

5 Dwelling and Homeowners Insurance

INTRODUCTION

As an insurance producer, it's important to make suitable insurance recommendations to potential applicants and existing customers. To do this, producers should be knowledgeable about the insurance products being offered and, in all circumstances, put the customer's interest first.

For instance, when Joe Customer calls Jane Producer to compare his current Homeowners and Personal Automobile insurance, Jane should focus first on meeting Joe's needs rather than quoting the cheapest premiums. His current agent may not have recommended the best coverage for Joe's situation. Using a brief needs assessment, Jane should be able to determine Joe's actual needs in contrast to what Joe thinks he needs. Jane can afterwards match the right policy type and coverages to Joe's needs. At that point, Jane can then discuss premium amounts.

LESSON GOAL

The goal of this lesson is to present the dwelling and homeowners programs in an effort to compare and contrast coverages available under each.



I. DWELLING PROGRAM

A. SIMILAR BUT DIFFERENT

While there are some parallels in coverage, there are also a number of differences between the dwelling and homeowners programs. The key difference is that homeowners insurance combines property coverage with liability coverage, while dwelling policies only provide property coverage—unless endorsed to include theft and personal liability coverage that are similar to a standard homeowners policy. Even so, the coverage provided under a standard dwelling policy will not normally be as comprehensive as a homeowners policy. On the other hand, dwelling policies may provide more flexible coverage options in some cases. But most importantly, both programs offer more than one policy form. Understanding the perils insured, optional coverages, endorsements and exclusions under each form will be instrumental in preparation for the state insurance exam.

B. ELIGIBILITY

Dwelling policies are often purchased for residential properties that are not eligible for coverage under the HO program. Rental property and vacation homes are two common examples.

The owner of a rental house or vacation home will not normally live in the home for the majority of the year. Conversely, the homeowners program requires the owner to also occupy the insured residence.

To purchase a dwelling policy, certain eligibility requirements must be met. A dwelling policy may be issued to provide insurance under Coverage A on:

1. A dwelling used solely for residential purposes with two exceptions:
 - certain incidental occupancies are permitted and
 - a maximum 5 roomers or boarders are permitted
2. A dwelling building containing four or fewer apartments
3. A townhouse or row house structure
4. A dwelling building under construction
5. A dwelling building occupied by the owner that has values lower than the insurance company minimums required for homeowners insurance
6. A permanently installed mobile home (usually the DP-1 only)

SPECIAL NOTE:

Dwellings used for dwelling purposes that are located on a farm, ranch, orchard or grove may be insured under the DP1 form under the following conditions:

1. Liability coverage will not be provided for farming or ranching operations
2. Farming or ranching activities conducted on the residence premises are incidental to the use of the premises for residential living purposes

C. FORMS AND COVERAGES

1. Declarations

A Dwelling policy will consist of a declarations page (dec page), a coverage form (DP-1, DP-2, or DP-3), and one or more mandatory or optional endorsements.

The Dec page identifies the named insured(s), the insured location, the policy period, the types of coverage, endorsements, deductible, and premium.

2. Coverages

The coverage parts provided for in the declarations are:

Coverage	DP-1	DP-2	DP-3
Coverage A- Dwelling	X	X	X
Coverage B- Other Structures	X	X	X
Coverage C- Personal Property	X	X	X
Coverage D- Fair Rental Value	X	X	X
Coverage E- Additional Living Expenses	Added by Endorsement	X	X

Coverage A — Dwelling

Coverage A insures the residence premises and structures that are attached to the dwelling.

Coverage is also provided for:

1. Building materials located on or next to the residence premises used to renovate or repair the dwelling;
2. Building and outdoor equipment used to service the premises.

Coverage B — Other Structures

Coverage B insures buildings on the residence premises that are separated from the dwelling by a clear space or connected only by a fence, utility line or similar connection (such as a barn, patio, detached garage, work shed, or guest house). The structure may not be used for commercial, manufacturing, or farming purposes.

The standard amount of insurance for Coverage B is 10% of the Coverage A amount. The Coverage B amount of insurance does not reduce the Coverage A limit. It is provided in addition to the Coverage A amount. For example, if the dwelling is insured for \$100,000 under Coverage A, the limit for Coverage B would be 10% of \$100,000 or \$10,000. If a claim was paid for a covered loss under Coverage B for \$5,000, the Coverage A limit would not be reduced to \$95,000.

Coverage B Exclusions

No coverage under this part will be provided for:

- The land on which the other structures are located;
- Other structures rented or made available for rent to any non-tenant of the dwelling—unless the non-tenant uses the structure as a private garage;
- Other structures used to operate a business or store business property, unless the business property is owned by an insured or tenant of the dwelling. However, if the business property owned by an insured or tenant is gaseous or liquid fuel that is not stored in a permanently installed fuel tank of a vehicle, or craft parked or stored in the structure, it will not be covered. In other words, if the gas or liquid fuel is stored in a permanently installed fuel tank of a vehicle, or craft parked or stored in the structure, it will be covered.

Coverage C — Personal Property

Coverage C is sometimes referred to as “contents coverage” since coverage is provided for an insured’s personal property that is typical to a residential dwelling—furniture, electronic equipment, bikes, clothing, appliances, etc.

With a dwelling policy, Coverage C limits are not set as a percentage of the Coverage A limit as with the Homeowners insurance. The insured chooses the appropriate personal property limit based on his or her needs. This limit does not reduce any other coverage part limit. It is considered additional insurance.

Up to 10% of the limit of liability for Coverage C may be used to cover the insured’s personal property while anywhere in the world. For example, if the insured has a \$50,000 Coverage C limit for personal property located at the residence premises, the policy would provide a limit of up to \$5,000 for the insured’s personal property located outside of the residence premises.

In addition, the insured can request coverage for personal property owned by another person if the property is located on the part of the residence premises occupied by an insured.

Coverage C Exclusions

As with most policies, not all types of personal property can be covered.

The following types of personal property are excluded under Coverage C:

- Articles insured elsewhere
- Accounts, bank notes and other notes, bills, bullion, coins, currency, money, and securities
- Deeds, evidence of debt, letters of credit, manuscripts, passports, personal records, tickets, stamps, scrip, stored value cards, and smart cards
- Gold other than goldware, medals, platinum (other than platinumware), and silver other than silverware;
- Credit cards and fund transfer cards;
- Animals, birds, and fish;
- Aircraft;
- Motor vehicles, other than motorized equipment used to maintain the premises;
- Boats, other than rowboats and canoes;
- Hovercraft and parts (hovercraft refers to self-propelled motorized ground effect vehicles, such as air cushion vehicles and flarecraft);
- Water or steam (under the earlier forms, it could be argued that water became the insured's personal property after it passed through the insured's water meter; this exclusion makes the intent of the policy clear);
- Grave markers, including mausoleums;
- Electronic fund transfer cards or access devices used to deposit, withdraw, or transfer funds;
- Scrip, stored value cards, and smart cards; and
- Data stored in computers and related equipment.

