stoves
- Radiators
- Kitchen Cabinets
- Light Fixtures
- Plumbing Fixtures
- Refrigerators

Homeowners policies do not denote some property as building property and other property as personal property. The flood policy does so because of the limits of coverage that apply to building and personal property coverages.

Coverage B – Personal Property

A. Subject to paragraphs B. and C. below, the insurer covers personal property:

1. Owned by the insured as contents incidental to the occupancy of the building.
2. Owned by members of the insured's family in the insured's household.
3. At the insured's option and within the limits of personal property coverage the insured has purchased, owned by the insured's guests and servants. Such personal property is covered while stored:
 - a. within the insured's dwelling;
 - b. within a fully enclosed building at the property address;
 - c. within a building having in place two or more rigid walls and a fully secured roof if the contents are secured to prevent flotation out of the building during flooding. The flotation out of the building during flooding of any such contents shall be deemed to establish the conclusive presumption that the contents were not reasonably secured to prevent flotation; or
 - d. at a temporary location, as expressly authorized under this policy (see Article 5, paragraph C.2.).

The personal property coverage under the flood policy covers property only while in the dwelling or building on the residence premises or if property is moved to certain locations to protect it from flooding. Under homeowners policies, since many perils are covered, property coverage is not limited to the residence premises, but is worldwide.

B. Coverage, under this COVERAGE B - PERSONAL PROPERTY, includes the following property if owned solely by the insured, for which coverage is not provided under COVERAGE A - BUILDING PROPERTY:

- Clothes Washers
- Clothes Dryers
- Food Freezers
- Air Conditioning Units
- Portable Dishwashers
- Carpet, including wall-to-wall carpet, over finished flooring and whether or not it is permanently installed
- Carpet not permanently installed over unfinished flooring
- Outdoor equipment and furniture stored inside the dwelling or another fully enclosed building at the property address
- Portable microwave ovens and cook-out grills, ovens and the like

C. Limitations. Under this COVERAGE B -PERSONAL PROPERTY the insurer shall not reimburse the insured for loss as to:

1. Personal property owned by the insured in common with any unit owners comprising the membership of a Condominium Association.
2. The following personal property to the extent the loss to any one or more of such property exceeds, individually or in total, \$250.00:
 - Artwork, including but not limited to, paintings, etchings, pictures, tapestries, art glass windows including their frames, statuary, marbles, and bronzes;
 - Rare books;
 - Necklaces, bracelets, gems, precious or semi-precious stones, watches, articles of gold, silver, or platinum; or
 - Furs or any article containing fur which represents its principal value.

The homeowners forms cover many more types of property than does the flood policy. The homeowners forms also have higher limits of coverage on art, books, jewelry and fur.

Coverage C – Debris Removal

Within the limits of the insured's coverage, the insurer cover any expense the insured incur, including the value of the insured's own labor and the labor of members of the insured's household at prevailing Federal minimum wage rates, as a result of removing debris of, on or from the insured property so long as the debris problem was directly caused by a flood. Under these provisions coverage extends to:

- A. Non-owned debris from beyond the boundaries of the described premises which is physically on the insured property.
- B. Parts of the insured property anywhere:
 - 1. On the described premises; and
 - 2. On property beyond the boundaries of the described premises.

Because flood damage can cause property to be scattered off the insured's property and debris from off the insured's property to be washed onto the insured's property, the flood policy pays for removal of such property and debris.

Coverage D – Increased Cost of Compliance

Increased Cost of Compliance coverage (Coverage D) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, floodproofing, relocation, or demolition (or any combination thereof) of a structure, after a direct loss caused by a flood as defined by this policy. (Floodproofing activities eligible for Coverage D and referred to hereafter in this policy are limited to residential structures with

basements that satisfy the criteria of 44 CFR 60.6 (b) or (c) and to non-residential structures). The limit of liability under this Coverage D (Increased Cost of Compliance) is \$15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the building limit the insured selected on the insured's application and appears on the Declarations Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Compliance), however, cannot exceed the maximum permitted under the Act.



The increased cost of compliance coverage is unique to the flood policy, but is similar in purpose to building ordinance or zoning law coverage. Once a flood has occurred, regulations or floodplain management ordinances may require construction standards that increase the cost of reconstructing the insured structures. If so, the flood policy form provides \$15,000 additional coverage.

ELIGIBILITY

A structure covered under Coverage A - Building Property sustaining a loss caused by a flood as defined by this policy must:

- 1. be a structure that is a repetitive loss structure. A repetitive loss structure means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equaled or exceeded 25% of the market value of the structure at the time of each such flood event. In addition to the current claim, the National Flood Insurance Program (NFIP) must have paid the previous qualifying claim, and the State or

community must have a cumulative, substantial damage provision or repetitive loss provision in its floodplain management law or ordinance being enforced against the structure, or

2. be a structure that has had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event. The State or community must have a substantial damage provision in its floodplain management law or ordinance being enforced against the structure. This Coverage D will not pay for Increased Cost of Compliance to meet State or community floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3 , except as provided in 1. above or a. or b. as follows:

a. elevation or floodproofing in any risk zone to preliminary or advisory base flood elevations provided by FEMA which the State or local government has adopted and is enforcing for flood-damaged structures in such areas. (This includes compliance activities in B, C, X, or D zones which are being changed to zones with base flood elevations. This also includes compliance activities in zones where base flood elevations are being increased, and a flood-damaged structure must comply with the higher advisory base flood elevation.) Increased Cost of Compliance coverage does not respond to situations in B, C, X, or D zones where the community has derived its own elevations and is enforcing elevation or floodproofing requirements for flood-damaged structures to elevations derived solely by the community.

b. elevation or floodproofing above the base flood elevation to meet State or local freeboard requirements, i.e., that a structure must be elevated above the base flood elevation. Under the minimum NFIP criteria at 44 CFR 60.3 (b)(4), States and communities must require the elevation or floodproofing of structures in unnumbered A zones to the base flood elevation where elevation data is obtained from a Federal, State, or other source. Such compliance activities are also eligible for this Coverage D. This coverage will also pay for the incremental cost, after demolition or relocation, of elevating or floodproofing a structure during its rebuilding at the same or another site to meet State or local floodplain management laws or ordinances, subject to Exclusion (7). This coverage will also pay to bring a flood-damaged structure into compliance with State or local floodplain management laws or ordinances even if the structure had received a variance prior to the present loss from the applicable floodplain management requirements.

CONDITIONS

1. When a structure covered under Coverage A -Building Property sustains a loss caused by a flood as defined by this policy, the insurer's payment for the loss under this Coverage D will be for the increased cost to elevate, floodproof, relocate, demolish, or any combination thereof, caused by enforcement of current State or local floodplain management ordinances or laws. the insurer's payment for eligible demolition activities will be for the cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws. Eligible activities for the cost of clearing the site will include those necessary to discontinue utility service to the site and ensure proper abandonment of on-site utilities.

2. When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinances or laws.

EXCLUSIONS

Under this Coverage D (Increased Cost of Compliance) the insurer will not pay for:

- (1) The cost associated with enforcement of any floodplain management ordinance or law in communities participating in the Emergency Program.
- (2) The cost associated with enforcement of any ordinance or law that requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in

any way respond to, or assess the effects of pollutants. Pollutants include but are not limited to any solid, liquid, gaseous, or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acid, alkalis, chemicals, and waste. Waste includes but is not limited to materials to be recycled, reconditioned, or reclaimed.

(3) The loss in value to any covered building or other structure due to the requirements of any ordinance or law.

(4) The loss in residual value of the undamaged portion of a building demolished as a consequence of enforcement of any State or local floodplain management law or ordinance.

(5) Any Increased Cost of Compliance under this Coverage D:

(a) Until the covered building is actually elevated, floodproofed, demolished, or relocated on the same or to another premises; and

(b) Unless the covered building is elevated, floodproofed, demolished, or relocated as soon as reasonably possible after the loss, not to exceed two years.

(6) Any code upgrade requirements, e.g., plumbing or electrical wiring, not specifically related to the State or local floodplain management law or ordinance.

(7) Any compliance activities needed to bring additions or improvements made after the loss occurred into compliance with State or local floodplain management laws or ordinances.

(8) Loss due to any ordinance or law that the insured were required to comply with before the current loss.

(9) Any rebuilding activity to standards that do not meet the NFIP's minimum requirements. This includes any situation where the insured has received from the State or community a variance in connection with the current flood loss to rebuild the property to an elevation below the base flood elevation.

(10) Increased Cost of Compliance for appurtenant structure(s).

(11) Any structure insured under a Group Flood Insurance Policy issued pursuant to 44 CFR 61.17.

(12) Assessments made by a condominium association on individual condominium unit owners to pay increased costs of repairing commonly owned buildings after a flood in compliance with State or local floodplain management ordinances or laws.

OTHER PROVISIONS

(1) Increased Cost of Compliance coverage will not be included in the calculation to determine whether coverage meets the 80% insurance-to-value requirement for replacement cost coverage under Article 8 or for payment under Article 3.B.3 for loss from land subsidence, sewer backup, or seepage of water.

(2) All other conditions and provisions of the policy apply.

Article 5 – Special Provisions Applicable to Coverages A, B, and C

A. Condominium unit owner coverage is excess over Association coverage. The insurance under this policy shall be excess over any insurance in the name of the insured's Condominium Association covering the same property covered by this policy. Loss shall not be paid under COVERAGE A - BUILDING PROPERTY, paragraph B., and under COVERAGE B - PERSONAL PROPERTY until the insurer has verified the extent to which loss to improvements and personal property within the insured's unit, and to the common elements of the insured's building or any other building of the insured's Condominium Association, is covered by any insurance in the name of the insured's Condominium Association. Should the amount of insurance collectible under this policy for a loss, when combined with any recovery available to the insured as a tenant in common under any Condominium Association flood insurance policy provided under the Act for the same loss, exceed the statutorily permissible limits of building coverage available for the insuring of single-family dwellings under the Act, then the limits of building coverage under this policy shall be reduced in regard to that loss by the amount of such excess.

This clause is similar to that found in homeowners forms used to cover condominiums. If the condominium association has insurance to cover loss, insurance for the insured cover that same loss on an excess basis.

B. This policy is not a valued policy. Loss will be paid, provided the insured has purchased a sufficient amount of coverage, i.e., in an amount equal to the lesser of the value of the damaged property under the terms and conditions of this policy (and regardless of whether the amount of insurance purchased is greater than such value) or the limit of coverage permitted under the Act.

