Chapter 6: Homeowners, Dwelling and Valuation

The course's own whiteboard summaries, key numbers and common traps for the lessons open so far (12 of 12). Separate from the PrepPass book.

For your own study. Please do not share.

6.1 Homeowners words

About 2 minutes of narration.

BOARD 1 Why the exact word decides a claim — 6.1

ISO HO 00 03 05 11

- Five words: who and where

✓ "You": the named insured

- Plus a resident spouse

BOARD 2 Insured — 6.1

✓ You, plus resident relatives

- Others under 21, in your care
- Student away: under 24 if your relative

Resident niece: yes. Roommate: no.

BOARD 3 Residence premises and insured location — 6.1

✓ "Residence premises": where you reside

- One to four family; you live in one

✓ "Insured location": wider

- Others shown, acquired, or used with them
- Temporary residence, like a hotel
- Vacant land, not farm land
- Land being built on. Cemetery plots.

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BOARD 4 Residence employee 6.1

✓ Maintains or serves the residence premises

- Domestic services, not business
- Temporary substitute: not included

Housekeeper: yes. Holiday temp: no.

BOARD 5 Who and where, worked 6.1

Tess: named insured

- Student: under (24) relative, (21) in care

Read the quotes.

Your turn: worked step by step in lesson 6.1.

Key numbers and formulas 6.1

- Resident niece: yes. Roommate: no.
- Housekeeper: yes. Holiday temp: no.
- Read the quotes.

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Why the tempting answers fail (from the section practice) 6.1

1. Under ISO HO 00 03 05 11, a named insured's spouse lives with her. How does the form treat "you"? 6.1

   Right: It includes the resident spouse. The form says so.

   - It includes neither of the spouses: The form says otherwise.
   - It includes the spouse at age 21: Age is not the rule here.
   - It includes any adult guest as well: A guest is not included.

2. Under ISO HO 00 03 05 11, a 22-year-old, full-time student who is the named insured's son moved out for college. Is he an "insured"? 6.1

   Right: Yes, under the student rule. A resident before moving out, a full-time student, and under 24 as a relative.

   - No, since he is over age 21: 24 is the limit for a relative.
   - Only with an endorsement: No endorsement is needed for it.
   - No, since he has moved out: The student rule covers this.

3. Under ISO HO 00 03 05 11, which is an "insured location"? 6.1

   Right: Land where a home for an insured is being built. That is 6.f.

   - A store the insured runs for profit downtown: That is a business.
   - A friend's home the insured visits for dinner: She is a guest for dinner, not temporarily residing there.
   - A farm that the insured leases out to others: Farm land is left out of vacant land.

4. Under ISO HO 00 03 05 11, a nanny works full time for an insured at home. Which term fits her? 6.1

   Right: "Residence employee". Her duties serve the residence premises.

   - "Claimant": That is someone with a claim.
   - "Named insured": That is the policyholder.
   - "Mortgagee": That is a lender.

5. Under ISO HO 00 03 05 11, which pair both can be "residence premises"? 6.1

   Right: A one-family dwelling or the part of a building where you reside. Those are 11.a and 11.c.

   - A neighbor's house or the vacation rental you stayed in: You do not reside there.
   - A storage unit or the parking space you rent downtown: You do not reside there.
   - A leased store or the warehouse behind it where you work: Those are not residences.

6.2 Six homeowners forms

About 4 minutes of narration.

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BOARD 1 Two questions for each form 6.2

- 1. Who buys it?
- 2. Which perils: building? contents?

CDI outline: current ISO editions

HO 00 03 05 11

- Company forms can differ

BOARD 2 Open or named 6.2

✓ Named: the cause must be on the list

✓ Open: covered unless excluded

- Open peril: look for the exclusion

✗ ~~Open peril covers every cause~~

BOARD 3 HO-3 and HO-2 6.2

Owner-occupant

✓ Dwelling (A, B): open

✓ Contents (C): named, 16 perils

- Fire or lightning … volcanic eruption

HO-2 Broad

✓ Dwelling: named. Contents: named.

BOARD 4 HO-5 6.2

✓ Dwelling: open. Contents: open.

- "Everything that is not specifically excluded"
- Wider on contents than HO-3

✗ ~~HO-3 contents are open peril~~

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BOARD 5 HO-4 and HO-6 6.2

Tenant: HO-4

✓ HO-4: no dwelling coverage

- Contents: broad named perils. Liability too.

Condo owner: HO-6

✓ HO-6: interior coverings the association leaves out

- Belongings and liability too

BOARD 6 HO-8 6.2

✓ HO-8: home does not fit the other forms

- Extensive depreciation
- More restrictive coverage
- Replacement cost form does not fit

BOARD 7 Sort four people 6.2

1. Maria: owner, wants open peril contents
   1. HO-5
2. Ben: tenant
   2. HO-4
3. Lin: condo unit owner
   3. HO-6
4. Sam: old house, does not fit other forms
   4. HO-8

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BOARD 8 The whole table 6.2

Form	Building	Contents
HO-2	Named	Named
HO-3	Open	Named
HO-4	None	Named
HO-5	Open	Open
HO-6	Unit items	Named
HO-8	Restricted	Restricted

Who first, then read across

Key numbers and formulas 6.2

- 1. HO-5
- 2. HO-4
- 3. HO-6
- 4. HO-8
- Who first, then read across

Common traps: each line is a wrong belief 6.2

✗ Open peril covers every cause

✗ HO-3 contents are open peril

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Why the tempting answers fail (from the section practice) 6.2

1. In ISO's 05 11 homeowners forms, an owner wants named peril coverage on both her house and her belongings. Which form matches? 6.2

   Right: HO-2. HO-2 names the perils for both.

   - HO-3: HO-3 is open peril on the house.
   - HO-5: HO-5 is open peril on both.
   - HO-4: HO-4 has no dwelling coverage.