Coverage D — Fair Rental Value

Coverage D reimburses the insured for the fair rental value of the covered property if it becomes uninhabitable from damage by a covered peril. Coverage only applies to portions of the premises rented to others or held for rental. Rental Value is payable at 1/12th of the 10% limit of Coverage A for each month the insured location is uninhabitable due to a covered loss.

Coverage E — Additional Living Expense

This coverage is only available to policyowners who occupy the dwellings. Coverage is provided in the Broad (DP-2) and Special (DP-3) forms only and pays for additional living expenses incurred by the insured after a covered loss. Additional living expenses which include a reasonable motel, dining, laundry and transportation expenses are covered for the period of time needed to repair or replace the damaged property or to become settled in different permanent housing.

Payments are limited to a maximum of two weeks if a civil authority prohibits use of the insured property because a covered peril damaged a neighboring location. This coverage can be added to the DP-1 only by endorsement.

SPECIAL NOTE:

As mentioned previously, DP's can offer flexible coverage options in certain situations. For instance, a rental property owner may not need to purchase all coverage parts as required by HO policies. The owner may only want to purchase Coverage A- Dwelling, Coverage B- Other Structures, and Coverage D- Fair Rental Value. The owner does not need Coverage C- Personal Property since the contents of the rented dwelling will belong to the renter.

2. DWELLING FORMS

The Dwelling program offers three coverage forms from which to select.

Dwelling Form	Coverage Description
DP-1 Basic form	Basic perils only - extended coverages can be added for an additional premium.
DP-2 Broad form	Broad perils for buildings and personal property
DP-3 Special form	Open peril coverage for buildings and broad peril coverage for personal property

The primary difference in each form is the perils covered.

DP-1 Basic Form

1. Perils Insured Against

The basic perils are sometimes referred to simply as “fire” coverage.

The Basic form insures against direct physical loss caused by:

1. Fire (sudden and unexpected);
2. Lightning (electrical current); and
3. Internal explosion (within the covered property).

Explosion does not mean:

- Electric arcing;
- Breakage of water pipes;
- Breakage or operation of pressure relief devices.

In addition, losses caused by explosion of steam boilers or steam pipes that are owned or leased by the insured, or operated under the control of the insured, are not included under the peril of explosion.

2. Other Coverages

“Extended Coverage” (EC) perils can be added by endorsement for an additional premium. Each EC peril is subject to certain limitations as shown below.

These additional perils include:

1. Windstorm or Hail (losses to awnings, outside antenna equipment, signs and boats are not covered);
2. Explosion (replaces the internal explosion peril and adds external explosions);
3. Riot or Civil Commotion;
4. Aircraft (including self-propelled missiles and spacecraft);
5. Vehicles (does not cover loss caused by vehicles owned by an insured);
6. Smoke (smoke from fireplaces, agricultural smudging, or industrial operations not covered);
7. Volcanic Eruption (earthquake, land shock waves or tremors not covered).
8. Vandalism and Malicious Mischief (VM&M)

VM&M does not include loss for damage to building glass, certain crime losses (except building damage caused by burglars), or for losses if the dwelling has been vacant for 60 or more consecutive days immediately before the loss.

Also, damages to the interior of a building or its contents are not covered unless caused by exterior damage to the building roof or walls. For instance, Joe purchased EC for his DP-1 policy, and then suffered wind damage to his roof during a storm. Rain poured through an opening in the wind damaged roof causing damage to Joe’s furniture and electronic equipment.

3. Basic Form Exclusions

The DP-1 does not cover loss caused directly or indirectly from any of the following:

- Ordinance or Law;
- Earth Movement;
- Water damage, including flooding and overflow from a sump pump;
- Power Failure (off-premises);
- Neglect;
- War;
- Nuclear Hazard;
- Intentional Loss;
- Governmental Action.

4. Basic Form Conditions

The Conditions section contains the duties and obligations of the insured and the insurer for coverage under the policy.

Below are two conditions in the basic form that you should become familiar with:

1. Loss Settlement

Covered property losses are settled at the lesser of:

- The actual cash value;
- The cost to repair the damaged property;
- The cost to replace the damaged property.

2. Other Insurance

If other fire insurance exists, the policy settles losses on a pro rata basis.

DP-2: Broad Form

1. Perils Insured Against

The Broad form includes all of the perils insured against in the DP-1 Basic form, including the Extended Coverage perils and VMM. Additionally, the Broad form expands coverage for certain perils and adds several new perils that were not covered under the Basic form.

The Broad form insures against direct physical loss caused by:

- Fire or Lightning;
- Windstorm or Hail;
- Explosion;
- Riot or Civil Commotion;
- Aircraft;
- Vehicles;
- Smoke;
- Vandalism or Malicious Mischief (V&MM);
- Damage by Burglars;
- Falling Objects;
- Weight of Ice, Snow, Sleet;
- Accidental Discharge or Overflow of Water or Steam;
- Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging;
- Freezing;
- Sudden and Accidental Damage from Artificially Generated Electrical Current;
- Volcanic Eruption.

2. Broad Form and Other Available Coverage

Other Structures

Up to 10% of the Coverage A limit is made available as an additional amount of insurance for losses under Coverage B Other Structures.

Debris Removal

This coverage pays for the reasonable expense for the removal of debris of covered property for a covered loss.

Improvements, Alterations, and Additions

Up to 10% of the Coverage C limit is made available as an additional amount of insurance for losses to improvements, alterations and additions acquired at the policyowners expense.

World-Wide Coverage

Up to 10% of the Coverage C Personal Property limit is made available for covered losses while anywhere in the world. Use of this coverage reduces the Coverage C limit of liability for the same loss. Rowboats and canoes are excluded.

Rental Value and Additional Living Expense

Up to 10% of Coverage A applies to both the rental value and additional living expense as described in Coverage D and Coverage E. This coverage is made available as an additional amount of insurance.

Reasonable Repairs

If the insured property is damaged by a covered peril, the insurer will pay the reasonable cost incurred by the insured to protect the property from further loss, or to repair other damaged property if covered under this policy.

Property Removed

The insurance company will insure covered property against direct loss from any cause while being removed from a premises endangered by a covered peril for up to 30 days while removed. This coverage does not change the limit of liability that applies to the property being removed.

Trees, Shrubs and Other Plants

The insurance company will cover up to \$500 for any one tree, shrub or plant (not to exceed 5% of the Coverage A) against the following perils:

- Fire or lightning
- Explosion;
- Riot or civil commotion;
- Aircraft;
- Vehicles not owned or operated by you or a resident of the Described Location; or
- Vandalism or malicious mischief, including damage during a burglary or attempted burglary, but not theft of property;

This coverage is made available as an additional amount of insurance.

Fire Department Service Charge

Pays up to \$500 for fire department charges incurred when the fire department is called to save or protect covered property from a peril insured against. There is no deductible that applies to this coverage.

Collapse

Collapse coverage insures against a direct physical loss to covered property from the collapse of a building or part of a building that is caused by certain perils.