C. Insured Property, Covered Locations. The insured's dwelling and personal property are covered while the property is located:

1. At the property address shown on the application or endorsement, if corrected by endorsement; and
2. For 45 days, at another place above ground level or outside of the special hazard area, to which any of the insured property shall necessarily be removed by the insured in order to protect and preserve it from flood, due to the imminent danger of flood (provided, personal property so removed must be placed in a fully enclosed building or otherwise reasonably protected from the elements to be insured against loss), in which case the reasonable expenses incurred by you, including the value of the insured's own labor and the labor of members of the insured's household at prevailing Federal minimum wage rates, in moving any of the insured's insured property temporarily away from the peril of flood shall be reimbursed to the insured in an amount not to exceed \$500. This policy's deductible amounts, as provided for at Article 7, shall not be applied to this reimbursement.

D. Coverage For Certain Loss Mitigation Measures.

When the insurance under this policy covers a building, reasonable expenses incurred by the insured for the purchase of the following items are also covered, in an aggregate amount not to exceed \$750.00:

1. Sandbags, including sand to fill them and plastic sheeting and lumber used in connection with them;
2. Fill for temporary levees;
3. Pumps; and
4. Wood;

all for the purpose of saving the building due to the imminent danger of a flood loss, including the value of the insured's own labor and the labor of members of the insured's household at prevailing Federal minimum wage rates. The policy's building deductible amount, as provided for at Article 7, shall not be applied to this reimbursement. For reimbursement under this paragraph D. to apply, the following conditions must be met:

- a. The insured property must be in imminent danger of sustaining flood damage; and
- b. The threat of flood damage must be of such imminence as to lead a person of common prudence to apprehend flood damage; and
- c. A general and temporary condition of flooding in the area must occur, even if the flooding does not reach the insured property, or a legally authorized official must issue an evacuation order or other civil order for the community in which the insured property is located calling for measures to preserve life and property from the peril of flood.

This provision is similar to the reasonable repairs and property removed coverages under homeowners policies. The coverage of the flood policy however, is specific to the peril of flooding, and so covers sandbags, pumps and other items used to mitigate damage due to flooding. The flood policy also does not use the term *reasonable* related to the protection measures taken, however; the flood policy defines the circumstances under which such measures will be covered more specifically than do most homeowners policies. The flood danger must be imminent, a person of common prudence must view its imminence as a threat of flood, and a general or temporary condition of flooding must occur in order for this coverage to apply.

Article 6 – Property Not Covered

The insurer does not cover any of the following:

A. Valuables and commercial property, meaning:

1. Accounts, bills, currency, deeds, evidences of debt, money, coins, medals, postage stamps, securities, bullion, manuscripts, other valuable papers or records, and personal property used in a business.
2. Personal property used in connection with any incidental commercial occupancy or use of the building.

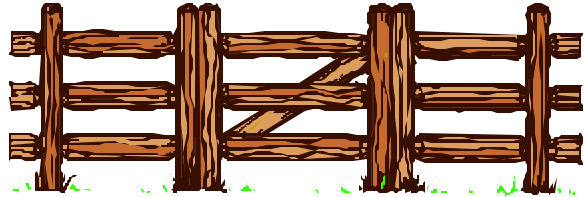
Homeowners policies cover property listed under item 1, but for a limited coverage amount.

B. Property over water or in the open, meaning:

1. A building and personal property in the building located entirely in, on, or over water or seaward of mean high tide, if the building was newly constructed or substantially improved on or after October 1, 1982.
2. Personal property in the open.

C. Structures other than buildings, including:

1. Fences, retaining walls, seawalls, bulkheads, wharves, piers, bridges, and docks.
2. Indoor and outdoor swimming pools.
3. Open structures and personal property located in, on, or over water, including boathouses or any structure or building into which boats are floated.
4. Underground structures and equipment, including wells, septic tanks and septic systems.



Homeowners policies do not generally exclude coverage for these items.

D. Other real property, including:

1. Land, land values, lawns, trees, shrubs, plants, and growing crops.

Homeowners policies exclude coverage for land and growing crops, but may provide additional coverage for lawns, trees, shrubs and plants.

2. Those portions of walks, walkways, decks, driveways, patios, and other surfaces, all whether covered or not and all of whatever kind of construction, located outside the perimeter, exterior walls of the insured building or unit.

Homeowners policies do not exclude these structures, although they may be subject to limited coverage under some policies if the peril of windstorm caused the loss.

E. Other personal property, meaning:

1. Animals, livestock, birds, and fish.
2. Aircraft.
3. Any self-propelled vehicle or machine and motor vehicle (other than motorized equipment pertaining to the service of the described unit or building, operated principally on the insured's premises, and not licensed for highway use) including their parts and equipment.
4. Trailers on wheels and other recreational vehicles whether affixed to a permanent foundation or on wheels.
5. Watercraft including their furnishings and equipment.

These exclusions are similar to those found in a homeowners form, although certain watercraft and trailers are covered, up to specified limits.

F. Basements, building enclosures lower than the elevated floors of elevated buildings, and personal property, as follows:

1. In a special hazard area, at an elevation lower than the lowest elevated floor of an elevated Post-FIRM building, including a manufactured (i.e., mobile) home:

a. Personal property.

b. Building enclosures, equipment, machinery, fixtures and components, except for the required utility connections and the footings, foundation, posts, pilings, piers or other foundation walls and anchorage system as required for the support of the building.

2. In a basement as defined in Article 2:

a. Personal property.

b. Building equipment, machinery, fixtures and components, including finished walls, floors, ceilings and other improvements, except for the required utility connections, fiberglass insulation, drywalls and sheetrock walls, and ceilings but only to the extent of replacing drywalls and sheetrock walls in an unfinished manner (i.e., nailed to framing but not taped, painted, or covered).

3. Provided, with regard to both 1. and 2., except for the case of a dwelling unit in a condominium building as to which the Association's coverage is sufficient to cover such property, the following building and personal property items connected to a power source and installed in their functioning location are covered so long as the insured have purchased building and personal property coverage, as appropriate:

- Sump pumps
- Well water tanks and pumps
- Oil tanks and the oil in them
- Cisterns and the water in them
- Natural gas tanks and the gas in them
- Pumps and or tanks used in conjunction with solar energy
- Furnaces
- Hot water heaters
- Clothes washers and dryers
- Food freezers and the food in them
- Air conditioners
- Heat pumps
- Electrical junction and circuit breaker boxes
- Clean-up
- Stairways and staircases attached to the building which are not separated from the building by elevated walkways
- Elevators, dumbwaiters, and relevant equipment, except for such relevant equipment located below the base flood elevation if such relevant equipment was installed on or after October 1, 1987.

G. Property below ground, meaning a building or unit and its contents, including personal property and machinery and equipment, which are part of the building or unit, where more than 49% of the actual cash value of such building or unit is below ground, unless the lowest level is at or above the base flood elevation (in the Regular Program) or the adjacent ground level (in the Emergency Program) by reason of earth having been used as an insulation material in conjunction with energy efficient building techniques.

Limited coverage related to a basement is unique to the flood policy form and is not found in standard homeowners policies.

H. Certain manufactured homes, meaning a manufactured (i.e., mobile) home located or placed within a FEMA designated Special Hazard Area that is not anchored to a permanent foundation to resist flotation, collapse, or lateral movement:

1. By over-the-top or frame ties to ground anchors; or
2. In accordance with manufacturer's specifications; or
3. In compliance with the community's floodplain management requirements; unless it is a manufactured (i.e., mobile) home on a permanent foundation continuously insured by the National Flood Insurance Program at the same site at least since September 30, 1982.

Manufactured homes cannot be covered by all homeowners forms. They are normally covered through endorsement to forms HO-2 and HO-3.

I. Containers such as but not limited to gas tanks or liquid tanks.

J. Buildings and their contents made ineligible for flood insurance pursuant to the provisions of the Coastal Barrier Resources Act, 16 U.S.C. 3501 et seq., and the Coastal Barrier Improvement Act of 1990, Pub. L. 101- 591, 16 U.S.C. 3501 et seq.

These exclusions are not found in homeowners policies.

Article 7 – Deductibles

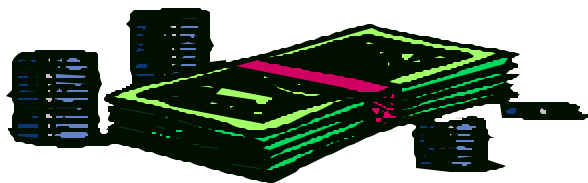
A. Each loss to the insured's insured property is subject to a deductible provision under which the insured bears a portion of the loss before payment is made under the policy.

B. The loss deductible shall apply separately to each building and personal property loss including, as to each, any appurtenant structure loss and debris removal expense.

C. For any flood insurance policy issued or renewed for a property located in an Emergency Program community or for any property located in a Regular Program community in Zones A, AO, AH, A1-30, AE, AR, AR/AE, AR/AH, AR/AO, AR/A1-30, AR/A, VO, V1-30, VE, or V where the rates available for buildings built before the effective date of the initial Flood Insurance Rate Map or December 31, 1974, whichever is later, are used to compute the premium, the amount of the deductible for each loss occurrence is determined as follows: The insurer shall be liable only when such loss exceeds \$1,000.00, or the amount of any other deductible that the insured selected when the insured applied for this policy or subsequently by endorsement.

D. For policies other than those described in paragraph C. above, the amount of the deductible for each loss occurrence is determined as follows: The insurer shall be liable only when such loss exceeds \$500.00, or the amount of any higher deductible which the insured selected when the insured applied for this policy or subsequently by endorsement.

E. Notwithstanding the applicable deductible in paragraphs C. or D. above, an additional deductible in the sum of \$250.00 shall apply separately to each building and contents loss before payment is made under the policy for land subsidence, sewer backup, or seepage of water as provided for in Article 3, paragraph B.3.



The flood policy applies a deductible to each building and personal property loss.

Article 8 – Replacement Cost Provisions

Subject to Article 7 and the limits of building coverage the insured has purchased, these provisions shall apply only to a single family dwelling which is the insured's principal residence and which is covered under this policy.

For purposes of this Article 8, a single-family dwelling qualifies as the insured's principal residence provided that, at the time of the loss, the insured or the insured's spouse has lived in the insured's building for either:

1. 80% of the calendar year immediately preceding the loss; or
2. 80% of the period of the insured's ownership of the insured building, if less than one calendar year, immediately preceding the loss.

The following are excluded from replacement cost coverage:

1. A unit, in a condominium building, not used exclusively for single-family dwelling purposes.
2. Outdoor antennas and aerials, awnings, and other outdoor equipment, all whether attached to the building or not.
3. Carpeting.
4. Appliances.

Under this Article:

A. If at the time of loss the total amount of insurance applicable to the dwelling is 80% or more of the full replacement cost of such dwelling, or is the maximum amount of insurance available under the National Flood Insurance Program, the coverage of this policy applicable to the dwelling is extended to include the full cost of repair or replacement (without deduction for depreciation).