2. HO 00 03 05 11 is the HO-3 edition taught here. Which line describes that form correctly? 6.2

   Right: Open peril on the dwelling, named perils on contents. The form insures A and B for direct physical loss and lists perils for C.

   - Open peril on both the dwelling and the contents: That is HO-5.
   - Named perils on the dwelling, open peril on contents: This reverses the two.
   - Named perils on both the dwelling and the contents: That is HO-2.

3. In ISO's 05 11 homeowners forms, a college student rents an apartment and wants her clothes and laptop insured, plus personal liability. Which form fits? 6.2

   Right: HO-4. HO-4 is the tenant's contents form.

   - HO-3: HO-3 is for an owner-occupant of a house.
   - HO-6: HO-6 is for a condo owner.
   - HO-8: HO-8 is for an owner-occupied home.

4. In ISO's 05 11 homeowners forms, which form gives open peril coverage on the dwelling and also on personal property? 6.2

   Right: HO-5. HO-5 is open on both.

   - HO-2: HO-2 is named on both.
   - HO-6: HO-6 is the unit owner's form, with named perils on contents.
   - HO-3: HO-3 stays named on contents.

5. In ISO's 05 11 homeowners forms, a unit owner's association policy leaves out interior floor and ceiling coverings. Which form picks them up? 6.2

   Right: HO-6. HO-6 covers what the association's policy does not.

   - HO-8: HO-8 is for homes that do not fit other forms.
   - HO-2: HO-2 is an owner's form for a dwelling.
   - HO-4: HO-4 is a tenant's form.

6. In ISO's 05 11 homeowners forms, an owner's old house has extensive depreciation and does not fit the other forms. Which form is designed for it? 6.2

   Right: HO-8. HO-8 fits a home that does not meet the other forms' requirements.

   - HO-2: HO-2 is a broad named peril form for a qualifying home.
   - HO-5: HO-5 is the broadest form for a qualifying home.
   - HO-4: HO-4 has no dwelling coverage.

6.3 Coverages A and B

About 3 minutes of narration.

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BOARD 1 Who is insured

6.3

Form: HO 00 03 05 11

✓ "You": named insured + resident spouse

✓ "Insured": you + resident relatives

- Resident under 21 in your care
- Full-time student away at school
- Under 24 if relative. Under 21 if in your care.

BOARD 2 The dwelling

6.3

✓ Includes structures attached

Attached garage: A

- Materials on or next to the premises

✗ ~~Coverage A pays for the land~~

- Rebuild cost differs from market value

BOARD 3 Coverage B

6.3

✓ Test: set apart by clear space

- Fence or utility line: still B
- Detached garage, shed, fence

✓ Limit: 10% of A

✗ ~~Coverage B reduces Coverage A~~

- More available for extra premium

BOARD 4 What B leaves out

6.3

Rented to a non-tenant

- Exception: used solely as a private garage

Business conducted from it

Shed turned into a repair shop: not covered

- Land: out

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BOARD 5 How A and B pay 6.3

✓ Buildings: replacement cost, on a condition

✓ Insured to at least 80%

ACV = cost to replace - depreciation

- ACV: awnings, carpeting, appliances
- ACV: structures that are not buildings

Numbers: lesson 6.11

BOARD 6 Walk one property 6.3

Coverage A: $500,000

Attached garage: A

Shed with clear space

Shed: B

10% x $500,000 = $50,000

- A stays $500,000

Print shop in the shed

✗ ~~The shed keeps Coverage B with a business inside~~

- Land: no coverage

BOARD 7 Carry this 6.3

✓ Attached: A. Clear space: B.

✓ B: 10% of A, in addition

✓ No land. No business structures in B.

Key numbers and formulas 6.3

- Shed turned into a repair shop: not covered
- ACV = cost to replace - depreciation
- Attached garage: A
- Shed: B
- 10% x $500,000 = $50,000

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Common traps: each line is a wrong belief 6.3

✗ Coverage A pays for the land

✗ Coverage B reduces Coverage A

✗ The shed keeps Coverage B with a business inside

Why the tempting answers fail (from the section practice) 6.3

1. Under HO-3 (HO 00 03 05 11), a 19-year-old nephew lives in the household. Which term fits him? 6.3

   Right: An insured, as a resident relative. Resident relatives are insureds.

   - Not an insured, because he is not a child: The form says relatives, not only children.
   - Named insured, because he lives there: The named insured is the person in the declarations.
   - Insured only while inside the home: The form has no such location limit for relatives.

2. Under HO-3 (HO 00 03 05 11), building materials for a repair are stored next to the house and burn in a fire. Which coverage reaches them? 6.3

   Right: Coverage A. Materials and supplies on or next to the premises are in Coverage A.

   - Coverage B: Coverage B is structures.
   - No coverage at all: The form lists them.
   - Coverage E: Coverage E is liability.

3. Under HO-3 (HO 00 03 05 11), a house has Coverage A of $300,000. A detached garage burns for $20,000. How much remains on Coverage A for the same loss? 6.3

   Right: $300,000, because B does not reduce A. Use of Coverage B does not reduce the Coverage A limit.

   - $280,000, because B reduces A: That treats B as part of A.
   - $270,000, because B is taken from A first: That takes 10% off A, which the form does not do.
   - $30,000, because that is the whole limit: $30,000 is the Coverage B limit, not what remains on A.

4. Under HO-3 (HO 00 03 05 11), a detached garage is rented to a neighbor who has no tenancy in the house. He parks his car there and nothing else. What result? 6.3

   Right: Covered, as a private garage. A rental to a non-tenant is out unless used solely as a private garage.

   - Moved into Coverage A: It is still not attached.
   - Excluded, since it is rented: This misses the exception.
   - Covered only for half the loss: There is no half rule.

5. Under HO-3 (HO 00 03 05 11), a wooden fence stands alone in the yard and is damaged by a covered peril. On what basis does it settle? 6.3

   Right: Actual cash value. Structures that are not buildings settle at actual cash value.