Glass or Safety Glazing Materials

This is coverage for the breakage of glass or safety glazing material which is part of a covered building, storm door or storm window. Coverage does not apply if the dwelling has been vacant for more than 60 consecutive days immediately before the loss, unless the breakage results from earth movement. This coverage does not increase the limit of liability that applies to the damaged property.

Ordinance or Law

The ordinance or law exclusion means that the policy covers the dwelling as it exists today, but does not provide coverage for the cost to upgrade the building to current building codes and ordinances after a loss.

The DP-2 and DP-3 excludes most of the costs associated with ordinance or law construction upgrades; however, both forms provide up to 10% of Coverage A Dwelling limit under the additional coverages section.

3. Broad Form Exclusions

The insurance company will not insure any direct or indirect loss caused by any of the following:

- Ordinance or Law;
- Earth Movement;
- Water Damage;
- Power Failure (off-premises);
- Neglect;
- War;
- Nuclear Hazard;
- Intentional Loss;
- Governmental Action.

4. Broad Form Conditions

A. Loss Settlement

Covered property losses are settled on a replacement cost basis, subject to the amount of insurance carried is equal to 80% or more of the full replacement cost of the building immediately before the loss.

Covered property losses at the time of loss are settled at the lesser of:

- The limit of liability in the policy that applies to the building;
- The cost to replace the damaged property with materials of like kind and quality for like use; or
- The necessary amount to repair or replace the damaged building.

If the covered property is insured for less than 80% of its replacement value immediately before the loss, a coinsurance penalty will apply. The insurance company will pay the proportion of the loss which the amount of coverage bears to 80% of the full replacement cost (but not less than actual cash value).

If the insured decides to disregard the replacement cost loss settlement provision and make a claim on an actual cash value basis, the insured must notify the insurance company of his or her intent within 180 days after the date of loss. In this case, the insured will take an actual cash value adjustment until such time as the property is actually replaced.

After replacement, the insured can make a claim for any additional amounts owed to him or her under the policy.

B. Other Insurance

If other fire insurance exists, the policy settles losses on a pro rata basis.

DP-3: SPECIAL FORM

Perils Insurance Against

The Special form offers the same coverage as the DP-2 Broad Form with one major difference. The DP-3 insures building structures on an “open perils” basis, meaning that all direct physical losses are covered unless excluded. Personal property is covered on a named (broad) perils basis.

While the Broad form covers named perils, the Special form broadens coverage by insuring an assortment of undefined perils. For example, the DP-3 covers interior damage to the dwelling from windstorm, even if there is no exterior building damage. Also, theft of property that is an integral part of the insured dwelling is covered. These two perils are not covered under the DP-2 Broad form.

Special Form Exclusions

- Ordinance or Law (except for amounts noted in the additional coverage section);
- Earth Movement;
- Water Damage;
- Power Failure (off-premises);
- Neglect;
- War;
- Nuclear Hazard;
- Intentional Loss;
- Governmental Action.

3. GENERAL EXCLUSIONS

All dwelling forms contain the following exclusions:

- Loss from enforcement of any law regulating use, construction, demolition or repair of the property;
- Earth movement;
- Water damage from flooding, rising waters, backing up of sewers or drains (including water-borne material), overflow from a sump, or subsurface water;
- Damage caused by power interruption if the damaged power source is at other premises;
- Neglect of the insured to protect property from damage;
- War;
- Nuclear hazards;
- Intentional loss; and
- Governmental action.

The DP-1 form also excludes outside lawns, trees, shrubs or plants.

4. ENDORSEMENTS AND OTHER COVERAGE OPTIONS

Building Ordinance or Law

The Building Ordinance or Law endorsement may be attached to add coverage (DP-1). This endorsement provides coverage for demolition costs and increased construction costs required or regulated by law or ordinance.

Theft Coverage

Theft coverage is not automatically included in DPs and can only be added with a broad theft coverage endorsement or a limited coverage endorsement. These endorsements can be included in any of the DP forms (Basic, Broad or Special).

There are 2 endorsements:

Broad Theft Coverage

This endorsement is only available to owner-occupant dwellings. When attached to a DP, coverage is provided for loss by theft, including attempted theft, and vandalism and malicious mischief as a result of theft or attempted theft.

Limited Theft Coverage

This endorsement is for a nonowner occupant of a dwelling. Theft coverage is provided on-premises coverage only.

Both endorsements cover against theft, attempted theft, and vandalism & malicious mischief (VM&M) damage resulting from theft. Coverage applies to properties located at a bank, public warehouse or at any occupied dwelling that is not owned or occupied by, or rented to an insured if the property is there for safekeeping.

Both the limited and the broad theft endorsements apply limits to different types of properties:

- \$1,500 for watercraft and related equipment, including trailers;
- \$1,500 for trailers not used with watercraft;
- \$2,500 for firearms and related equipment.

In addition, both the limited and the broad theft endorsements exclude certain types of property:

- Aircraft, except model or hobby aircraft;
- Hovercraft and parts;
- Motor vehicles and other motorized land conveyances, their equipment and accessories, except those not subject to motor vehicle registration;
- Property held as a sample or for sale;
- Business property of an insured or residence employee on or away from the insured premises;
- Animals, birds and fish;
- Property while (a) at another location owned, rented to, or occupied by an insured, except while the insured temporarily resides there, (b) held by a bailee, or (c) in the mail;
- Credit cards or fund transfer cards; and
- Property specifically insured by other insurance.

In addition to the exclusions listed above, the limited theft endorsement also excludes property of tenants, roomers, and boarders unrelated to an insured.

The broad theft endorsement contains the following special limits on certain classes of property:

Table 4-1		Broad Theft Coverage	
Limit	Category		
\$200	Money, bank notes, bullion, gold other than goldware, silver other than silverware, platinum other than platinumware, coins, medals, scrip, stored value cards and smart cards.		
\$2,500	Silverware, silver-plated ware, goldware, gold-plated war platinumware, platinum-plated ware and pewterware. This includes flatware, hollowware, tea sets, trays and trophies made of or including silver, gold or pewter.		
\$1,500	Securities, accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, personal records, tickets and stamps.		
\$1,500	Watercraft of all types, including their trailers, furnishings, equipment and outboard engines or motors.		
\$1,500	Trailers not used with watercraft		
\$1,500	Theft of jewelry, watches, furs, precious and semiprecious stones		
\$2,500	Theft of firearms and related equipment.		
\$1,500	Electronic apparatus while it is in, on, or away from a motor vehicle (such as a car phone or portable CD player) provided that the apparatus can be operated by both the vehicle's power and other power sources		
\$1,500	Electronic apparatus and accessories used primarily for business while away from the residence premises and not in or on a motor vehicle		

Personal Liability Endorsement

With this endorsement, the homeowner-occupant purchases a Personal Liability endorsement (Coverage L), and Med Pay to Others (Coverage M). When combining these two coverages, the insured receives practically the same liability coverage as in a Homeowners contract.