B. If at the time of loss the total amount of insurance applicable to the dwelling is less than 80% of the full replacement cost of such dwelling and less than the maximum amount of insurance available under the National Flood Insurance Program, the insurer's liability for loss shall not exceed the larger of the following amounts:

1. The actual cash value (meaning replacement cost less depreciation) of that part of the dwelling damaged or destroyed; or
2. That portion of the full cost of repair or replacement without deduction for depreciation of that part of the dwelling damaged or destroyed, which the total amount of insurance applicable to the dwelling bears to 80% of the full replacement cost of such dwelling. If 80% of the full replacement cost of such dwelling is greater than the maximum amount of insurance available under the National Flood Insurance Program, use the maximum amount in lieu of the 80% figure in the application of this limit.

C. the insurer's liability for loss under this policy shall not exceed the smallest of the following amounts:

1. The limit of liability of this policy applicable to the damaged or destroyed building; or
2. The replacement cost of the dwelling or any part thereof identical with such dwelling on the same premises and intended for the same occupancy and use; or
3. The amount actually and necessarily expended in repairing or replacing said dwelling or any part thereof intended for the same occupancy and use.

D. When the full cost of repair or replacement is more than \$1,000 or more than 5% of the whole amount of insurance applicable to said dwelling, the insurer shall not be liable for any loss under paragraph A. or subparagraph B.2. of these provisions unless and until actual repair or replacement is completed.

E. In determining if the whole amount of insurance applicable to said dwelling is 80% or more of the full replacement cost of such dwelling, the cost of excavations, underground flues and pipes, underground wiring and drains, and brick, stone and concrete foundations, piers and other supports which are below the under surface of the lowest basement floor, or where there is no basement, which are below the surface of the ground inside the foundation walls, shall be disregarded.

F. The insured may elect to disregard this condition in making claim hereunder, but such election shall not prejudice the insured's right to make further claim within 180 days after loss for any additional liability brought about by these provisions.

G. These Replacement Cost Provisions do not apply to any manufactured (i.e., mobile) home which when assembled is not at least 16 feet wide or does not have an area within its perimeter

walls of at least 600 square feet or personal property (contents) covered under this policy, nor do they apply to any loss where insured property is abandoned and remains as debris at the property address following a loss.

H. If the insured's dwelling sustains a total loss or if the insurer should pay the insured the entire building loss proceeds under these Replacement Cost Provisions, there is no requirement that the insured rebuild the building at the insured property address.

I. If the community in which the insured's property is located has been converted from the Emergency Program to the Regular Program during the current policy term, then these Replacement Cost Provisions shall be applied based on the maximum amount of insurance available under the National Flood Insurance Program at the beginning of the current policy term instead of at the time of loss.

The replacement cost provision of the flood policy is similar to the loss settlement provisions of homeowners policies in that they include an 80% coinsurance requirement in order for replacement cost coverage to apply.

Article 9 – General Conditions and Provisions

A. Pair and Set Clause: If the insured loses an article which is part of a pair or set, the insurer will have the option of paying the insured an amount equal to the cost of replacing the lost article, less depreciation, or an amount which represents the fair proportion of the total value of the pair or set that the lost article bears to the pair or set.

B. Concealment, Fraud: The insurer will not cover the insured under this policy, which shall be void, nor can this policy be renewed or any new flood insurance coverage be issued to the insured if:

1. The insured has sworn falsely, or willfully concealed or misrepresented any material fact; or
2. The insured has done any fraudulent act concerning this insurance (see paragraph F.1.d. below); or
3. The insured has willfully concealed or misrepresented any fact on a Recertification Questionnaire, which causes the insurer to issue a policy to the insured based on a premium amount which is less than the premium amount which would have been payable by the insured were it not for the misstatement of fact (see paragraph G. below).

C. Other Insurance: If a loss covered by this policy is also covered by other insurance whether collectible or not, except insurance in the name of the Condominium Association issued pursuant to the Act, the insurer will pay only the proportion of the loss that the limit of liability that applies under this policy bears to the total amount of insurance covering the loss. If there is other insurance in the name of the Condominium Association covering the same property covered by this policy, this insurance shall be excess over the other insurance.

D. Amendments, Waivers, Assignment: This policy cannot be amended nor can any of its provisions be waived without the express written consent of the Federal Insurance Administrator. No action the insurer takes under the terms of this policy can constitute a waiver of any of the insurer's rights. Except in the case of

1. a contents only policy, and
2. a policy issued to cover a building in the course of construction, assignment of this policy, in writing, is allowed upon transfer of title.

E. Cancellation of Policy By You:

The insured may cancel this policy at any time but a refund of premium money will only be made to the insured when:

1. The insured cancels because the insured has transferred ownership of the described building or unit to someone else. In this case, the insurer will refund to you, once the insurer receive the insured's written request for cancellation (signed by you), the excess of premiums paid by the insured which apply to the unused portion of the policy's term, pro rata but with retention of the expense constant and the Federal policy fee.

2. The insured cancels a policy having a term of 3 years, on an anniversary date, and the reason for the cancellation is:

- a. A policy of flood insurance has been obtained or is being obtained in substitution for this policy and the insurer has received a written concurrence in the cancellation from any mortgagee of which the insurer has actual notice; or
- b. The insured has extinguished the insured mortgage debt and are no longer required by the mortgagee to maintain the coverage.

Refund of any premium, under this subparagraph 2., shall be pro rata but with retention of the expense constant and the Federal policy fee.

17. The insured cancel because the insurer has determined that the insured's property is not, in fact, in a special hazard area; and the insured were required to purchase flood insurance coverage by a private lender or Federal agency pursuant to the Act; and the lender or Federal agency no longer requires the retention by the insured of the coverage. In this event, if no claims have been paid or are pending, the insured's premium payments will be refunded to the insured in full, according to the insurer's applicable regulations.

Conditions A-E are similar to those found in homeowners and other property coverages.

F. Voidance, Reduction or Reformation of the Coverage By Us:

1. Voidance: This policy shall be void and of no legal force and effect in the event that any one of the following conditions occurs:

- a. The property listed on the application is not eligible for coverage, in which case the policy is void from its inception;
- b. The community in which the property is located was not participating in the National Flood Insurance Program on the policy's inception date and did not qualify as a participating community during the policy's term and before the occurrence of any loss for which the insured may receive compensation under the policy;
- c. If, during the term of the policy, the participation in the National Flood Insurance Program of the community in which the insured's property is located ceases, in which case the policy shall be deemed void effective at the end of the last day of the policy year in which such cessation occurred and shall not be renewed. In the event the voided policy included 3 policy years in a contract term of 3 years, the insured shall be entitled to a pro rata refund of any premium applicable to the remainder of the policy's term;
- d. In the event the insured or the insured's agent has:
 - (1) sworn falsely, or
 - (2) fraudulently or willfully concealed or misrepresented any material fact including facts relevant to the rating of this policy in the application for coverage, or upon any renewal of coverage, or in connection with the submission of any claim brought under the policy, in which case this entire policy shall be void as of the date the wrongful act was committed or from its inception if this policy is a renewal policy and the wrongful act occurred in connection with an application for or renewal or endorsement of a policy issued to the insured in a prior year and affects the rating of or premium amount received for this policy. Refunds of premiums, if any, shall be subject to offsets for the insurer's administrative expenses (including the payment of agent's commissions for any voided policy year) in connection with the issuance of the policy;
- e. The premium the insured submits is less than the minimum set forth in 44 CFR 61.10 in connection with any application for a new policy or policy renewal, in which case the policy is void from its inception date.

Portions of this condition are unique to the flood policy, since it can be voided based on a community being removed from flood management participation. Other forms of policies are cancelled based on the insurer's or the insured's actions and decisions.

2. Reduction of Coverage Limits or Reformation: In the event that the premium payment received by the insurer is not sufficient (whether evident or not) to purchase the amount of coverage requested by an application, renewal, endorsement, or other form and paragraph F.1.d. does not apply, then the policy shall be deemed to provide only such coverage as can be purchased for the entire term of the policy, for the amount of premium received, subject to increasing the amount of coverage pursuant to 44 CFR 61.11; provided, however:

a. If the insufficient premium is discovered by the insurer prior to a loss and the insurer can determine the amount of insufficient premium from information in the insurer's possession at the time of the insurer's discovery of the insufficient premium, the insurer shall give a notice of additional premium due, and if the insured remit and the insurer receive the additional premium required to purchase the limits of coverage for each kind of coverage as was initially requested by the insured within 30 days from the date the insurer give the insured written notice of additional premium due, the policy shall be reformed, from its inception date, or, in the case of an endorsement, from the effective date of the endorsement, to provide flood insurance coverage in the amount of coverage initially requested.

b. If the insufficient premium is discovered by the insurer at the time of a loss under the policy, the insurer shall give a notice of premium due, and if the insured remit and the insurer receive the additional premium required to purchase (for the current policy term and the previous policy term, if then insured) the limits of coverage for each kind of coverage as was initially requested by the insured within 30 days from the date the insurer give the insured written notice of additional premium due, the policy shall be reformed, from its inception date, or, in the case of an endorsement, from the effective date of the endorsement, to provide flood insurance coverage in the amount of coverage initially requested.

c. Under subparagraphs a. and b. as to any mortgagee or trustee named in the policy, the insurer shall give a notice of additional premium due and the right of reformation shall continue in force for the benefit only of the mortgagee or trustee, up to the amount of the insured's indebtedness, for 30 days after written notice to the mortgagee or trustee.

Other types of policy forms do not require that the insurer notify the insured of insufficient premium, although many insurers do so because they want to keep the business.

G. Policy Renewal: The term of this policy commences on its inception date and ends on its expiration date, as shown on the declarations page which is attached to the policy. The insurer is under no obligation to:

1. Send the insured any renewal notice or other notice that the insured's policy term is coming to an end and the receipt of any such notice by the insured shall not be deemed to be a waiver of this provision on the insurer's part.
2. Assure that policy changes reflected in endorsements submitted by the insured during the policy term and accepted by the insurer are included in any renewal notice or new policy which the insurer sent to the insured. Policy changes includes the addition of any increases in the amounts of coverage.