   - Agreed value: There is no agreed value in this clause.
   - Market value of the house: That is not a valuation basis in this clause.
   - Replacement cost new: Replacement cost is for buildings that meet the condition.

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6.4 Coverage C and special limits

About 4 minutes of narration.

BOARD 1 What Coverage C reaches 6.4

Form: HO 00 03 05 11

✓ Owned or used by an insured, anywhere in the world

Suitcase stolen abroad: C can respond

Other residences

- Usually kept at another residence

✓ 10% of C or $1,000, whichever is greater

- Short trip: full limit

BOARD 2 How it pays 6.4

✓ Default: actual cash value

ACV = replacement cost - depreciation

New cost $2,000. Depreciation $800.

Pays $1,200 before deductible

Endorsement: lesson 6.7

BOARD 3 Not covered at all 6.4

✗ ~~A scheduled ring is also paid under C~~

- Animals, birds, fish
- Motor vehicles, with narrow exceptions
- Aircraft, except model or hobby
- Unrelated roomers and boarders

BOARD 4 Special limits by category 6.4

Any cause of loss	Limit
✗ ~~Special limits increase Coverage C~~	
Money, coins, bullion	$200
Securities, deeds, tickets, stamps	$1,500
Watercraft, trailers, motors	$1,500
Business property: home / away	$2,500 / $1,500

BOARD 5 Special limits for theft only 6.4

Theft only	Limit
Jewelry, watches, furs	$1,500
Firearms	$2,500
Silverware, goldware	$2,500

Fire destroys a $6,000 ring

Fire: theft limit does not apply

- Read the cause first

BOARD 6 A limit is not a second policy 6.4

✓ All property in the category, each loss

3 rings + 2 watches: one $1,500

- Each category stands alone

Jewelry $1,500 + firearms $2,500

- All inside Coverage C

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BOARD 7 Run three losses 6.4

1. Theft: $3,000 of jewelry
   1. Pays up to $1,500
2. Fire: $500 cash
   2. Pays up to $200
3. Theft: $2,000 television
   3. No special limit

Scheduling: lesson 8.7

Key numbers and formulas 6.4

- ACV = replacement cost - depreciation
- Pays $1,200 before deductible
- Fire: theft limit does not apply
- Jewelry $1,500 + firearms $2,500
- 1. Pays up to $1,500
- 2. Pays up to $200
- 3. No special limit

Common traps: each line is a wrong belief 6.4

✗ A scheduled ring is also paid under C

✗ Special limits increase Coverage C

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Why the tempting answers fail (from the section practice) 6.4

1. Under HO-3 (HO 00 03 05 11), which class of property has a special limit that applies only when the loss is by theft? 6.4

   Right: Firearms and related equipment. The form limits firearms for loss by theft.

   - Watercraft and trailers: The watercraft limit applies to any cause.
   - Money and bank notes: The money limit applies to any cause.
   - Securities, deeds and passports held at home: The securities limit applies to any cause.

2. Under HO-3 (HO 00 03 05 11), jewelry worth $5,000 is stolen, and there is no schedule. Before any deductible, what is the most Coverage C pays? 6.4

   Right: $1,500. Theft of jewelry is limited to $1,500.

   - $5,000: The special limit caps it.
   - $200: $200 is the money limit.
   - $2,500: $2,500 is for firearms or silverware.

3. Under HO-3 (HO 00 03 05 11), a son living in a dormitory has property stolen there. He stays an insured as a full-time student under 24. What limit applies to property usually kept at the dorm? 6.4

   Right: 10% of C or $1,000, whichever is greater. Property usually kept at another residence has this limit.

   - No coverage at all away from the residence premises: Coverage C applies anywhere in the world.
   - $1,500, the theft limit: That is for jewelry theft.
   - The full Coverage C limit: The reduced limit applies to property usually kept elsewhere.

4. Under HO-3 (HO 00 03 05 11), $3,000 of business inventory is destroyed by fire at the insured's home. What is the most Coverage C pays? 6.4

   Right: $2,500. Business property on the residence premises has a $2,500 limit.

   - $3,000: The special limit caps it.
   - $1,500: $1,500 is the limit away from the premises.
   - $200: $200 is the money limit.

5. Under HO-3 (HO 00 03 05 11), a boarder who is not related to the insured loses his stereo in a covered fire. What result under Coverage C? 6.4

   Right: Not covered. Property of unrelated roomers and boarders is not covered.

   - Covered as property on the premises: Location does not bring it in.
   - Covered up to $1,500: There is no such limit for it.
   - Covered at replacement cost: It is not covered on any basis.

6. Under HO-3 (HO 00 03 05 11), a stolen ring is scheduled by endorsement for $8,000. What does Coverage C itself pay for the ring? 6.4

   Right: Nothing for that ring. Articles separately described and specifically insured are out of Coverage C.

   - $8,000, plus the $1,500 special limit: The schedule does not stack on C.
   - Half of $8,000: There is no half rule.
   - $1,500: The $1,500 limit is for unscheduled jewelry.

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6.5 Loss of use, duties, extras

About 4 minutes of narration.

BOARD 1 Coverage D has three parts 6.5

Form: HO 00 03 05 11

✓ 1. Additional living expense

- Unfit to live in: pays the increase
- Normal standard of living
- Shortest time to repair or settle elsewhere

✗ ~~ALE pays the whole hotel and the mortgage~~

BOARD 2 The other two parts 6.5

✓ 2. Fair rental value

Rental value - expenses that stop

✓ 3. Civil authority

- Neighbor's premises damaged by a covered peril
- No more than two weeks
- Normally 20% of A

✓ Not limited by policy expiration

BOARD 3 Duties after a loss 6.5

- Prompt notice. Police for theft.
- Protect the property. Keep records.
- Cooperate. Prepare an inventory.
- Show damage. Examination under oath.