Modified Loss Settlement Endorsement

This endorsement amends the loss settlement provision under a DP-1 for Coverage A and Coverage B. The loss settlement is changed from actual cash value to replacement value when this endorsement is added.

Windstorm or Hail Percentage Endorsement

This endorsement specifies a separate deductible on a percentage basis rather than a flat dollar amount for windstorm or hail losses.

Automatic Increase in Insurance Endorsement

This endorsement provides an annual increase in the Coverage A and Coverage B amounts. The insured can typically purchase annual increase amounts of 4%, 6%, or 8%.

Additional Living Expense Endorsement

This endorsement adds an additional amount of living expense coverage to the DP-1.

Trees, Shrubs and Plants Endorsement

This endorsement adds tree, shrub and plant coverage to a DP-1 subject to limits of up to \$500 for any one tree, shrub or plant.

Permitted Incidental Occupancies Endorsement

The policy may be endorsed to cover or to provide a limited amount of coverage for personal property associated with certain types of businesses conducted in the dwelling. The insured must purchase Coverage A, B, and D, and the incidental occupancy must be operated by the insured and not employ more than two persons.

The types of accepted incidental occupancies include the following: business or professional offices, private schools or studios, barber shops/beauty shops and dressmakers.

Watercraft Endorsement

Provides watercraft liability coverage for sailboats 26 feet or longer or watercraft powered by an (a) outboard motor over 25 horsepower, (b) inboard motor, or (c) inboard-outdrive motor.

Summary

The primary differences between the three Dwelling Program coverage forms are:

- The DP-1 Basic form covers for limited named perils and settles losses using actual cash value.
- The DP-2 Broad form covers all the perils in DP-1, plus additional named perils. This form broadens coverage under “Other Coverages” and provides for replacement cost loss settlement on buildings if the coinsurance requirement is met.
- The DP-3 Special form includes the features of DP-2 and covers buildings for “all-risks.”

II. HOMEOWNERS PROGRAM

A. INTRODUCTION

Homeowners (HO) policies are one of the most common types of insurance sold in the U.S. These policies combine property and liability coverages into one package policy that insure a broad range of perils.

The property coverage insures the dwelling against certain perils (causes of loss) such as fire, lightning, and wind.

Liability coverage insures the homeowner and eligible residents who may be held liable for damages resulting from an accidental injury to a visitor while on the insured property—i.e. a visitor trips over a skateboard left on the insured's front porch, or slips on icy porch steps, or when the insured's dog bites the neighbor.

There are six available homeowners insurance policy forms as shown below:

HO Form	Coverage Description
HO-2	Covers named perils for buildings and personal property
HO-3	Open perils for buildings and named perils for personal property
HO-4	Primarily for renters
HO-5	Open perils coverage for both building and personal property
HO-6	Primarily for condominium owners
HO-8	For older or special value homes

SPECIAL NOTE:

The HO-1 form provides basic named perils coverage for property, personal liability coverage, and medical payments to others coverage. This form has been discontinued in most states. Also, there is an HO-7 form for mobile home owners available in certain states. This lesson will not include a discussion on either policy form.

B. ELIGIBILITY REQUIREMENTS

To be eligible for coverage under an HO policy, certain qualifications must be met. The HO program's eligibility requirements are stricter than those in the DP program.

Below are the basic eligibility rules that apply to the HO-2, HO-3, HO-5, and HO-8 HO forms:

1. The insured must be the owner-occupant of the dwelling, and the dwelling must be used exclusively for private residential purposes;
2. The dwelling cannot be occupied by more than four families;
3. No more than one additional family or two roomers/boarders may occupy a one-family dwelling;
4. No more than two families or one family with two roomers/boarders may occupy an individual family unit in a two-, three-, or four-family dwelling;
5. The insured cannot purchase coverage for personal property alone, unless the insured is a renter (HO-4);
6. Mobile homes are eligible if the mobile home endorsement is attached;
7. Dwellings under construction and secondary or seasonal residences are eligible; and
8. The dwelling must be used exclusively as a residence, except for certain incidental occupancies such as offices, professional or private schools, or studios.

SPECIAL NOTE:

Some incidental business occupancies, such as a studio or office, are permitted. However, if the insured suddenly feels a compulsion to start growing crops and raising livestock, an HO policy cannot be issued to cover any type of property used for farming purposes.

If the insured does have a permitted incidental occupancy, he or she may need a separate business policy or an added endorsement to expand the coverage under the HO policy.

B. COVERAGE SECTIONS

Each HO policy is structured with two sections:

Section I – Property

Section II – Liability

The primary difference between the homeowners forms are the perils covered in Section I. Some forms offer broader coverages than others. Perils insured against will be discussed in detail later in this lesson.

In Section II, the liability coverage is the same with all of the homeowners forms. Additional limits may be purchased for an extra premium charge.

1. SECTION I - PROPERTY COVERAGE

Coverage A — Dwelling

Coverage A insures the value of the residential dwelling as shown in the declarations (excluding the land) including structures attached to the dwelling. In addition, materials and supplies for the repair or construction of the dwelling are covered if located on or next to the residence premises.

Coverage B — Other Structures

Coverage B applies to other structures on the premises that are separated from the dwelling by a clear space, or connected to the dwelling by a fence, utility line or similar connection (such as a barn, detached garage, patio, work shed, or guest house).

The Coverage B limit is 10% of the Coverage A amount shown in the declarations. The amount of insurance provided by Coverage B does not reduce the Coverage A limit. It is provided in addition to the Coverage A amount.

For example, if the dwelling is insured for \$100,000 under Coverage A, the limit for Coverage B would be 10% of \$100,000 or \$10,000. If a claim was paid for a covered loss under Coverage B for \$5,000, the Coverage A limit would not be reduced to \$95,000.

Coverage B Exclusions

No coverage under this part will be provided for:

- The land on which the other structures are located;
- Other structures rented or made available for rent to any non-tenant of the dwelling— unless the non-tenant uses the structure as a private garage;

- Other structures used to operate a business or store business property, unless the business property is owned by an insured or tenant of the dwelling. However, if the business property owned by an insured or tenant is gaseous or liquid fuel that is not stored in a permanently installed fuel tank of a vehicle, or craft parked or stored in the structure, it will not be covered. In other words, if the property is gaseous or liquid fuel that is stored in a permanently installed fuel tank of a vehicle, or craft parked or stored in the structure, it will be covered.

Coverage C — Personal

This coverage is sometimes referred to as “contents coverage” since it covers an insured’s personal property that is typical to a residential dwelling. Typical property would include furniture, electronic equipment, clothing, etc.

Coverage C limits are usually 50% of the Coverage A amount shown in the declarations. For example, if the insured purchased an HO policy that covers the dwelling for \$500,000, the Coverage C amount would be 50% of \$500,000, or \$250,000.

However, certain property items have special limits of liability under this coverage part. See tables below.