This policy shall not be renewed and the coverage provided by it shall not continue into any successive policy term unless the renewal premium payment is received by the insurer at the office of the National Flood Insurance Program within 30 days of the expiration date of this policy, subject to Article 9, paragraph F. above. If the renewal premium payment is

mailed by certified mail to the National Flood Insurance Program prior to the expiration date, it shall be deemed to have been received within the required 30 days. The coverage provided by the renewal policy is in effect for any loss occurring during this 30-day period even if the loss occurs before the renewal premium payment is received, so long as the renewal premium payment is received within the required 30 days. In all other cases, this policy shall terminate as of the expiration date of the last policy term for which the premium payment was timely received at the office of the National Flood Insurance Program and, in that event, the insurer shall not be obligated to provide the insured with any cancellation, termination, policy lapse, or policy renewal notice.

In connection with the renewal of this policy, the insured may be requested during the policy term to recertify, on a Recertification Questionnaire the insurer will provide the insured, the rating information used to rate the insured's most recent application for or renewal of insurance.

Notwithstanding the insured's responsibility to submit the appropriate renewal premium in sufficient time to permit its receipt by the insurer prior to the expiration of the policy being renewed, the insurer has established a business procedure for mailing renewal notices to assist insureds in meeting their responsibility. Regarding the insurer's business procedure, evidence of the placing of any such notices into the U.S. Postal Service, addressed to the insured at the address appearing on the insured's most recent application or other appropriate form (received by the National Flood Insurance Program prior to the mailing of the renewal notice by us), does, in all respects for purposes of the National Flood Insurance Program, presumptively establish delivery to the insured for all purposes irrespective of whether the insured actually received the notice.

However, in the event the insurer determines that, through any circumstances, any renewal notice was not placed into the U.S. Postal Service, or, if placed, was prepared or addressed in a manner which the insurer determine could preclude the likelihood of its being actually and timely received by the insured prior to the due date for the renewal premium, the following procedures shall be followed:

In the event that the insured or the insured's agent notified us, not later than 1 year after the date on which the payment of the renewal was due, of a nonreceipt of a renewal notice prior to the due date for the renewal premium, which the insurer determines was attributable to the above circumstance, the insurer shall mail a second bill providing a revised due date, which shall be 30 days after the date on which the bill is mailed. If the renewal payment requested by reason of the second bill is not received by the revised due date, no renewal shall occur and the policy shall remain as an expired policy as of the expiration date prescribed on the policy.

If the insured or the insured's agent notify the insurer that a premium notice was not received within one year of premium being due, and the insurer determines that the renewal notice was addressed in such a manner to preclude it actually being delivered to the insured, the insurer will send a second premium notice with a revised due date. This provision is not found in homeowners forms.

H. Conditions Suspending or Restricting Insurance: Unless otherwise provided in writing added hereto, the insurer shall not be liable for loss occurring while the hazard is increased by any means within the insured's control or knowledge.

Under homeowners policies, policies can be nonrenewed due to a substantial increase in risk, but there is no provision for the insurer to deny coverage while the policy is in force for loss due to increased risk.

I. Alterations and Repairs: The insured may, at any time and at the insured's own expense, make alterations, additions and repairs to the insured property, and complete structures in the course of construction.

An insurer does not generally grant permission for an insured to work on his or her privately owned property. However, this policy was created by a federal agency, which results in some unique provisions.

J. Requirements in Case of Loss: Should a flood loss occur to the insured's insured property, the insured must:

1. Notify the insurer in writing as soon as practicable;
2. As soon as reasonably possible, separate the damaged and undamaged property, putting it in the best possible order so that the insurer may examine it; and
3. Within 60 days after the loss, send the insurer a proof of loss, which is the insured's statement as to the amount the insured are claiming under the policy signed and sworn to by the insured and furnishing the insurer with the following information:
 - a. The date and time of the loss;
 - b. A brief explanation of how the loss happened;
 - c. The insured's interest in the property damaged (for example, owner) and the interest, if any, of others in the damaged property;
 - d. The actual cash value or replacement cost, whichever is appropriate, of each damaged item of insured property and the amount of damages sustained;
 - e. Names of mortgagees or anyone else having a lien, charge or claim against the insured property;
 - f. Details as to any other contracts of insurance covering the property, whether valid or not;
 - g. Details of any changes in ownership, use, occupancy, location or possession of the insured property since the policy was issued;
 - h. Details as to who occupied any insured building at the time of loss and for what purpose; and i. The amount the insured claim is due under this policy to cover the loss, including statements concerning:
 - (1) The limits of coverage stated in the policy; and
 - (2) The cost to repair or replace the damaged property (whichever costs less).
4. Cooperate with the insurer's adjuster or representative in the investigation of the claim;
5. Document the loss with all bills, receipts, and related documents for the amount being claimed;
6. The insurance adjuster whom the insurer hire to investigate the insured's claim may furnish the insured with a proof of loss form, and she or he may help the insured to complete it. However, this is a matter of courtesy only, and the insured must still send the insurer a proof of loss within 60 days after the loss even if the adjuster does not furnish the form or help the insured complete it. In completing the proof of loss, the insured must use the insured's own judgment concerning the amount of loss and the justification for that amount. The adjuster is not authorized to approve or disapprove claims or tell the insured whether the insured's claim will be approved by us.
7. The insurer may, at it's option, waive the requirement for the completion and filing of a proof of loss in certain cases, in which event the insured will be required to sign and, at the insurer's option, swear to an adjuster's report of the loss which includes information about the insured's loss and the damages sustained, which is needed by the insurer in order to adjust the insured's claim.
8. Any false statements made in the course of presenting a claim under this policy may be punishable by fine or imprisonment under the applicable Federal Laws.

K. The Insurer's Options After a Loss: Options the insurer may, in the insurer's sole discretion, exercise after loss include the following:

1. Evidence of Loss: If the insurer specifically requests it, in writing, the insured may be required to furnish the insurer with a complete inventory of the destroyed, damaged and undamaged property, including details as to quantities, costs, actual cash values or replacement cost (whichever is appropriate), amounts of loss claimed, and any written plans and specifications for repair of the damaged property which the insured can make reasonably available to us.

2. Examination Under Oath and Access to Insured Property Ownership Records and Condominium Documents: The insurer may require the insured to:

a. Show us, or the insurer's designee, the damaged property, to be examined under oath by the insurer's designee and to sign any transcripts of such examinations; and

b. At such reasonable times and places as the insurer may designate, permit the insurer to examine and make extracts and copies of any policies of property insurance insuring the insured against loss; and the deed establishing the insured's ownership of the insured real property; and the condominium documents including the Declarations of the condominium, its Articles of Association or Incorporation, Bylaws, rules and regulations, and other condominium documents if the insured are a unit owner in a condominium building; and all books of accounts, bills, invoices and other vouchers, or certified copies thereof if the originals are lost, pertaining to the damaged property.

3. Options to Replace: The insurer may take all or any part of the damaged property at the agreed or appraised value and, also, repair, rebuild or replace the property destroyed or damaged with other of like kind and quality within a reasonable time, on giving the insured notice of the insurer's intention to do so within 30 days after the receipt of the proof of loss herein required under paragraph J.3. above.

4. Adjustment Options: The insurer may adjust loss to any insured property of others with the owners of such property or with the insured for their account. Any such insurance under this policy shall not inure directly or indirectly to the benefit of any carrier or other bailee for hire.

L. When Loss Payable: Loss is payable within 60 days after the insured file the insured's proof of loss (or within 90 days after the insurance adjuster files an adjuster's report signed and sworn to by the insured in lieu of a proof of loss) and ascertainment of the loss is made either by agreement between the insurer and the insured expressed in writing or by the filing with the insurer of an award as provided in paragraph N. below. If the insurer reject the insured's proof of loss in whole or in part, the insured may accept such denial of the insured's claim, or exercise the insured's rights under this policy, or file an amended proof of loss as long as it is filed within 60 days of the date of the loss or any extension of time allowed by the Administrator.

M. Abandonment: The insured may not abandon damaged or undamaged insured property to us. However, the insurer may permit the insured to keep damaged, insured property (salvage) after a loss and the insurer will reduce the amount of the loss proceeds payable to the insured under the policy by the value of the salvage.

N. Appraisal: If at any time after a loss, the insurer is unable to agree with the insured as to the actual cash value or, if applicable, replacement cost of the damaged property so as to determine the amount of loss to be paid to the insured, then, on the written demand of either one, each shall select a competent and disinterested appraiser and notify the other of the appraiser selected within 20 days of such demand. The appraisers shall first select a competent and disinterested umpire; and failing, after 15 days, to agree upon such umpire, then, on the insured's request or the insurer's request, such umpire shall be selected by a judge of a court of record in the State in which the insured property is located. The appraisers shall then appraise the loss, stating separately replacement cost, actual cash value and loss to each item; and, failing to agree, shall submit their differences, only, to the umpire. An award in writing, so itemized, of any two (appraisers or appraiser and umpire) when filed with the insurer shall determine the amount of actual cash value and loss or, should this policy's replacement cost provisions apply, the amount of

replacement cost and loss. Each appraiser shall be paid by the party selecting him or her and the expenses of appraisal and umpire shall be paid by both parties equally.

O. Loss Clause: If the insurer pays the insured for damage to property sustained in a flood loss, the insured is still eligible, during the term of the policy, to collect for a subsequent loss due to another flood. Of course, all loss arising out of a single, continuous flood of long duration shall be adjusted as one flood loss.

P. Mortgage Clause: (Applicable to building coverage only and effective only when the policy is made payable to a mortgagee or trustee named in the application and declarations page attached to this policy or of whom the insurer has actual notice prior to the payment of loss proceeds under this policy). Loss, if any, under this policy, shall be payable to the aforesaid as mortgagee or trustee as interest may appear under all present or future mortgages upon the property described in which the aforesaid may have an interest as mortgagee or trustee, in order of precedence of said mortgages, and this insurance, as to the interest of the mortgagee or trustee only therein, shall not be invalidated by any act or neglect of the mortgagor or owner of the described property, nor by any foreclosure or other proceedings or notice of sale relating to the property, nor by any change in the title or ownership of the property, nor by the occupation of the premises for purposes more hazardous than are permitted by this policy; provided, that in case the mortgagor or owner shall neglect to pay any premium due under this policy, the mortgagee or trustee shall, on demand, pay the same. Provided, also, that the mortgagee or trustee shall notify the insurer of any change of ownership or occupancy or increase of hazard which shall come to the knowledge of said mortgagee or trustee and, unless permitted by this policy, it shall be noted thereon and the mortgagee or trustee shall, on demand, pay the premium for such increased hazard for the term of the use thereof; otherwise, this policy shall be null and void. If this policy is cancelled by us, it shall continue in force for the benefit only of the mortgagee or trustee for 30 days after written notice to the mortgagee or trustee of such cancellation and shall then cease, and the insurer shall have the right, on like notice, to cancel this agreement. Whenever the insurer shall pay the mortgagee or trustee any sum for loss under this policy and shall claim that, as to the mortgagor or owner, no liability therefore existed, the insurer shall, to the extent of such payment, be thereupon legally subrogated to all the rights of the party to whom such payment shall be made, under all securities held as collateral to the mortgage debt, or may, at the insurer's option, pay to the mortgagee or trustee the whole principal due or to grow due on the mortgage with interest, and shall thereupon receive a full assignment and transfer of the mortgage and of all such other securities; but no subrogation shall impair the right of the mortgagee or trustee to recover the full amount of said mortgagee's or trustee's claim.