Signed, sworn proof of loss

✓ Within 60 days after the insurer's request

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BOARD 4 Debris and property removed 6.5

✓ Debris removal: inside the limit

✓ Over the limit: extra 5% of that limit

Property removed

- Direct loss from any cause

✓ No more than 30 days

Truck tips over during evacuation: covered

BOARD 5 Smaller extras 6.5

Extra	Limit
Trees, shrubs, plants	5% of A; $500 per tree
• Listed perils do not include windstorm	
Removing fallen trees	$1,000 per loss
Fire department charge	$500, no deductible
Credit card, forgery	$500
Loss assessment	$1,000

BOARD 6 What counts as extra 6.5

Mortgage $2,000: continues

Rental $3,000

Mortgage: not an increase

Rental: $3,000 a month is the increase

- Bills that stop reduce the increase

Keep receipts

BOARD 7 Debris on a total loss 6.5

Coverage A $300,000. Damage over the limit.

Debris removal: $20,000

5% x $300,000 = $15,000

Extra paid: $15,000

Left with the owner: $5,000

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Key numbers and formulas 6.5

- Rental value - expenses that stop
- Mortgage: not an increase
- Rental: $3,000 a month is the increase
- 5% x $300,000 = $15,000
- Extra paid: $15,000
- Left with the owner: $5,000

Common traps: each line is a wrong belief 6.5

✗ ALE pays the whole hotel and the mortgage

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Why the tempting answers fail (from the section practice) 6.5

1. Under HO-3 (HO 00 03 05 11), a fire makes a home unfit to live in. The family's normal food bill is $600 a month, and during repairs it is $1,000 a month. What part of the food bill counts as additional living expense? 6.5

   Right: $400 a month. Only the necessary increase counts.

   - $1,000 a month: That includes food they would buy anyway.
   - $600 a month: That is the normal cost, not the increase.
   - $1,600 a month: That adds the two bills, which the form does not do.

2. Under HO-3 (HO 00 03 05 11), Coverage A is $400,000. By CDI's description of a normal limit, what would Coverage D usually be? 6.5

   Right: $80,000. CDI says normally 20% of Coverage A.

   - $40,000: That is the Coverage B figure.
   - $20,000: That is 5%.
   - $200,000 excess: That is 50%.

3. Under HO-3 (HO 00 03 05 11), repairs run past the policy's expiration date while the family is still out of the house. What happens to Coverage D? 6.5

   Right: It continues. The form says these periods are not limited by expiration.

   - It drops to half pay: There is no half rule.
   - It stops unless renewed: Renewal is not the test.
   - It stops on the expiration date: Expiration does not cut off this period.

4. Under HO-3 (HO 00 03 05 11), which of these is a duty after loss under the form? 6.5

   Right: Protect the property from further damage. Protecting the property is a listed duty.

   - Sue the person who caused the loss: The form does not require that.
   - Hire a public adjuster: The form does not require that.
   - Repair the home before notifying the insurer: Notice comes first, and repairs must be shown as required.

5. Under HO-3 (HO 00 03 05 11), a bicycle is stolen from a garage. Besides prompt notice to the insurer, what else does the form require? 6.5

   Right: Notify the police. The form requires police notice for theft.

   - Notify the state regulator: That is not a duty in this clause.
   - File a suit: That is not a duty in this clause.
   - Notify the lender: That is not a duty in this clause.

6. Under HO-3 (HO 00 03 05 11), a dwelling limit is $400,000. Damage alone uses it all, and debris removal costs $30,000. How much of the debris bill does the form pay? 6.5

   Right: $20,000. The extra is 5% of $400,000, which is $20,000.

   Steps: Damage plus debris is over the limit, so the extra opens. → 5% x $400,000 = $20,000. → The extra pays $20,000 of the $30,000 bill.

   - $30,000: The extra amount is capped at 5%.
   - $40,000: That is 10%.
   - $0: The extra amount opens when damage plus debris exceeds the limit.

7. Under HO-3 (HO 00 03 05 11), furniture is moved out of a threatened home and stolen from a storage unit ten days later. What result under property removed? 6.5

   Right: Covered, as a direct loss within 30 days. Removed property is insured against direct loss from any cause, for up to 30 days.

   - Not covered once it leaves the premises: This coverage exists for property that has left.
   - Not covered, since theft is a limited peril: Any cause applies while removed.
   - Covered only if the fire reached the home: The premises need only be endangered.

6.6 Earth movement, flood, code

About 4 minutes of narration.

BOARD 1 Two big exclusions 6.6

Form: HO 00 03 05 11

✓ Earth movement: quake, slide, mudflow, sinkhole

✓ Water: flood, surface water, waves, tides

- Sewer backup. Water below the surface.
- Whatever else contributes
- Earthquake and flood: separate coverage

BOARD 2 What comes back 6.6

✓ Fire, explosion or theft that results: covered

Quake breaks a gas line. Fire follows.

Cracks: excluded

Fire damage: covered

Ins. Code 10088.5

BOARD 3 Efficient proximate cause 6.6

✓ Covered peril was the proximate cause: insurer pays

- Only a remote cause: not liable

Wildfire burns the slope. Rain. Mudslide.

- Mudslide alone would be excluded
- What set the loss in motion?

Fire as efficient proximate cause: can change the result

Outline III.A.1.d

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BOARD 4 The actions of others 6.6

Neighbor's grading. Slope fails.

- Form: still excluded

✓ Owner may sue the negligent party

- Contractor's bad work: same idea

✗ ~~Excluded means nobody owes anything~~

BOARD 5 When a cause is excepted 6.6

Ins. Code 532

- Would not have happened but for it
- Even if the immediate cause was covered

Facts decide which cause counts

- Concurrent cause: two perils, one event
- Fire after quake. Mudslide after wildfire.

BOARD 6 Ordinance or law 6.6

✓ Cost of meeting code: excluded...