Table 4-2 HO- Personal Property with Special Limits of Liability	
Limit	Property Type
\$200	Money or related property, coins, and precious metals (does not apply to tableware)
\$1,500	Securities, manuscripts, and other valuable paper property (includes the cost to research, replace, or restore the information from the lost or damaged property)
\$1,500	Watercraft, including trailers and equipment
\$1,500	Trailers not used with watercraft
\$2,500	Property on the residence premises used for business purposes
\$500	Property away from the residence premises used for business purposes
\$1,500	Electronic apparatus while it is in, on, or away from a motor vehicle (such as a car phone or portable CD player) provided that the apparatus can be operated by both the vehicle's power and other power sources
\$1,500	Electronic apparatus and accessories used primarily for business while away from the residence premises and not in or on a motor vehicle

Table 4-3 HO- Personal Property with Special Limits for Theft Losses Only	
Limit	Property Type
\$1,500	Jewelry, watches, furs, and precious and semiprecious stones
\$2,500	Silverware, goldware, or pewterware
\$2,500	Firearms

Property Located at Other Residences

Personal property usually located at a residence other than the residence premises is covered for up to 10% of the Coverage C limit, or \$1,000, whichever is greater.

There are two exceptions to this limitation:

1. Property being moved from the residence premises as it is undergoing repairs or renovations and is unfit to live in;
2. Property in a newly acquired principal residence for 30 days after starting to move the property there.

Also, after a loss and if requested by the named insured, the insurer will cover personal property owned by others, a guest, or a residence employee while the property is on the residence premises occupied by an insured.

Coverage C Exclusions

1. Articles specifically scheduled and insured under this policy or a different policy;
2. Animals, birds or fish;
3. Motor vehicles except those not required to be registered for use on public roads that are used solely to service an insured's residence or designed to assist the handicapped;
4. Motor vehicle accessories, equipment and parts while the equipment is upon or in the vehicle;
5. Electronic apparatus and accessories designed to be operated solely by power from the electrical system of the motor vehicle. Accessories that can be used with any of these apparatuses such as antennas, tapes, wires, records, discs or other media are also excluded. This exclusion applies only while the equipment is upon or in the vehicle;

5. Aircraft and parts (except model or hobby aircraft);
6. Hovercraft and parts;
7. Property of roomers, boarders or other tenants, unless such persons are related to an insured;
8. Property in an apartment that is regularly rented or available for rental to others by an insured;
9. Property that is away from the residence premises that is rented or available for rental to others;
10. Paper or electronic records containing business data, except for prerecorded programs available on the retail market;
11. Credit cards, electronic fund transfer cards or access devices used solely for deposit, withdrawal or transfer of funds except as provided for in other coverage sections; and
12. Water or steam.

Coverage D — Loss of Use

Coverage D applies if a covered loss renders the insured dwelling uninhabitable. In this situation, the insured will usually incur additional expenses as a result of the direct loss to the insured dwelling.

For example, after a fire damaged Joe's house, he was forced to rent a temporary residence and move his family. He incurred moving expenses, an expected rent payment, and various other extra expenses related to the move. Joe also lost the extra income from a person renting a spare room in his house.

There are three types of expenses insured under Coverage D:

1. Additional Living Expense;
2. Fair Rental Value;
3. Civil Authority Prohibits Use.

Additional Living Expense

With this loss, the cost of setting up the temporary residence, including the rent payments, would be covered under Additional Living Expense. Joe would receive payment for any necessary increase in living expenses he incurred to maintain his family's normal standard of living. The insurer will make payment for the shortest time required to repair or replace the damage in Joe's house. If Joe permanently relocates, then payment will be made for the shortest time required for Joe's family to settle in their new location.

Fair Rental Value

The loss of rent will be covered under Fair Rental Value; however, the part of the residence that was rented must be uninhabitable due to the covered loss. Joe would receive the rental income for the actual rent of the space covered while repairs are being made. The insurer will make payment for the shortest time required to repair or replace the damage in Joe's house. Also, payments from the company will be reduced by the amounts of non-continuing expenses. For example, if Joe rented the extra room for \$500 per month, and the cost of utilities for the rented room was calculated to be \$75 per month, the insurance company would pay Joe \$425 if the utility services were suspended during the repair period.

Civil Authority Prohibits Use

If a civil authority prohibits the insured from occupying the residence premises as a result of direct damage to neighboring premises by a covered peril, Additional Living Expense and Fair Rental Value will apply for up to two weeks

Let's suppose that an airplane crashed in Joe's neighborhood, causing extensive damages to two houses. Joe's house was untouched; however, civil authorities were forced to evacuate the neighborhood and close off the area for four days. Since aircraft is a covered peril under Joe's Homeowners policy, additional living expenses and loss of rent would be covered during the evacuation period.

However, if the evacuation was the result of flood or some other peril not insured under the policy, no coverage would apply.

Loss of Expense Not Covered

The insurance company will not cover loss or expense due to cancellation of a lease or agreement. If Joe signed a 6-month lease on his temporary rental home, and the repairs on his home were completed in three months, any early termination fees applied in his lease agreement will not be covered.

2. SECTION I - HOW LIMITS ARE CALCULATED

For all homeowners forms, except the HO-4 and the HO-6, Coverage A is the primary coverage which will determine the coverage limits for Coverages B, C, and D. See table 4.4 below:

Table 4.4	Section I Limit Calculations
Coverage A—Dwelling	This is the primary insured limit
Coverage B— Other Structures	One or Two Family Dwelling: 10% of Coverage A limit Three or Four Family Dwelling: 5% of Coverage A limit
Coverage C— Personal Property	One or Two Family Dwelling: 50% of Coverage A limit Three Family Dwelling: 30% of Coverage A limit Four Family Dwelling: 25% of Coverage A limit
Coverage D— Loss of Use	30% of Coverage A limit for HO-2, 3, & 5 10% of Coverage A limit for HO-8

3. SECTION I - PERILS INSURED AGAINST

The perils insured under each homeowners policy will vary depending on the form. Perils insured against are grouped under **Basic**, **Broad**, and **Special**.

HO-2: Provides broad perils coverage for the dwelling, other structures, and personal property.

HO-3: Provides open perils coverage for the dwelling and other structures. Broad perils coverage is provided for personal property.

HO-4: Provides personal property insurance for tenants who do not own the house or apartment where they reside.

HO-5: Provides open perils coverage for the dwelling, other structures, and personal property. The HO-5 is also referred to as the comprehensive form. It is the only homeowners form insuring personal property items against loss for **mysterious disappearance**—property that disappears without explanation.

HO-6: This is the condo-owners form. The standard Coverage A limit for the HO-6 is \$1,000. Coverage D is 50% of Coverage C.

HO-8: Sometimes referred to as the modified form, the HO-8 provides coverage for an older home with a replacement value much higher than its current market value. The HO-8 offers basic coverage on the dwelling and personal property with the extended coverage perils and V&MM coverage. This form has certain restrictions on valuation of losses.

Let's take a closer look at an example of when an HO-8 would be appropriate.

With home prices continuing to fall in many markets, homeowners may have trouble finding standard homeowners insurance to cover older homes for replacement cost value. Even in a robust economy with a strong housing market, older homes built in urban neighborhoods may have market values well below replacement values.