Q. Mortgagee Obligations: If the insured fail to render proof of loss, the named mortgagee or trustee, upon notice, shall render proof of loss in the form herein specified within 60 days thereafter and shall be subject to the provisions of this policy relating to appraisal and time of payment and of bringing suit.

R. Conditions for Filing a Lawsuit: The insured may not sue the insurer to recover money under this policy unless the insured has complied with all the requirements of the policy. If the insured does sue, the insured must start the suit within 12 months from the date the insurer mailed the insured notice that the insurer has denied the insured's claim, or part of the insured's claim, and the insured must file the suit in the United States District Court of the district in which the insured property was located at the time of loss.

S. Subrogation: Whenever the insurer make a payment for a loss under this policy, the insurer is subrogated to the insured's right to recover for that loss from any other person. That means that the insured's right to recover for a loss that was partly or totally caused by someone else is automatically transferred to the insurer, to the extent that the insurer has paid the insured for the loss. The insurer may require the insured to acknowledge this transfer in writing. After the loss, the insured may not give up the insurer's right to recover this money or do anything which would prevent the insurer from recovering it. If the insured makes any claim against any person who caused the insured's loss and recovers any money, the insured must pay the insurer back first before the insured may keep any of that money.

Provisions J through S are similar to conditions found in standard homeowners forms.

T. Continuous Lake Flooding: Where the insured building has been inundated by rising lake waters continuously for 90 days or more and it appears reasonably certain that a continuation of this flooding will result in damage, reimbursable under this policy, to the insured building equal to or greater than the building policy limits plus the deductible(s) or the maximum payable under the policy for any one building loss, the insurer will pay the insured the lesser of these two amounts without waiting for the further damage to occur if the insured sign a release agreeing:



1. To make no further claim under this policy;
2. Not to seek renewal of this policy; and
3. Not to apply for any flood insurance under the Act for property at the property location of the insured building. If the policy term ends before the insured building has been flooded continuously for 90 days, the provisions of this paragraph T. still apply so long as the first building damage reimbursable under this policy from the continuous flooding occurred before the end of the policy term.

This provision is unique under flood insurance. If enough damage has occurred due to lake flooding such that the limits of the policy coverage amounts have been reached, the insurer will pay the insured the maximum payable under the policy if the insured signs the release described above.

U. Duplicate Policies Not Allowed: Property may not be insured under more than one policy issued under the Act. When the insurer finds that duplicate policies are in effect, the insurer shall by written notice give the insured the option of choosing which policy is to remain in effect under the following procedures:

1. If the insured chooses to keep in effect the policy with the earlier effective date, the insurer shall by the same written notice give the insured an opportunity to add the coverage limits of the later policy to those of the earlier policy, as of the effective date of the later policy.
2. If the insured chooses to keep in effect the policy with the later effective date, the insurer shall by the same written notice give the insured the opportunity to add the coverage limits of the earlier policy to those of the later policy, as of the effective date of the later policy. In either case, the insured must pay the pro rata premium for the increased coverage limits within 30 days of the written notice. In no event shall the resulting coverage limits exceed the statutorily permissible limits of coverage under the Act or the insured's insurable interests, whichever is less. The insurer shall make a refund to you, according to applicable National Flood Insurance Program rules, of the premium for the policy not being kept in effect. For purposes of this paragraph U., the term effective date means the date coverage that has been in effect without any lapse was first placed in effect. In addition to the provisions of this paragraph U. for increasing policy limits, the usual procedures for increasing policy limits, by mid-term endorsement or at renewal time, with the appropriate waiting period, are applicable to the policy the insured choose to keep in effect.

Because flood insurance is subject to federally established maximums, the insured cannot be covered by more than one policy issued according to the National Flood Insurance Act.

Article 10 – Liberalization Clause

If during the period that insurance is in force under the policy or within 45 days prior to the inception date thereof, should the insurer have adopted under the Act, any forms, endorsements, rules or regulations by which this policy could be extended or broadened, without additional premium charge, by endorsement or substitution of form, then, such extended or broadened insurance shall inure to the insured's benefit as though such endorsement or substitution of form had been made. Any broadening or extension of this policy to the insured's benefit shall only apply to losses occurring on or after the effective date of the adoption of any forms, endorsements, rules or regulations affecting this policy.

Homeowners and other insurance forms include similar liberalization provisions.

Article 11 – What Law Governs

This policy is governed by the flood insurance regulations issued by FEMA, the National Flood Insurance Act of 1968, as amended (42 U.S.C. 4001, et seq.) and Federal common law.

The General Property Policy

Under the NFIP program, the General Property policy form is used for other-residential and non-residential structures not covered by the Dwelling Policy, along with their contents.

The Residential Condominium Building Association Policy

The Residential Condominium Building Association Policy form is another NFIP form and is used for residential condominium buildings association & their contents owned by the condominium association.

Benefits of Flood Insurance

According to FEMA, the purchase of flood insurance has several benefits over relying on disaster relief:

- If flood insurance is purchased, the insured is protected against financial loss due to flooding, even if the President does not declare the flooded area a disaster.
- Payments from flood insurance policies do not have to be paid back. Most disaster assistance is in the form of loans which must be paid back.
- Flood insurance reimburses the insured homeowners for covered losses up to \$250,000. Payments through flood disaster assistance average less than \$2500.
- Currently, flood insurance costs about \$316 a year. The average loan payment for a disaster home loan is \$140 a month.
- Flood insurance policies are continuous and are not non-renewed or cancelled due to repeat losses. A Small Business Administration disaster home loan lasts for 18.5 years.

Summary

Flood insurance does not provide the comprehensive coverage homeowners policies may. However, flood policies provide important coverage for those susceptible to floods, and are an important financial protection tool for many.

Chapter Four: Dwelling Insurance Forms

Dwelling insurance differs from homeowners insurance in that it does not include liability coverage and it covers property of renters and boarders. Dwelling insurance can also be used to cover manufactured homes, vacation homes, homes that are not occupied by the owner and homes that are under construction. In order to be eligible for dwelling insurance, a dwelling may have up to five boarders and may have up to four apartments.



Three different dwelling forms have been created by ISO: DP-1, the Basic Form, DP-2, the Broad Form and DP-3, the Special Form. The perils insured against within the Basic Form are fire, lightning and internal explosion only. *Extended coverage* is available that includes most of the perils found in the HO-1 form – hail, windstorm, civil commotion and riot, aircraft, vehicles, explosion, smoke and volcanic eruption.

The DP-2 form includes all of the perils in the DP-1, plus perils such as weight of ice, snow or sleet, falling objects, freezing of certain systems and appliances, damage to covered property covered by burglars, and others.

The Special Form is an open peril policy, like the HO-3 form, as it applies to the dwelling and other structures coverage. Also like the HO-3 form, it is a named peril policy as it applies to the personal property coverage.

Dwelling Property Forms

The Dwelling Property Forms include the following parts:

- Insuring Agreement
- Coverage A – Dwelling (DP-1, DP-2 and DP-3)
- Coverage B - Other Structures (DP-1, DP-2 and DP-3)
- Coverage C - Personal Property (DP-1, DP-2 and DP-3)
- Coverage D - Fair Rental Value (DP-1, DP-2 and DP-3)
- Coverage E - Additional Living Expense (DP-2 and DP-3)
- Other Coverages (DP-2 and DP-3)
- Perils Insured Against (DP-1 and DP-2 for Dwelling and Personal Property, DP-3 for Personal Property only)
- General Exclusions (DP-1, DP-2 and DP-3)
- Conditions (DP-1, DP-2 and DP-3)

Insuring Agreement

The standard dwelling policy's insuring agreement states that the insurer will provide the insurance described in the policy in return for premium and the insured's compliance with all applicable provisions of the policy.

Coverage A - Dwelling

Under the Dwelling Coverage, the insurer covers the dwelling on the *described location* that is used principally for dwelling purposes and covers the structures that are attached to the dwelling.

Also insured under the Dwelling Coverage are materials and supplies that are located on or next to the described location that are used to construct, alter or repair the dwelling or other structures on

the described location. Building and outdoor equipment are also insured under this portion of the policy, unless covered through other provisions.

Coverage B - Other Structures

Other structures on the described location that are set apart from the dwelling by clear space was also covered, including structures that are connected to the dwelling only by a fence, utility line, or similar connection. Not covered are structures that are used in whole or in part for commercial, manufacturing or farming purposes or that are rented or held for rental to any person who is not a tenant of the dwelling, unless used solely as a private garage.

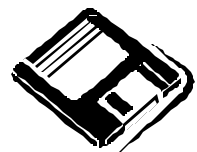
The Dwelling Coverage and the Other Structures Coverage also does not apply to land, including the land on which the other structures are located.

Coverage C - Personal Property

Personal property is covered if it is usual to the occupancy as a dwelling and owned or used by the insured as a dwelling and owned or used by the insured or members of the insured's family who reside with the insured while the property is on the described location. If requested by the insured, personal property owned by a guest or servant while the property is on the described location can also be covered.

Property not covered under the Personal Property coverage includes:

1. Accounts, bank notes, bills, bullion, coins, currency, deeds, evidences of debt, gold other than goldware, letters of credit, manuscripts, medals, money, notes other than bank notes, passports, personal records, platinum, securities, silver other than silverware, tickets and stamps;
2. Animals, birds or fish;
3. Aircraft and parts; aircraft is defined to mean any contrivance used or designed for flight, except model or hobby aircraft not used or designed to carry people or cargo;
4. Motor vehicles and all other motorized land conveyances, including their equipment and accessories;
5. Watercraft, other than rowboats and canoes;
6. Data, including data that is stored in books of account, drawings or other paper records or electronic data processing tapes, wires, records, discs or other software media. However, the cost of blank recording or storage media and prerecorded retail computer programs is covered;
7. Credit cards or fund transfer cards.



If the personal property is moved by the insured from the described location to a newly acquired principal residence, the Personal Property coverage limit of liability applies at each residence for the thirty days immediately after the insured begins to move the property there.

Coverage D - Fair Rental Value

Under the fair rental value coverage, if a loss to property described in Coverage A, B or C by a peril insured against makes that part of the described location rented to others or held for rental by the insured unfit for its normal use, the insurer covers its *fair rental value*. *Fair rental value* means the fair rental value of that part of the described location rented to others or held for rental by the insured, less any expenses that do not continue while that part of the described location rented or held for rental is not fit to live in.