✓ ...except the additional coverage

✓ Up to 10% of A

California

✓ Replacement cost policy: at least 10% more

- Additional. Does not reduce A.

BOARD 7 Sort four losses 6.6

River overflow: excluded

Sewer backup: excluded

Fire after a quake: covered

Code upgrade: ordinance or law coverage

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Key numbers and formulas 6.6

- Cracks: excluded
- Fire damage: covered
- Fire as efficient proximate cause: can change the result
- Facts decide which cause counts
- River overflow: excluded
- Sewer backup: excluded
- Fire after a quake: covered
- Code upgrade: ordinance or law coverage

Common traps: each line is a wrong belief 6.6

✗ Excluded means nobody owes anything

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Why the tempting answers fail (from the section practice) 6.6

1. Under HO-3 (HO 00 03 05 11), a sewer backs up through floor drains and ruins a finished basement. What is the likely result with no endorsement? 6.6

   Right: Excluded under the water exclusion. Water that backs up through sewers or drains is excluded.

   - Covered as an accidental discharge: The water exclusion takes this out.
   - Covered under Coverage A only: It is excluded for all Section I coverages.
   - Contents paid, but not the building: It is excluded for both.

2. Under HO-3 (HO 00 03 05 11), an earthquake cracks a foundation and starts a fire that burns the kitchen. What does the form pay? 6.6

   Right: The fire damage, not the cracks. Earth movement is excluded, and resulting fire is given back.

   - The cracks, but not the fire: This reverses the rule.
   - Nothing, as the quake came first: The form gives the fire back.
   - Both, as HO-3 is open peril: Open peril still has exclusions.

3. A wildfire strips a hillside and a later mudslide hits a home. Which statement is the best reasoning? 6.6

   Right: Ask which peril was the efficient proximate cause. That is how Section 530 and CDI's outline frame it.

   - The insured must prove the rain was unusual: That is not the test.
   - Mudslide is always excluded, so the fire is irrelevant: The fire may change the result.
   - Any fire within a year makes every slide covered: There is no one-year rule.

4. A contractor's negligent grading causes a slope to fail, and HO 00 03 05 11 excludes the loss. Which statement is correct? 6.6

   Right: The owner may still have a claim against the contractor. Others' negligence may give a claim even when the policy excludes the loss.

   - The exclusion ends all claims the owner has: The exclusion binds the insurer, not the contractor.
   - The insurer must pay, then sue the contractor: The exclusion still applies, so the insurer owes nothing.
   - The contractor is shielded by the owner's homeowners policy: The policy does not protect the contractor.

5. Under HO-3 (HO 00 03 05 11), Coverage A is $300,000 and code enforcement adds $40,000 after a covered fire. How much does the additional coverage in the form allow? 6.6

   Right: $30,000. 10% of $300,000 is $30,000.

   Steps: Ordinance or law: up to 10% of Coverage A. → 10% x $300,000 = $30,000.

   - $60,000: That is 20%.
   - $40,000: The form's coverage caps below that.
   - $15,000: That is 5%.

6.7 Homeowners endorsements

About 4 minutes of narration.

BOARD 1 What an endorsement does 6.7

Base form: HO 00 03 05 11

- More limit. Better valuation. New exposure.

Outline III.A.1.f

- Names vary. Learn the job.
- What happens without it?

BOARD 2 More limit on property 6.7

✓ Other structures: raises Coverage B

Large detached shop

- Without it: short above 10% of A

✓ Scheduled: itemizes valuables

- Jewelry, furs, coins, guns, antiques
- Often broader coverage

✓ Inflation guard: limit rises automatically

- Premium normally paid at renewal

BOARD 3 Better valuation 6.7

✓ Contents: ACV becomes replacement cost

Old couch: pays new cost

✓ Extended: above A, up to a stated amount

- Rebuild costs more than expected

✓ Code upgrade: added cost of current code

BOARD 4 Exposures on the liability side 6.7

✓ Personal injury: libel, slander, false arrest

- Not bodily injury

✓ Rented residence: another home the insured rents out

✓ Home business: fills the business gap

Liability side: lesson 7.3

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BOARD 5 Why limits drift 6.7

- The 80% test

Same limit. Higher building cost.

Inflation guard answers this

- Still check limits periodically

Extended replacement cost: the disaster bill

Code upgrade: what the law requires

BOARD 6 Workers comp and manufactured homes 6.7

✓ Residence employees: required by California law

Ins. Code 11590

✗ ~~It covers workers in the insured's business~~

Nanny: yes. Shop worker: no.

✓ Manufactured home: adapts the form

BOARD 7 Match the need 6.7

1. Limit falls behind each year

1. Inflation guard

2. $10,000 watch

2. Scheduled personal property

3. Sued for libel

3. Personal injury

4. New-for-old on contents

4. Personal property replacement cost

Key numbers and formulas 6.7

- Inflation guard answers this
- Extended replacement cost: the disaster bill
- Code upgrade: what the law requires
- 1. Inflation guard
- 2. Scheduled personal property
- 3. Personal injury
- 4. Personal property replacement cost

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Common traps: each line is a wrong belief 6.7

✗ It covers workers in the insured's business

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Why the tempting answers fail (from the section practice) 6.7

1. Under California Insurance Code Section 11590, what must a comprehensive personal liability policy contain? 6.7

   Right: Compensation coverage for a residence employee. The section requires that provision.

   - Coverage for all of the insured's business workers: Section 11591 takes business workers out.
   - A separate commercial workers' comp policy: The coverage is in the personal liability policy itself.
   - Nothing about workers' compensation: Section 11590 requires it.

2. In ISO's 05 11 homeowners forms, a client's watch collection and garage shop both exceed the form's limits. Which pair of endorsements addresses them? 6.7

   Right: Scheduled property, and other structures limits. Scheduling lifts valuables, and the other raises Coverage B.