For instance, Joe decided to retire and sell his home of 35 years and move to Florida. Joe lives in an older urban neighborhood close to downtown. After meeting with a couple of realtors, it became apparent that the market value of Joe's house was much lower than he anticipated. The realtors explained to Joe that market value was the amount that his home could be sold for within a reasonable period of time.

Joe then called his insurance agent to voice his concerns about the amount his house was insured for. The realtors told Joe that his house had a market value of \$100,000. Joe asked his agent why his home was insured for \$150,000. His agent explained that insurance companies are only concerned with the amount of money it would take to replace his home if he were to incur a total loss—the replacement value. This is the amount that insurers base the Coverage A amount on.

This is the type of situation that the HO-8 was created for. Other homeowners forms would require a minimum coverage amount equal to 80% of the dwelling replacement cost. In Joe's case, that would be \$160,000. The problem is that insurance companies will not sell a homeowners policy with a limit of \$160,000 on a home with a market value of \$100,000.

The replacement value would have been higher if Joe's insurance agent had not recommended a policy that provided **functional replacement**. Functional replacement value allowed Joe to insure his home (dwelling and other structures) based on the amount required to repair or replace his property using common construction materials and methods. For instance, Joe's interior plaster walls could be replaced with drywall and his old hardwood floors could be replaced with less expensive plywood.

The HO-8 policy comes to the rescue by paying what it would cost to repair or replace damaged property using common construction materials and methods. Theft coverage is restricted to \$1,000 per occurrence for the main residence only.

The following is a summary of perils insured against for each homeowners form:

- HO-3 provides open perils coverage for Coverage A and B, and the broad perils for Coverage C;
- HO-4 provides broad coverage for Coverage C only—no coverage for the dwelling;
- HO-5 provides open perils coverage for Coverage A, B, and C;

- HO-6 provides limited perils coverage for Coverage A and broad perils coverage for Coverage C;
- HO-8 insures against basic perils for Coverage A, B, and C; however, the coverage is more limited than the coverage under the HO-2. For example, the “vehicles” peril in the HO-8 doesn’t include losses to fences, driveways, or walks caused by vehicles owned or operated by residents of insured household. In addition, the “smoke” peril doesn’t include damage from fireplace smoke.

Carefully review Table 4.5 below

Table 4.5	HO-2	HO-3		HO-4		HO-5	HO-6		HO-8*	
Coverage	A,B,C	A,B	C	A	C	A,B,C	A	C	A, B	C
Basic Perils				N/A			LTD**		X	X
Broad Perils	X		X	N/A	X		LTD	X		
Special Perils		X		N/A		X	LTD			

* Basic coverage under the HO-8 is limited ** LTD- Limited Coverage

Carefully review Table 4.6 below

Table 4.6		HO-2	HO-3		HO-4	HO-5		HO-6	HO-8*
Form	Perils Insured Against	Coverages A,B,C	Coverages A,B	Coverage C		Coverage A	Coverage B	Coverage B	Coverage A,B,C
Basic	Fire or Lightning	X	Open Peril	X	X	Open Peril	Open Peril	X	X
Basic	Windstorm or Hail	X		X	X			X	X
Basic	Explosion	X		X	X			X	X
Basic	Riot or Civil Commotion	X		X	X			X	X
Basic	Aircraft	X		X	X			X	X
Basic	Vehicles	X		X	X			X	X
Basic	Smoke	X		X	X			X	X
Basic	Vandalism and Malicious Mischief (VM&M)	X		X	X			X	X
Basic	Theft	X		X	X			X	X
Basic	Volcanic Eruption	X		X	X			X	X

Table 4.6		HO-2	HO-3		HO-4	HO-5		HO-6	HO-8*
Form	Perils Insured Against	Coverages A,B,C	Coverages A,B	Coverage C		Coverage A	Coverage B	Coverage B	Coverage A,B,C
Broad	Falling Objects	X		X	X			X	N/A
Broad	Weight of Ice, Snow or Sleet	X		X	X			X	N/A
Broad	Discharge of Water or Steam	X		X	X			X	N/A
Broad	Sudden, Accidental Rupture	X		X	X			X	N/A
Broad	Freezing of Plumbing and Related Systems	X		X	X			X	N/A
Broad	Artificially Generated Electrical Current	X		X	X			X	N/A

* Broad coverage under the HO-8 is more limited than in the HO-2

Broad Perils

The HO-2 expands coverage for two perils:

1. The vehicles peril includes loss to a fence, driveway, or walk caused by a vehicle owned or operated by a person who lives in the insured household;
2. The smoke peril includes loss caused by fireplace smoke.

Special Form Perils

Under the **Special** form, covered perils are not named or listed as in the basic and broad forms.

The HO-3 will list the perils that *are not* covered under this form in the **Exclusions** section of the policy—in other words, with the special form; all perils are covered **UNLESS** specifically **excluded** in the policy.

This shifts the burden of proof of the cause of a loss from the insured to the insurance company. However, with the HO-3, this only applies to the dwelling and other structures (Coverage A & B)—it does not apply to Coverage C, Personal Property.

In the HO-3, personal property insured under Coverage C is insured on a **named perils** basis. The perils insured against are named or listed in the policy one-by-one.

The HO-5 Comprehensive form provides open peril coverage for **both** the Coverage A- Dwelling and Coverage C- Personal Property. One thing to keep in mind is that the Open Peril form can be referred to as the Special or All Risk form. Open Peril, Special form, or All Risk—it means the same thing.

Section I Additional Coverages

Debris Removal

If a covered peril causes a loss, expenses to remove debris, including ash and other particles from a volcanic explosion, from the covered property that caused direct loss will be covered. Debris removal is included in the policy limit, except for fallen trees. The removal of fallen trees from the residence premises will be covered under the following conditions:

- The tree must have damaged a covered structure;
- The tree must be blocking access to a driveway, or be blocking access to a ramp designed for a handicapped person.

The removal expense is permitted for the insured's trees only if the trees are felled by windstorm, hail, or the weight of ice, snow, or sleet.

Removal expense for a neighbor's trees is permitted only if the trees were felled by a peril insured against under Coverage C.

Up to an additional 5% of the policy limit may be applied. However, regardless of how many trees fall, a maximum of \$1,000 is available for tree debris removal for each occurrence, with a maximum of \$500 per tree.

Reasonable Repairs

This coverage pays for the reasonable expenses incurred by the insured to make necessary repairs to protect property from additional damage following a loss by a covered peril.

Trees, Shrubs and Other Plant

Covers trees, shrubs, and plants, or lawns, on the residence premises for loss occurring from fire, lightning, explosion, riot, aircraft, vehicles not owned or operated by a resident, theft, and vandalism or malicious mischief. This coverage is limited to 5% of the Coverage A limit with a maximum limit of \$500 per tree, shrub, or plant.

The HO-4 and HO-6 provide a limit of 10% of the Coverage C limit or a maximum of \$500 for any one tree, shrub, or plant.