Payment under this coverage is made for the shortest time required to repair or replace that part of the described location rented or held for rental. If a civil authority prohibits use of the described location as a result of direct damage to a neighboring location by a peril insured against in the

policy, the insurer will pay the fair rental value loss for no more than two weeks. The insured may use up to 10% of the Coverage A limit for this coverage.

Coverage E - Additional Living Expense

Additional Living Expense coverage is found under the DP-2 and DP-3 forms. *Additional living expense* means any necessary increase in living expenses incurred by the insured so that the insured's household can maintain its normal standard of living. This coverage is similar to that found under the Coverage D – Loss of Use in the homeowners forms.

Payment under the Additional Living Expense coverage is limited to the shortest time required to repair or replace the described location or, if the insured permanently relocates, the shortest time required for the insured's household to settle elsewhere. If a civil authority prohibits the insured from use of the described location due to direct damage to a neighboring location by a peril insured against in the policy, the insurer covers the additional living expense loss for no more than two weeks. The insured may use up to 10% of the Coverage A limit of liability for such loss.

Other Coverages

The DP-2 and DP-3 forms include Other Coverages similar to the Additional Coverages under the homeowners forms. Like the additional coverages under the homeowner forms, the insured can apply a portion of the limits of liability from Coverages A, B, or C to pay for losses under some of the Other Coverages. Doing so may or may not reduce the stated limit of liability under Coverages A, B or C.

Other Structures

The insured may use up to 10% of the Coverage A - Dwelling limit of liability for loss by a peril insured against to other structures described in Coverage B - Other Structures. This is additional coverage – it does not reduce the Coverage A limit of liability for the same loss.

Debris Removal

The debris removal coverage is the same as that found under homeowners forms, except the dwelling policy's provisions do not include the limited coverage for fallen trees found in the homeowners forms. The insurer will pay for the reasonable expense for the removal of debris of covered property if a peril insured against causes the loss, and for the removal of ash, dust or particles from a volcanic eruption that has caused direct loss to a building or to property contained in a building. Debris removal expense is included in the limit of liability that applies to the damaged property.

Improvements, Alterations and Additions

Like the HO-4 form, the dwelling form includes coverage of up to 10% of the Coverage C - Personal Property limit of liability for loss by a peril insured against to improvements, alterations and additions, made or acquired at the insured's expense, to that part of the described location used only by the insured, if the insured is a tenant. Using this coverage does not reduce the Coverage C limit of liability for the same loss.

World-Wide Coverage

Homeowners policies generally cover property on a worldwide basis for up to 10% of the limit of liability. The dwelling policy Other Coverages also provides coverage for loss by a peril insured against to property covered while anywhere in the world. World-wide coverage does not include rowboats and canoes. Use of this coverage does reduce the Coverage C limit of liability for the same loss.



Reasonable Repairs

The DP-2 and DP-3 forms also cover reasonable repairs necessary to protect

property from further damage. This is essentially the same coverage found in the homeowners forms that cover such repairs.

Property Removed

The policy includes insurance for covered property against direct loss from any cause while being removed from a premises endangered by a peril insured against. Such removed property is covered for no more than thirty days. The Property Removed coverage does not change the limit of liability that applies to the property being removed. This coverage is also the same as that found in the homeowners forms.

Trees, Shrubs and Other Plants

Like the homeowners forms, the DP-2 and DP-3 forms cover trees, shrubs and other plants on the residence premises if damaged by the perils of fire, lightning, explosion, riot or civil commotion, aircraft, vehicles not owned or operated by a resident of the residence premises, vandalism or malicious mischief or theft. An additional 5% of the limit of liability that applies to the dwelling is available for this coverage. No more than \$500 is available from any one tree, shrub or plant.

The Trees, Shrubs and Other Plants coverage is additional insurance.

Fire Department Service Charge

The policy also pays up to \$500 for fire department charges if the insured must pay them due to an agreement or contract with the fire department. This coverage does not apply to damage to property within a city or municipality that is within the fire station's service district.

Collapse

Like the HO-2, HO-3, HO-4 and HO-6 forms, the DP-2 and DP-3 include coverage for collapse. Collapse coverage pays for direct physical loss to a building or any part of a building caused by:

- Perils insured against under the personal property coverage
- Hidden decay
- Hidden insect or vermin damage
- Weight of contents, equipment, animals or people
- Weight or rain that collects on a roof
- Use of defective materials or methods in construction, remodeling or renovation if the collapse occurs during construction, remodeling or renovation.

This coverage is included in the limit of liability applicable to the damaged property.

Glass or Safety Glazing Material

Also covered is the breakage of glass or safety glazing material that is part of a covered building, storm door or storm window. Damage to covered property by glass or safety glazing material that is part of a building, storm door or storm window is also covered

Perils Insured Against

Many of the perils insured against under the dwelling forms are the same as those found in the homeowners forms.

Fire or Lightning

Direct physical loss to covered property that is caused by fire or lightning is covered by all the dwelling forms.

Windstorm or Hail

The coverage for the peril of windstorm or hail does not include loss to the inside of a building or the property contained in a building that is caused by rain, snow, sleet, sand or dust unless the direct force of wind or hail damages the building and causes an opening in a roof or wall and rain, snow, sleet, sand or dust enter through the building. If watercraft and their motors, trailers and furnishings are inside a fully enclosed building, they are covered under this peril. This coverage is standard to the DP-2 and DP-3 forms and may be covered through Extended Coverage under the DP-1 form.

Explosion

The DP-2 and DP-3 forms cover direct physical loss to property covered within the form that was caused by the peril of explosion. The DP-1 form covers this peril through Extended Coverage, if additional premium is paid.

Riot or Civil Commotion

The peril of riot or civil commotion is also covered under the DP-2 and DP-3 forms, and can be covered through the Extended Coverage option of the DP-1 form.

Aircraft

The peril of aircraft includes self-propelled missiles and spacecraft as well as aircraft and is covered under the DP-2 and DP-3 forms, and through Extended Coverage under the DP-1 form.



Vehicles

Under the DP-2 and DP-3 coverage and the DP-1 Extended Coverage option, direct physical loss to covered property due to vehicles is covered. Excluded from this coverage is loss to a fence, driveway or walk that is caused by a vehicle owned or operated by a resident of the described location.

Smoke

The peril of smoke is covered through the DP-2 and DP-3 forms, and is also available through the Extended Coverage option of the DP-1 form.

Vandalism or Malicious Mischief

The vandalism or malicious mischief coverage through the DP-2 form does not include loss by pilferage, theft, burglary or larceny, nor loss to property on the described location if the dwelling has been vacant for more than thirty consecutive days immediately before the loss. This coverage can be added to the DP-1 form if a separate premium is paid.

Damage by Burglars

Direct physical loss to covered property caused by burglars is covered in the DP-2 and DP-3 policies. If the dwelling has been vacant for more than thirty consecutive days before the damage occurs, the coverage does not apply to theft of property or damage caused by burglars to property on the described location. A dwelling being constructed is not considered vacant.

Falling Objects

Direct physical loss to property due to falling objects is also generally covered through the DP-2 and DP-3 forms. Falling objects coverage is not included under the DP-1 form. The peril of falling objects does not include loss to the inside of a building or to property contained in the building unless the roof or an outside wall of the building is first damaged by a falling object. Damage to the falling object itself is also not included.

Weight of Ice, Snow or Sleet

Weight of ice, snow or sleet is not covered through DP-1 forms. This peril covers weight of ice, snow, or sleet that causes damage to a covered building or to covered property in a covered building. The peril of weight of ice, snow or sleet does not include loss to an awning, fence, patio, pavement, swimming pool, foundation, retaining wall, bulkhead, pier, wharf or deck.



Accidental Discharge or Overflow of Water or Steam

This peril covers physical loss caused by the accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning or automatic fire protective sprinkler system or from within a household appliance. This peril does not include:

- Loss on the residence premises if the dwelling has been vacant for more than 30 consecutive days prior to the loss
- Loss to the system or appliance from which the water or steam escaped
- Loss caused by or resulting from freezing
- Loss on the residence premises due to accidental discharge or overflow that occurs off the residence premises.

This coverage is not available through DP-1 forms.

Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging

Another peril included on the DP-2 and DP-3 forms and not included in the DP-1 form is the peril of sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water system, an air conditioning or automatic fire protective sprinkler system, or an appliance for heating water.

Freezing

The peril of freezing includes direct physical loss due to the freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a housing appliance. If the home on the residence premises is vacant, this coverage does not apply unless reasonable care has been taken to maintain heat in the building or to shut off the water supply and drain the system and appliances of water. Freezing is not a peril insured against under DP-1 forms.



Sudden and Accidental Damage From Artificially Generated Electrical Current

This peril protects against direct physical loss due to sudden and accidental damage from artificially generated electrical current and does not include loss to a tube, transistor or similar electronic component. This coverage is found in the DP-2 and DP-3 forms.

Volcanic Eruption

The DP-1 form covers volcanic eruption through the Extended Coverage option. It is included under DP-2 and DP-3 forms. The peril of volcanic eruption does not include loss caused by earthquake, land shock waves or tremors.

General Exclusions

Loss caused directly or indirectly by any of the following perils is excluded from coverage under the Basic, Broad and Special dwelling forms.

Ordinance or Law

Loss caused directly or indirectly by the enforcement of any ordinance or law regulating the construction, repair or demolition of a building or other structure is excluded from coverage.

Earth Movement

Excluded from coverage is loss caused directly or indirectly by earthquake, including land shock waves or tremors before, during or after a volcanic eruption, by landslide, mine subsidence, mudflow, or earth sinking, rising or shifting, unless as a result of the earth movement, loss from fire, explosion or the breakage of glass or safety glazing material which is part of a building, storm door or storm window, ensues. The insurer will pay only for the ensuing loss. This exclusion does not apply to loss by theft.

Water Damage

Also excluded from coverage is water damage. Water damage means:

- Flood, surface water, waves, tidal water, overflow of a body of water, or spray from any of these, whether or not driven by wind;
- Water which backs up through sewers or drains, or which overflows through a sump; or
- Water below the surface of the ground, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, swimming pool or other structure.

Direct loss due to fire, explosion or theft that results from water damage is not excluded.

Power Failure

Loss due to the failure of power or other utility service is excluded from coverage if the failure takes place off the residence premises. If a peril insured against ensues from such power failure, such ensuing loss is covered.

Neglect

Loss caused by neglect, which means neglect of the insured to use all reasonable means to save and preserve property at and after the time of loss, is not covered.