   - Replacement cost contents, and manufactured home: Those address valuation and home type.
   - Inflation guard, and personal injury: Those address limits generally and liability offenses.
   - Code upgrade, and home business: Those address code costs and business exposure.

3. In ISO's 05 11 homeowners forms, a client wants her limits to keep up with building costs during the policy period. Which endorsement fits? 6.7

   Right: Inflation guard. It raises the limit automatically during the term.

   - Scheduled personal property: That itemizes valuables.
   - Personal injury: That adds liability offenses.
   - Home business: That adds business coverage.

4. In ISO's 05 11 homeowners forms, which pair changes valuation, one for contents and one for the dwelling? 6.7

   Right: Contents replacement cost, and extended replacement. One changes the Coverage C basis, and the other goes above the Coverage A limit.

   - Personal injury, and rented residence: Those are liability exposures.
   - Home business, and manufactured home: Those address exposure and home type.
   - Inflation guard, and scheduled personal property items: Neither is a valuation change of this kind.

5. In ISO's 05 11 homeowners forms, an insured is sued for libel over a social media post. What is needed for coverage? 6.7

   Right: The personal injury endorsement. Libel is added by that endorsement.

   - The home business endorsement: That addresses business activity.
   - The base Coverage E alone: Base Coverage E responds to bodily injury and property damage.
   - The inflation guard endorsement: That changes limits.

6. In ISO's 05 11 homeowners forms, a homeowner rents out a second house and also starts a small bookkeeping business at home. Which pair of endorsements addresses these? 6.7

   Right: Additional residence rented, and home business. Each one extends coverage the base form excludes.

   - Code upgrade, and other structures: Those address code cost and Coverage B.
   - Scheduled property, and an inflation guard endorsement: Those address valuables and limits.
   - Manufactured home, and personal injury: Those do not address either exposure.

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7. In ISO's 05 11 homeowners forms, a family lives in a manufactured home and wants a homeowners policy. What adapts the form? 6.7

   Right: A manufactured home endorsement. That is its job.

   - A scheduled property endorsement: That itemizes valuables.
   - A code upgrade endorsement: That pays added code costs.
   - An inflation guard endorsement: That changes limits.

8. California requires which minimum for code upgrade on a replacement cost residential policy? 6.7

   Right: 10% of the dwelling limit, additional. Section 10103 sets no less than 10%, additional.

   - No minimum at all: The statute sets a minimum for these policies.
   - 5% of the dwelling limit, inside it: Below the minimum, and the coverage is additional.
   - 25% of the dwelling limit, inside that limit: Not the statute's figure, and the coverage is additional.

6.8 Dwelling forms, manufactured homes

About 4 minutes of narration.

BOARD 1 Why a dwelling policy exists 6.8

Form taught: DP 00 03 12 02

- Rentals. Homes that do not qualify.

✓ No owner occupancy needed

✓ One to four family building

CDI outline

- At least fire and lightning; can add more

✓ Liability: added by endorsement

BOARD 2 Three forms 6.8

Form	Perils
DP-1 Basic	Narrowest named perils
• Often offered with options	
DP-2 Broad	Longer named list
• Falling objects, weight of ice or snow, water discharge	
DP-3 Special	Open on A and B
DP-3 contents	Named
• Fire, wind, explosion, smoke, vandalism, burglars' damage	

✗ ~~DP-3 contents cover theft~~

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BOARD 3 Where the two families differ 6.8

	HO-3	DP-3
Building / contents	Open / named	Open / named
Owner lives there?	Yes	Not needed
Liability	Included	By endorsement

CDI outline: treat as identical

12 02 cited. 07 14 keeps the figures.

BOARD 4 Empty houses 6.8

- Vacancy takes some losses out

✓ Vandalism: out after more than (60) consecutive days

- Theft: out on the same test
- Being built: not vacant

Tell landlords before day 60

- HO-3 has a 60-day vandalism rule too

BOARD 5 Manufactured homes 6.8

✓ Check the structure, then (match) the coverage

- Physical damage + personal liability
- Home, belongings, patios, decks, sheds

✗ ~~A standard policy covers the home during the move~~

- Move: temporary coverage or endorsement

BOARD 6 Choose a form 6.8

1. Landlord, two units, broadest coverage

1. (DP-3)

Tenant sues: what pays?

Add liability by endorsement

2. Moving a mobile home

2. Ask about transit coverage

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Key numbers and formulas 6.8

- Tell landlords before day 60
- 1. DP-3
- Add liability by endorsement
- 2. Ask about transit coverage

Common traps: each line is a wrong belief 6.8

✗ DP-3 contents cover theft

✗ A standard policy covers the home during the move

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Why the tempting answers fail (from the section practice) 6.8

1. Under DP-3 (DP 00 03 12 02), a rental has been vacant for 75 consecutive days when vandals damage the interior. What result? 6.8

   Right: Not covered, due to vacancy. Vandalism is out after more than 60 consecutive vacant days.

   - Paid only for the contents: The exception is for the vandalism loss.
   - Paid in full, as DP-3 is open peril: Open peril still has this exception.
   - Paid at half value for vacancy: There is no half rule.

2. Under DP-3 (DP 00 03 12 02), an investor wants the broadest property coverage on a duplex rented to two tenant families. Which form fits? 6.8

   Right: DP-3 Special Form. DP-3 is the open peril dwelling form.

   - HO-6 Unit-Owners Form: That is for a condo owner.
   - DP-1 Basic Form: That is the narrowest form.
   - HO-4 Contents Form: That is for a tenant's contents.

3. Which dwelling form under ISO's 12 02 program is open peril on the building and named peril on contents? 6.8

   Right: DP-3. That is DP-3.

   - HO-3: HO-3 has the same pattern, but it is not a dwelling form.
   - DP-1: DP-1 names perils on the building.
   - DP-2: DP-2 names perils on the building.