Fire Department Service Charge

Will pay up to \$500 for fire department charges assumed by agreement for fire department charges incurred if the fire department is asked to save or protect covered property from a covered peril. No deductible applies.

Property Removed

This coverage insures property against direct loss while being removed from a premise put in danger by a covered peril. The coverage period is for a maximum of 30 days.

Credit Card, Electronic Fund Transfer Card or Access Device, Forgery and Counterfeit Money

This coverage insures up to \$500 for losses resulting from the following:

- Theft or unauthorized use of these cards;
- Forgery or alteration of the insured's checks;
- The insured's acceptance in good faith of counterfeit money.

Coverage does not apply to loss arising out of business use or the dishonesty of an insured. No deductible is applicable.

Loss Assessment

This coverage provides up to \$1,000 for loss assessments against the insured by an association for direct loss to the property owned by all members by a covered peril.

For example, a condominium owner is assessed for the repair of a community clubhouse that was damaged by lightning. The deductible applies only one time, regardless of the number of assessments in a single occurrence.

Collapse

For HO-2, HO-3, HO-4, HO-5, and HO-6: Covers direct physical loss to covered property if collapse of a building is caused by a covered peril or one of the additional perils listed.

Glass or Safety Glazing Material

This insures against the breakage of glass, including windows and storm doors, which are a part of the covered building. A loss caused directly by earth movement is covered. Additionally, the direct physical loss to covered property caused solely by the pieces, fragments or splinters of broken glass or safety glazing material which is part of a building, storm door or storm window is covered.

This coverage does not apply if the dwelling has been vacant for more than 60 consecutive days immediately before the loss, except when the breakage is caused by earth movement.

Landlord's Furnishings

For HO-2, HO-3, HO-5. This coverage insures up to \$2,500 for loss to appliances, carpeting, and other household furnishings in an apartment on the residence premises, rented or available for rent by the insured.

Ordinance or Law

Pays up to 10% of the Coverage A coverage limit for the increased cost to repair or rebuild a dwelling or other structure to conform to applicable building or land use codes. This coverage is provided as an additional amount of insurance.

Grave Markers

This coverage insures up to \$5,000 for damage to grave markers and mausoleums caused by a covered peril under Coverage C.

Section I General Exclusions

The following general exclusions apply to all Homeowners forms:

- Ordinance or Law;
- Earth Movement;
- Water Damage;
- Power Failure;
- Neglect;
- War;
- Nuclear Hazard;
- Intentional Loss; and
- Governmental Action.

Section I Conditions

Insurable Interest and Limit of Liability;	Abandonment of Property;
Duties After Loss;	Mortgage Clause;
Loss Settlement;	No Benefit to Bailee;
Loss to a Pair or Set;	Nuclear Hazard Clause;
Appraisal;	Recovered Property;
Other Insurance and Service Agreement;	Volcanic Eruption Period;
Suit Against Us;	Policy Period;
Our Option;	Concealment Or Fraud; and
Loss Payment;	Loss Payable Clause.

D. SECTION II - LIABILITY COVERAGE

The two major coverage types provided under Section II of the Homeowners policy apply to all HO policy forms:

1. Coverage E – Personal Liability
2. Coverage F – Medical Payments to Others.

Coverage E - Liability

Coverage E protects the insured from legal liability for bodily injury or property damage to others. Coverage applies to liability for accidental bodily injury or property damage arising out of the insured's personal, nonbusiness activities that occur anywhere in the world.

In the Homeowners policy:

1. Bodily injury means bodily harm, sickness, or disease including required care, loss of services, and death;
2. Property damage means physical injury to or destruction of tangible property, including loss of use.

Below are examples of accidents that a homeowner may be held liable for:

- The homeowner's neighbor suffers a broken hip after slipping on the freshly mopped kitchen floor;
- A tree limb falls and damages a visitor's automobile parked in the homeowner's driveway;
- The homeowner's six-year-old son throws a rock that hits and breaks a window in a neighbor's house;
- The homeowner's dog bites the neighbor's little girl.
- The homeowner may also be held liable for damages arising out of personal activities away from their home.

Coverage E also applies to liability for bodily injury or property damage occurring from other locations. These include:

- The premises described in the Declarations;
- Residences newly acquired during the policy period;
- Locations where an insured is temporarily residing;
- Locations an insured is renting for nonbusiness use;

- Vacant land owned or rented by the insured;
- The insured's land on which a residence is being built; and
- Cemetery plots or burial vaults.

Coverage F – Medical Payments to Others (Med Pay)

This coverage pays all necessary medical and related expenses incurred within three years from the date of an accident that causes bodily injury to a guest on the residence premises. Unlike Coverage E, payments are made without regard to the insured's legal liability. In other words, negligence on the part of the insured does not need to be proven for med pay coverage to apply.

Medical expenses include charges for medical, surgical, x-ray, dental, ambulance, hospital, professional nursing and prosthetic devices. Expenses for funeral services are not included.

Med Pay applies to injuries:

1. Sustained while the injured party is on an insured location with any insured's permission; or
2. Sustained while the injured party is off the insured location if the injury arises out of a condition:
 - On the insured location;
 - On a location immediately adjoining the insured location;
 - Caused by the activities of an insured Caused by any residence employee in the course of his or her employment;
 - Caused by an animal owned by or in the care of any insured.

Coverage F is sometimes called "guest medical" because an injury occurring to the named insured or regular residents, other than residence employees, is not covered. Coverage F has a limit of \$1,000 per person per accident

LIMITS OF LIABILITY

For Coverage E, the basic liability limit provided for all bodily injury or property damage arising out of any one occurrence is \$100,000.

For Coverage F, the basic limit is \$1,000 per person for each occurrence. Higher limits are available for additional premium.

Section II – Additional Coverages

There are four additional coverages available:

Claims Expenses

The following coverages are in addition to the limits of liability:

- Expenses incurred when defending the insured in a lawsuit;
- Premium on bonds not to exceed the Coverage E limit of liability;
- Loss of earnings incurred by an insured, up to \$250 per day, for assisting us in the investigation or defense of a claim or suit;
- Prejudgment interest; and
- Postjudgment interest.

First Aid Expenses

The insurer will pay expenses incurred by the insured for first aid to others for “bodily injury” covered under this policy. The company will not pay for first aid to an insured under the policy.

Damage to Property of Others

Up to \$1,000 coverage is provided per occurrence for damage to property of others caused by an insured.

Coverage does not apply:

- If the property damage is covered under Section I;
- If the property damage is 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 your household; or
- Damage arising out of the insured’s business activities;
- Damage that occurs at another location other than the insured location;
- Damage that occurs in connection aircraft, hovercraft, watercraft, or motor vehicle that are designed to be used on public roads.

Vehicles that are designed for recreational use off public roads, or that are not required by a government agency to be registered for use on public roads or property, are covered.

Loss Assessments

Up to \$1,000 applies to assessments against the insured by an association of property owners, as a result of loss to the association from:

- An occurrence at the residence premises not excluded under Section II of the policy; or
- Liability for an elected but directors, officers or trustees of the condominium that serve without pay.