War

Loss due to war is not covered. War is considered to include all of the following along with any consequence of the following:

- Undeclared war, civil war, insurrection, rebellion or revolution;

- Warlike act by a military force or military personnel; or
- Destruction, seizure or use for a military purpose.

Nuclear Hazard

Loss due to nuclear hazard is generally excluded. However, direct loss by fire that results from the nuclear hazard is covered.

Intentional Loss

Losses that arise out of any act committed by or at the direction of an insured and with the intent to cause a loss are excluded.

Conditions

Insurable Interest and Limit of Liability

The insurer is not liable in any one loss, even if more than one person has an insurable interest in the covered property, to the insured for more than the amount of the insured's interest at the time or loss, nor for more than the applicable limit of liability.

Concealment or Fraud

The entire policy is void if an insured has intentionally concealed or misrepresented any material fact or circumstance, engaged in fraudulent conduct or made false statements relating to the insurance.

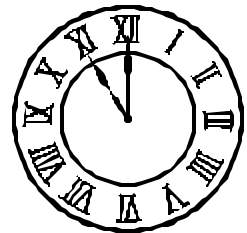
Your Duties After Loss

The insured must give prompt notice to the insurer or to its agent and protect property from further damage. The insured must also make reasonable and necessary repairs to protect the property, and keep an accurate record of repair expenses.

The insured must also prepare an inventory of damaged personal property, showing the quantity, description, actual cash value and amount of loss. Bills, receipts and related documents which justify the inventory figures must also be included. This inventory must be sent to the insurer, along with a proof of loss statement, within sixty days after the insurer requests.

The proof of loss statement which must be sent to the insurer must be signed and sworn to and must include, to the best of the insured's knowledge and belief, besides the inventory information:

1. the time and cause of loss;
2. the interest of the insured and all others in the property involved and all liens on the property;
3. other insurance which may cover the loss;
4. changes in title or occupancy of the property during the term of the policy;
5. specifications of damaged buildings and detailed repair estimates; and
6. receipts for additional living expenses incurred and records that support the fair rental value loss.



Finally, as often as the insurer requires, the insured must show the damaged property, provide the insurer with records and documents the insurer requests and permit the insurer to make copies, and submit to examination under oath, while not in the presence of any other insured, and sign the sworn examination.

Loss Settlement

As under the Homeowners Broad Form, payment for loss under the Dwelling Policy is made for some property based on actual cash value and for other property on replacement value.

Personal property, awnings, carpeting, household appliances, outdoor antennas and outdoor equipment (whether or not attached to buildings), and structures that are not buildings, are settled at actual cash value at the time of loss, but not for more than the amount required to repair or replace.

Buildings that are covered under Coverage A or B are settled at replacement cost without deduction for depreciation. The actual amount paid is dependent upon whether the amount of insurance is more or less than 80% of the replacement cost of the building.

If the amount of insurance from the policy on the damaged building is 80% or more of the full replacement cost of the building immediately before the loss, the insurer will pay the cost to repair or replace, after application of deductible and without deduction for depreciation, but will not pay more than the least of the following amounts:

- The limit of liability under the policy that applies to the building;
- The replacement cost of the part of the building that is damaged for like construction and use on the same premises; or
- The necessary amount actually spent to repair or replace the damaged building.

If the amount of insurance in the policy on the damaged building is less than 80% of the full replacement cost of the building immediately before the loss, the insurer will pay the greater of the following amounts, but will not pay more than the limit of liability that applies to the building under the policy:

- The actual cash value of that part of the building damaged; or
- That proportion of the cost, after application of deductible and without deduction for depreciation, to repair or replace that part of the building damaged, which the total amount of insurance in the policy on the damaged building bears to 80% of the replacement cost of the building.

The insurer will pay no more than the actual cash value of the damage unless actual repair or replacement is complete or the cost to repair or replace the damage is both less than 5% of the amount of the insurance in the policy on the building and less than \$2500.

The insured also has the right to disregard replacement cost loss settlement provisions and make claims on an actual cash value basis.

Loss to a Pair or Set

As under the homeowners forms, in the case of loss to a pair or a set, the insurer will either, at its discretion, repair or replace any part to restore the pair or set to its value before the loss, or will pay the difference between actual cash value of the property before and after the loss.

Glass Replacement

Damage to glass caused by a peril insured against is covered based on replacement with safety glazing materials if such materials are required by ordinance or law.



Appraisal

The appraisal clause under the standard dwelling policies is the same as that found in the homeowners forms.

Other Insurance

If other insurance applies to a loss covered by the dwelling policy, the insurer will pay the proportion of the loss that the limit of liability of the dwelling policy bears to the total amount of fire insurance covering the loss.

Subrogation

The subrogation provisions in standard dwelling policies are also essentially the same as those found in homeowners forms. In some cases, an insured may have waived rights of recovery against another prior to a loss, and so recovery of loss cannot be undertaken against that party. If these rights have not been waived, the insurer may require that the insured assign his rights of recovery to the insurer. The insured must cooperate with the insurer in this matter.

Suit Against Us

No action can be brought against the insurer unless the policy provisions have been met and the action is started within one year after the date of loss.

Our Option

If the insurer gives the insured written notice within thirty days after the insurer receives a sworn proof of loss from the insured, the insurer has the option under the policy to repair or replace any part of damaged property with like property.

Loss Payment

Loss payments will be made within sixty days after the insurer receives a proof of loss statement from the insured and reaches an agreement with the named insured, or a final judgment is entered or an appraisal award is filed with the insurer. The insurer will adjust all losses with the named insured. Payment will be made to the named insured unless some other person is named in the policy or is legally entitled to receive payment.

Abandonment of Property

The insurer does not have to accept property abandoned by the insured.

Mortgage Clause

If a mortgagee is named in the policy, any loss payable under Coverage A or Coverage B of the dwelling forms will be paid to the mortgagee and the named insured, based on the interest each party holds in the property. If there is more than one mortgagee named in the policy, the order of payment will be the same as the order of precedence of the mortgages. If the insurer denies a claim to the insured, the coverage as it applies to the mortgagee will not be denied as long as the mortgagee:

22. Notifies the insurer of any change in ownership, occupancy or substantial change in risk if the mortgagee becomes aware of any such change;
23. Pays any premium due under the policy on demand if the named insured has neglected to pay the premium; and
24. Submits a signed, sworn statement of loss within 60 days after receiving notice from the insurer of the named insured's failure to do so.

The conditions in the policy relating to *appraisal*, *suit against us*, and *loss payment* apply to the mortgagee.

If the insurer decides to cancel or not to renew the policy, the mortgagee will be notified at least ten days before the date of cancellation or nonrenewal takes effect.

If the insurer cancels or does not renew the policy, the insurer will notify the mortgagee at least ten days before the date cancellation or nonrenewal takes place. Cancellation and nonrenewal provisions may be regulated by state insurance departments.

If the mortgagee is paid for a loss by the insurer and the named insured is denied payment, the insurer is subrogated to all the rights of the mortgagee that are granted under the mortgage on the property. At the insurer's option, the insurer may pay to the mortgagee the whole principal on the mortgage, plus any accrued interest. If the insurer does so, the insurer receives a full assignment and transfer of the mortgage along with all securities held as collateral to the mortgage debt. Subrogation does not impair the right of the mortgagee to recover the full amount of the mortgagee's claim.

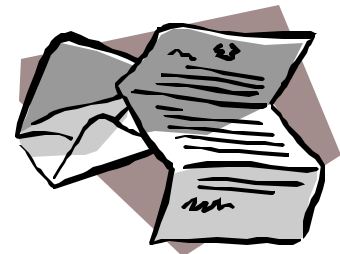
No Benefit to Bailee

The dwelling form provisions do not recognize any assignment or grant any coverage that benefits a bailee.

Cancellation

The dwelling forms contain the same provisions for cancellation as do the homeowners forms. States may have different cancellation requirements an insurer must meet.

- The insured may cancel the policy at any time by returning the policy to the insurer or by letting the insurer know in writing of the date that the cancellation will take effect.
- The insurer may only cancel the policy for the reasons below, and must inform the insured in writing of the date that the cancellation takes effect. The procedures under which the insurer may cancel a policy include:
 1. If the insured has not paid the premium, the insurer must let the insured know in writing at least ten days before the date the cancellation is to take effect.
 2. If the policy has been in effect for less than sixty days and the circumstances do not involve renewing the policy, the insurer may cancel the policy for any reason by letting the insured know in writing at least ten days before the date the cancellation is to take effect.
 3. If the policy has been in effect for sixty days or more, or at any time if a renewal is involved, the insurer may cancel only if there has been a material misrepresentation of fact which if known to the insurer would have caused it not to issue the policy, or if the risk covered by the policy has substantially changed since the policy was issued. Such a cancellation can be effected through the notification of the insured in writing at least thirty days before the date the cancellation is to take effect.
 4. If the policy has been written for more than a year, the insurer may cancel for any reason at the anniversary by letting the insured know in writing at least thirty days before the cancellation takes effect.



If the policy is cancelled, the premium for the period from the date of cancellation to the expiration date is refunded on a pro rata basis. Refunds will be performed within a reasonable time after the cancellation is processed.

Nonrenewal

Under the standard dwelling policies, the insurer can notify the insured by delivering or mailing to the insured a written notice within thirty days before the expiration date stating that the insurer will not renew the policy. In many states, besides limiting the reasons under which an insurer is able to not renew a policy, the insurer is also required to state the reasons the policy is not being renewed within the notice.

Liberalization

If the insurer makes a change that broadens coverage under the policy edition or form without any additional premium charge, the change automatically applies to this insurance as of the date the change is implemented in the insured's state, as long as the implementation date falls within sixty days prior to or during the policy period. If a change is implemented in a new policy edition or form, the change will not apply.

Waiver or Change of Policy Provisions

Any waiver or change of policy provisions must be made in writing by the insurer in order to be valid.

Assignment

Assignments of a policy are not valid unless the insurer consents to the assignment in writing.

Death

If death occurs to the named insured or spouse, the insurer will recognize the deceased's legal representative as the insured under the coverages applying to the premises and property of the deceased.

Nuclear Hazard Clause

Loss caused by a nuclear hazard is not considered under dwelling policies as a loss by fire, explosion or smoke. A *nuclear hazard* is defined in the dwelling policy as it was in the homeowners policy to mean any nuclear reaction, radiation, or radioactive contamination, all whether controlled or uncontrolled or however caused, or any consequence or any of these. Fire that is the direct result of a nuclear hazard is covered by the policy.