4. Compared with DP-1 under ISO's 12 02 program, which group does the broad form add? 6.8

   Right: Falling objects, weight of ice or snow, water discharge. Those are broad form perils.

   - Open peril on the dwelling and all other structures on the location: That is DP-3.
   - Earthquake and flood: Those remain excluded.
   - Theft of contents and mysterious disappearance: The base dwelling forms do not add this.

5. A contractor replaces a site-built home with a manufactured home on the same lot. What should an informed agent do first? 6.8

   Right: Identify the structure, then match the coverage. CDI's outline asks agents to match coverage to the structure.

   - Write it as a commercial risk: Nothing here makes it commercial.
   - Keep the same policy, since the lot is unchanged: The structure changed.
   - Move the client to a tenant form: A tenant form has no dwelling coverage.

6. Under DP-3 (DP 00 03 12 02), a landlord's client compares the form with HO 00 03 05 11. Which difference is right? 6.8

   Right: Liability: added on DP-3, included on HO-3. That is the key difference.

   - HO-3 needs no owner living there, and DP-3 does: This reverses the occupancy rule.
   - DP-3 is named peril on the building, and HO-3 is open: Both are open peril on the building.
   - DP-3 covers flood, and HO-3 does not: Neither covers flood.

6.9 Dwelling coverages A to E

About 4 minutes of narration.

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BOARD 1 Who is protected 6.9

Form: DP 00 03 12 02

✓ "You": named insured + resident spouse

✓ Contents: you or family living with you

• Guest or servant: at your request, on the location

✗ ~~The landlord's DP covers the tenant's furniture~~

BOARD 2 Property in and out 6.9

• A: dwelling, attached structures, materials

• B: clear space

✓ B: up to 10% of A

• C: usual to a dwelling, on the location

✓ Worldwide: up to 10% of C

✗ ~~Money and securities are Coverage C~~

• Watercraft out, except rowboats and canoes

BOARD 3 How a loss settles 6.9

✓ Contents: ACV

✓ Buildings: replacement cost if insured to 80%

• Under 80%: greater of ACV or proportion

• DP-1: usually ACV on the building

• Which form? Which coverage?

Numbers: lesson 6.11

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BOARD 4 Rental value and ALE 6.9

✓ Pays fair rental value of the rented part

Rent - expenses that stop

- Shortest time to repair
- Civil authority: two weeks at most

✗ ~~Coverage D pays for a canceled lease~~

✓ Coverage E, ALE: the occupant owner's extra living cost

- E: DP-2 and DP-3. Owner-occupied.

✓ D + E: up to 20% of A, additional

California endorsements exist. Read the policy.

BOARD 5 Three limits to know 6.9

Other coverage	Limit
Debris removal	Inside the limit
✗ ~~DP-3 adds 5% for debris~~	
Property removed	30 days; any direct loss
• Limit stays the same	
Ordinance or law	Up to 10% of A

BOARD 6 One rental, one fire 6.9

Coverage A $200,000. Rent $2,000 a month.

Unfit for 3 months

Yard service $200 a month stops

($2,000 - $200) x 3 = $5,400

Coverage D: $5,400

Tenant's sofa: not this policy

10% x $200,000 = $20,000

Owner keeps $10,000 of the code bill

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Key numbers and formulas 6.9

- Rent - expenses that stop
- ($2,000 - $200) x 3 = $5,400
- Coverage D: $5,400
- Tenant's sofa: not this policy
- 10% x $200,000 = $20,000
- Owner keeps $10,000 of the code bill

Common traps: each line is a wrong belief 6.9

✗ The landlord's DP covers the tenant's furniture

✗ Money and securities are Coverage C

✗ Coverage D pays for a canceled lease

✗ DP-3 adds 5% for debris

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Why the tempting answers fail (from the section practice) 6.9

1. Under DP-3 (DP 00 03 12 02), a houseguest's camera is destroyed by a covered fire at the location. When can Coverage C pay? 6.9

   Right: After a loss, if the insured asks. The form covers a guest's property at your request, after a loss.

   - Only if the guest is a relative: The relationship is not the test.
   - Never, under any request: The request can bring it in.
   - Automatically, as a guest is an insured: A guest is not automatically protected.

2. Under DP-3 (DP 00 03 12 02), a landlord's Coverage A limit is $400,000. A detached garage burns. How much may the landlord use for it? 6.9

   Right: Up to $40,000. 10% of Coverage A is $40,000.

   - Up to $80,000: That is 20%.
   - Up to $20,000: That is 5%.
   - Up to $400,000: That is the dwelling limit.

3. Under DP-3 (DP 00 03 12 02), a covered fire damages the dwelling and contents. Which settlement pair is right, with the building insured to 90% of replacement cost? 6.9

   Right: Building at replacement cost, contents at actual cash value. 80% or more gives replacement cost on the building, and contents settle at ACV.

   - Both at replacement cost: Contents settle at ACV.
   - Both at actual cash value: The building met the 80% test.
   - Building at actual cash value, contents at replacement cost: This reverses the two.

4. Under DP-3 (DP 00 03 12 02), which item is out of Coverage C? 6.9

   Right: Cash kept in a drawer. Money is listed as not covered.

   - A landlord's lawn mower: Service equipment usual to the dwelling fits.
   - A refrigerator supplied to the tenant: It is personal property usual to the occupancy.
   - A canoe kept at the location: Rowboats and canoes are the exception to the watercraft exclusion.

5. Under DP-3 (DP 00 03 12 02), a covered fire leaves a rental unfit for four months. Rent is $1,500 a month, and $100 a month of expenses stop. What does Coverage D pay? 6.9

   Right: $5,600. ($1,500 - $100) x 4 = $5,600.

   Steps: Rent less expenses that stop: $1,500 - $100 = $1,400. → $1,400 × 4 months = $5,600.

   - $1,400: That is only one month.
   - $6,000: That forgets the expenses that stop.
   - $400: That is only the expenses.