Section II — Conditions

There are numerous Section II conditions, many of which are the same as in Section I. However, the following conditions are exclusive to Section I:

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

The injured person (or designee) will:

1. Provide the insurance company with written proof of claim, under oath if required, as soon as is practical; and
2. Authorize the insurance company to obtain copies of medical reports and records.

In addition, the injured person will submit to a physical exam by a doctor selected by the insurance company as often as the company reasonably requires.

Payment of Claim – Coverage F – Medical Payments to Others

Payment by the insurance company is not an admission of liability by the company or the insured.

Other Insurance

Coverage E is considered excess insurance over other insurance, except for liability insurance specifically written to be excess over the limits of liability that apply to the Homeowners policy, such as a personal Umbrella policy.

Policy Period

Coverage is provided only to bodily injury or property damage to others which occurs during the policy period.

Section I and II — Conditions

- Liberalization Clause;
- Waiver or Change of Policy Provisions;
- Cancellation;
- Nonrenewal;
- Assignment;
- Subrogation; and
- Death.

Section II – Exclusions

For Coverages E and F:

- Motor Vehicle Liability;
- Watercraft Liability;
- Aircraft Liability;
- Hovercraft Liability;
- Expected or Intended Injury;
- Business;
- Professional Services;
- Insured's Premises Not an "Insured Location";
- War;
- Communicable Disease;
- Sexual Molestation, Corporal Punishment or Physical or Mental Abuse; and
- Controlled Substance.

There are a few exceptions to the watercraft liability exclusion. Coverage is provided for the following:

1. Watercraft in storage;
2. Watercraft (not sailing vessels) that are powered by inboard or inboard-outboard motors or engines that:
 - a. Have 50 horsepower or less and are not owned by the insured; or
 - b. Have more than 50 horsepower and are not owned by or rented to an insured.
 - c. Watercraft (not sailing vessels) that are powered by one or more outboard engines or motors with:
 - 25 total horsepower or less;
 - More than 25 total horsepower if the engine or motor is not owned by the insured;
 - More than 25 total horsepower and owned by the insured who acquired the engine or motor during the policy period;
 - More than 25 total horsepower and owned by the insured who acquired the engine or motor before the policy period if the insured declared them at policy inception, or notifies the insurance company in writing of the insured's intent to insure them within 45 days after the insured acquired them.
3. Sailing vessels, with or without auxiliary power, that are:
 - a. Less than 26 feet long; or
 - b. 26 feet long or more and not owned by or rented to an insured.

Other exclusions that apply to Coverage E include:

1. Any loss assessment charged against the insured as a member of an association, corporation, or community of property owners;
2. Liability assumed under a contract or agreement, except contracts that relate directly to the insured location or contracts where the liability of others is assumed prior to an occurrence;
3. Property damage to property owned by, used by, or in the care of the insured; and
4. Bodily injury or property damage for which the insured is covered under a Nuclear Energy Liability policy.

Other exclusions that apply to Coverage F:

1. Bodily injury to a residence employee that occurs off the insured location and does not arise out of or in the course of work the employee performs for the insured; and
2. Bodily injury due to nuclear reaction, radiation, or radioactive contamination, including any consequential injuries.

In excluding business pursuits, the policy does not exclude:

1. Activities which are usual to nonbusiness pursuits;
2. The occasional rental of the dwelling to others as a residence;
3. The partial rental of the residence; or the use, in part, as an office, school, studio or private garage;
4. Activities for which no insured receives less than \$2,000 in compensation per year;
5. Providing childcare services for no compensation; and
6. Providing childcare services for pay for a relative of the insured.

Finally, liability coverage is provided for an insured under the age of 21 engaged in a part time, self-employed business with no employees. Activities such as babysitting and cutting yards with a push mower would fit this category.

Endorsements

Numerous Homeowners endorsements are available to “customize” the policy for each insured’s needs. Here is a sampling of endorsements pertaining to policy limits, broadening coverages, and liability changes.

First, options which deal with policy limits:

Inflation Guard Endorsement

This endorsement provides an annual increase in the Coverage A and Coverage B amounts. The insured can typically purchase annual increase amounts of 4%, 6%, or 8%.

Permitted Incidental Occupancies

This endorsement overrules the exclusions under the homeowners forms that apply to the insured’s business activities conducted on the residence premises. It also eliminates the Section II exclusion of liability and medical payments coverage in connection with business pursuits for the described business. It expands coverage for other structures, increases coverage for business personal property, and adds liability coverage for described business exposures at the residence premises.

While Coverage B is limited to 10% of Coverage A, additional specific insurance may be issued on detached private structures to supplement Coverage B.

Home Day Care Coverage Endorsement

This endorsement adds property and liability coverage for a home day care business operated by the insured on the residence premises for up to three children.

Business Pursuits

This endorsement expands business pursuit's liability coverage only for an insured that is working from their home for an employer. The form provides for Personal Liability and Medical Payments to Others.

Home Day Care Coverage Endorsement

This endorsement adds property and liability coverage for a home day care business operated by the insured on the residence premises for up to three children.

Limited Fungi, Wet or Dry Rot, or Bacteria Coverage

These endorsements are used only with the HO-3 and HO-5. They add coverage to the Property and/or Liability sections of the policy for property damage and liability losses arising out of fungi, wet or dry rot, or bacteria. The limits for the coverages are scheduled in the endorsement.

Watercraft

This endorsement extends Coverage E - Personal Liability and Coverage F - Medical Payments to Others for liability arising out of the ownership and/or use of certain types of watercraft.

Personal Property Replacement Cost

This endorsement changes Coverage C from ACV to RCV.

Special Coverage Endorsement

This endorsement can be added to provide open peril coverage to both building property and personal property for the HO-6 Condominium Unit Owners Policy.

Scheduled Personal Property Endorsement

The Scheduled Personal Property endorsement provides a separate schedule of insurance for one or more of 9 major categories of valuable property:

1. Jewelry;
2. Furs and fur-trimmed garments;
3. Cameras, projectors, films, and equipment;
4. Musical instruments;
5. Silverware;
6. Golf equipment;
7. Fine arts;
8. Postage stamps; and
9. Coins.

These items typically have a limited amount of coverage under the homeowners policy. With this endorsement, you are allowed to separately schedule one or more of these major categories of property with a separate amount of insurance for each category scheduled.

After you have scheduled items of personal property on this endorsement, the property is not subject to the coverage limitations that apply to unscheduled personal property under the Homeowners policy.

Coverage is provided on an open peril basis with no deductible. Losses may be paid on an actual cash value, market value, and repair or replacement cost or value basis, depending on the type of property scheduled.

Personal Injury

Although the standard Homeowners policy covers bodily injury and property damage, it does not cover personal injury. This endorsement extends the liability insurance coverage to include damages for which an insured is legally liable caused by false arrest, false imprisonment, wrongful eviction, wrongful entry, wrongful detention, malicious prosecution, false representation, humiliation, libel, slander, or invasion of privacy.