Recovered Property

If the insured or the insurer recovers any property for which the insurer has made payment under the policy, the insured or the insurer must notify the other party of the recovery. At the insured's option, the property will be returned to or retained by the insured or it will become the insurer's property. If recovered property is returned to or retained by the insured, the loss payment from the insurer will be adjusted based on the amount the insured received for the recovered property.

Volcanic Eruption Period

If the peril of volcanic eruption occurs, one or more volcanic eruptions within a 72-hour period will be considered as one volcanic eruption.

Dwelling Form Endorsements

Endorsements available for the dwelling forms are similar to those available for homeowners forms. Endorsements that automatically increase coverage, that provide additional coverage for certain property, that protect against theft when it is away from the insured location and that protect a dwelling while under construction can all be added to dwelling forms.

Chapter Six: Homeowners Policy Claims

The claims process is where the rubber meets the road for the insured. An insured may not fully realize the value of an insurance policy until a covered event occurs and a claim is filed. Because of the importance of customer satisfaction at this time, most insurers work hard to make the claims process run as smoothly and efficiently as possible. Regulators have also enacted laws that define how the insurer must handle certain claims procedures and that prohibit certain unfair claims processes.

Record Keeping

The insured must perform certain functions to ensure a satisfactory claims settlement process.



One of the most critical duties the insured

performs is the keeping of excellent pre-loss records and the creation of sufficient post-loss documentation. Pre-loss records provide important information for the insurer, who uses them to calculate the value of the damaged property involved in the loss.

Post-loss records give the insurer information necessary in determining whether a peril insured

against caused the loss, the amount of actual expenses involved related to protecting property from damage, whether repairs were necessary and many other pieces of information critical to making sure the insured receives full payment for covered expenses and loss.

Taking Inventory

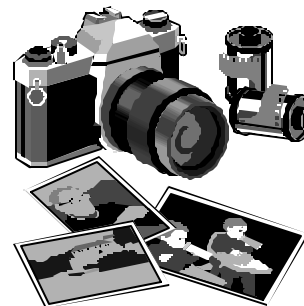
The insured on a homeowners policy should be encouraged to take complete inventory of the property covered by the policy. Insurers often have inventory sheets available that can be used to assist the homeowner in this process. The elements of an inventory record should include:

- Description of the property
- The value of property, supported as often as possible by bills of sale or receipts.

It is important that all property is inventoried, including that within closets and drawers. Policies generally cannot pay for property if there is no evidence the property existed, or if the policy does include coverage for such undocumented property, the amount of coverage is limited. Inventory records should be kept off-site. A copy of the records, including video or photos, can usually be sent to and kept by the agent. Records can also be stored in a bank safety deposit box or some other secure location.

Post-Loss Records

Keeping records is also critical once a loss occurs. Photographic evidence of the damage can be very helpful, particularly if the photographs or video are taken soon after the damage occurs. The insurer will require a written description of the damage, so the insured should also prepare a written inventory of the property damaged.



Records Related to Protecting Property From Further Damage

Homeowners forms pay for necessary expenses related to protecting property from further damage. The insured should keep records of expenses for doing so. Plastic tarps may have to be purchased to protect property from rain, property may have to be transported to another location, or reasonable repairs may have to be made. All receipts should be kept for these items and the insured should write down the purpose of each expense.

Additional Living Expenses

Homeowners policies also pay for additional living expenses. The insured should keep receipts related to these expenses, such as those for restaurant meals, lodging expenses, laundry service and transportation. The insured should understand that the insurer will pay only for additional *reasonable* living expenses – a suite in the best hotel in town and lobster tail at dinner every night is not likely to qualify. The insurer usually requires evidence of the normal amounts the insured spends for living expenses from bills, statements and checking accounts.

Proof of Loss Forms

The insurer requires specify information when a loss occurs. Different information is required depending upon whether the loss falls under Section I or Section II coverages. Under Section I coverages, the named insured is responsible to make sure the insurer receives the required claim information. Under Section II coverages, the *insured* is to perform the duties that apply. Recall that people other than the named insured and residents of the named insured's household qualify as insureds under Section II coverages.

Under Section I, the insurer requires a sworn proof of loss form to be completed. This form will generally include:

- The insured's name, address and telephone number.
- The policy number and agent information.
- The date and time of loss. This information is used to verify that the loss falls within the policy period.
- A complete description of the cause of loss. This information is used to verify that the insurance applies to the peril that caused the loss, and that no exclusion from coverage applies.
- An inventory of the damaged or lost property. The inventory information is used to provide evidence of actual loss, since the insurance only covers occurrences that cause loss or damage.
- Receipts for additional living expenses.

- Repair records and receipts.
- Whether the premises was vacant or occupied, and if vacant for how long. A vacant home is subject to coverage exclusions and conditions.
- The actual cash value of the loss. Loss valuation and settlement amounts take actual cash value into consideration. Under some forms, actual cash value is the sole basis for payment.
- The total amount of loss. The total amount of loss is used for several purposes, including to determine whether coinsurance percentages are met, to apply appropriate limits of liability, and to determine proportionate responsibility if more than one insurance policy applies to a loss.
- The deductible amount that applies to the loss.
- Any other insurance that may apply to the loss. Under standard forms, the insurer will pay only the proportionate amount that its coverage bears to the total coverage applicable to the loss.
- Other owners or parties with an interest in the property. Such parties may have rights to benefits under the policy.
- A signed and sworn statement as to the truthfulness and accuracy of the information in the proof of loss form.

Under Section II coverage, the insurer requires information regarding the time, place and circumstances of the accident or occurrence along with the names and addresses of claimants and witnesses. The insured must also forward any papers received, such as notices, demands and summonses, to the insurer. The insurer will also require medical bills and medical examinations related to injury claims.

Other Duties After Loss

Besides completing the proof of loss form, the insured must perform other duties after loss. Each duty must be complied with in order that appropriate payments are made from the policy.

Notifying the Insurer

The insurer must be notified directly or through its agent as soon as possible. The insurer wants to be able to examine property, start collecting documentation or evidence and give direction to the insured as quickly as it can once a loss occurs.

Notifying Other Appropriate Parties

If theft is involved, the police must be notified. In case of fire, the fire department must be called. If credit card or funds transfer card is lost or stolen, the card issuer must be notified. The absence of notification can cause a claim to be denied.



Protecting Property From Further Damage

The insurer expects the insured to protect property from further damage, including making necessary repairs. However, the insured should not start to make repairs to damaged property before the insurer has evidence of the damage, which often includes an on-site visit. The insurer must have evidence of loss to pay for it.

Showing the Damaged Property

The insurer will send a representative to view the damage, and may require more than one viewing. Insurers may also require more than one estimate before agreeing to pay for repairs or reconstruction, so the property owner may have to make the property available to contractors to view in order to complete cost estimates.

Releasing Records

The insurer also requires that records relating to the loss or damaged be released if the insurer needs them. The insurer may need such records to ascertain the extent of the damage and the value of the loss.

The Adjuster

A key party in the claims process is the adjuster. The adjuster determines the amount of loss and the amount covered by the policy.

Types of Adjusters

Adjusters may be employed by the insurance company and are assigned to a claim by the insurer. Such adjusters are known as *staff adjusters* or *insurance company adjusters*. *Independent adjusters* or *public adjusters* are also available to assist a claimant through the claims process. The claimant may hire and pay an independent adjuster to complete forms, deal with the insurance company, and generally represent the claimant's rights during the claims process. Or, an insurance company may hire independent adjusters to adjust claims rather than have its own staff of adjusters. Adjusters generally must be licensed and bonded by the state in which they do business in order to act as an adjuster.

Although it is more common for an independent adjuster to be hired by a business than an individual homeowner, individual homeowners do hire independent adjusters. This may be because they feel the claims process is too complicated or time-consuming, or because they believe they have a chance of a higher claims payment through the efforts of the independent adjuster. Generally, an independent adjuster working for a homeowner will prepare a claim, including gathering all supporting documentation, assisting in the inventory of the damage and making sure the claim is completed according to the requirements of the insurer. Independent adjusters may belong to associations such as the National Association of Public Insurance Adjusters that have specific conduct standards they must meet.

Duties of the Adjuster

An adjuster's duties fall into two major categories: 1) investigation of claims and 2) evaluation of claims. Under the investigation process, the adjuster will perform at least one on-site survey of the damage and review the photos, videos and written documentation the insured provides. The evaluation process involves determining the actual extent of the loss, which parts of the damage fall under the policy's coverage terms, and determining the amount the insured is due. The insured may disagree with the adjuster. If so, the appraisal clause of the policy may be invoked. If the disagreement cannot be worked out between the insurer and insured, legal action is sometimes taken.

A branch office that includes supervisors and managers supports the claims adjuster working directly with the insured. Supervisors and managers are often responsible for working out differences between the amount an insured believes he or she should be paid and the amount the claims adjuster has calculated.

The Claims Process

The claims process generally includes the following steps:

- Notification of insurer
- Assignment of Claims Adjuster to claim
- On-site inspection of damage
- Estimation of repair costs
- Completion of proof of loss form
- Processing of claim at branch office
- Payment of advance amounts, if any
- Completion of repairs and replacement of property
- Final payment is made to insured

Unfair Claims Settlement Practices

The National Association of Insurance Commissioners, or NAIC, has developed a model act related to claims settlement. Most states have regulations based on this model law and have incorporated provisions from this model into their unfair insurance practices regulations or have adopted a version of the NAIC's *Unfair Claims Settlement Practices Act*. The following items are included in the model act and are found in most states regulations:

- Insurers are prohibited from knowingly misrepresenting material facts or relevant policy provisions relating to the coverage at issue.
- Insurers may not fail to acknowledge, with reasonable promptness, communications regarding claims.
- Insurers must adopt and implement procedures for promptly investigating and settling claims.
- Insurers cannot delay prompt, fair and equitable settlement of claims if liability on the part of the insurer is reasonably clear. They also may not delay notifying the insured in writing whether or not a claim is covered after the insurer's investigation into a claim is complete.
- Insurers cannot compel insureds to sue the insurer in order to recover payments due the insured by offering the insured substantially less than the amount ultimately recovered by them.
- Insurers cannot refuse to pay claims without conducting reasonable investigations into the claim.
- Insurers cannot require duplicate pieces of information in order to delay the claims process.
- The insurer must indicate the coverage under which claim payments are being made if asked to do so by the insured.
- The insurer must provide forms necessary to file claims promptly after being requested to do so. In some states, the insurer must respond within 15 days to such requests.
- The insurer must inform the claimant why a claim was denied or why a compromise settlement was offered.

States may have additional rules, or their regulations may include slightly different language from that found in the model act. If an insurer violates any of these regulations, the state may fine the insurer, or if serious infractions occur, may revoke the insurer's license to do business.

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