6. Under DP-3 (DP 00 03 12 02), which set of limits is right? 6.9

   Right: Debris inside limit, removed 30 days, ordinance 10% of A. Those are this form's figures.

   - Debris under Coverage D, property removed 5 days, ordinance or law 50% of A: None of those match this form.
   - Debris unlimited, property removed 10 days, ordinance or law 20% of A: None of those match this form.
   - Debris 5% extra, property removed 60 days, ordinance or law 5% of A: None of those match this form.

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7. Under DP-3 (DP 00 03 12 02), an owner-occupant must live in a hotel after a covered fire. Which coverage applies? 6.9

   Right: Additional living expense. Her own extra living cost is ALE.

   - Coverage B, since a hotel is a structure: That is other structures on the location.
   - Coverage A, since it follows the dwelling: Coverage A is the building.
   - Fair rental value, since a hotel is a rental: Fair rental value pays for rent she would receive from others.

6.10 Valuation duties of the producer

About 4 minutes of narration.

BOARD 1 Why valuation is its own topic 6.10

Ins. Code 10102

- Underinsured: "thousands of dollars out of your own pocket"
- Duties on those who discuss the number

Outline III.B.1; Ins. Code 2070

- Fire coverage: at least substantially equivalent

BOARD 2 Three producer points 6.10

✓ 1. CE course on homeowners valuation

- Inside the required hours

✓ 2. Document replacement cost at original application

- How it was reached. What it was based on.

✓ 3. Certain unlicensed persons: may not estimate or explain

BOARD 3 Who may estimate 6.10

Ins. Code 1749.85

- Insurer's underwriter, actuary, or identified person
- Licensed broker-agent in these lines
- Contractor or architect
- Licensed appraiser: estimate, not explain

✗ ~~An office assistant may quote the rebuild number~~

Assistant: schedules. Does not explain coverage.

- A wrong number leaves a family short

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BOARD 4 Give them a copy 6.10

- Communicated with an application or renewal

✓ Copy to the buyer

- Limit is an estimate
- Adjust each year
- Rebuild cost differs from market value
- Dwelling limits: no land value

BOARD 5 Disasters and building costs 6.10

Widespread disaster: demand jumps

✓ Demand surge

- Same house, higher rebuild cost
- Code: more cost

Higher limits or extended replacement cost

BOARD 6 Who said what 6.10

Licensed agent explains: allowed

Mortgage clerk gives a rebuild number

Clerk: not allowed

Contractor estimates: allowed

No record of how it was reached

Duty to document: not met

Key numbers and formulas 6.10

- Higher limits or extended replacement cost
- Licensed agent explains: allowed
- Clerk: not allowed
- Contractor estimates: allowed
- Duty to document: not met

Common traps: each line is a wrong belief 6.10

✗ An office assistant may quote the rebuild number

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Why the tempting answers fail (from the section practice) 6.10

1. CDI's outline places which section under the general concepts for homeowners valuation? 6.10

   Right: Section 2070, the standard fire policy. The outline cites Section 2070 there.

   - Section 11580.2, on uninsured motorists: That is auto.
   - Section 1861.02, on auto rating: That is auto.
   - Section 10081, on earthquake offers: That is earthquake.

2. A personal lines broker-agent asks about C E on homeowners valuation. Which statement is right? 6.10

   Right: Required, and counted within C E hours. That is the outline's point.

   - Required, and added on top of the required hours: The outline says included.
   - It applies only to life agents: It is for property, casualty and personal lines.
   - It is optional for personal lines: The outline says all three lines must complete it.

3. An agent quotes a replacement cost figure for a new homeowners application but keeps no notes. Which duty is the concern? 6.10

   Right: Documenting replacement cost at application. That is the outline's stated duty.

   - Getting a contractor to sign it: Not this duty.
   - Filing every estimate with the Commissioner's office: Not this duty.
   - Sending the estimate to the lender: Not this duty.

4. Who may explain the various levels of homeowners coverage under Section 1749.85? 6.10

   Right: A licensed personal lines broker-agent. A licensed personal lines broker-agent is named.

   - An unlicensed office assistant: Unlicensed staff are barred.
   - A home stager: The list names insurer staff, licensed broker-agents, contractors and architects, and a stager is none of those.
   - A real estate agent with no insurance license: That license is not named.

5. After a regional wildfire, rebuild costs jump. Which pairing fits California's residential disclosure? 6.10

   Right: Demand surge, answered by higher limits. That is the disclosure's own pairing.

   - Moral hazard, answered by a lower premium: Not this effect.
   - Depreciation, answered by a lower limit: Not this effect.
   - Coinsurance, answered by a much higher deductible: Not this effect.

6.11 Residential coinsurance math

About 4 minutes of narration.

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BOARD 1 The eighty percent test 6.11

Form: HO 00 03 05 11

Coinsurance idea: carried / required

✓ Required: 80% of full replacement cost at the time of loss

✗ ~~Use the sale price of the house~~

- Left out: below-basement foundations, underground pipes and wiring

Required = 80% x full replacement cost

BOARD 2 Meeting the test 6.11

Replacement cost $500,000

80% x $500,000 = $400,000

- Carrying $400,000 or more: test met

✓ Pays repair cost, no depreciation

- The least of:
- Limit. Replacement cost of the part. Amount spent.

$40,000 loss: pays $40,000

BOARD 3 Missing the test 6.11

- A: actual cash value of the part

B: (carried / required) x replacement cost of the loss

- Never more than the limit

✗ ~~Under 80%, the form pays ACV only~~

✓ Pays the greater of A and B

BOARD 4 Work one partial loss 6.11

Replacement cost $600,000. Carried $360,000.

Fire: $60,000 to repair. ACV of the part: $40,000.

Required: 80% x $600,000

Ignore the deductible

Your turn: worked step by step in lesson 6.11.

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BOARD 5 What the shortfall cost 6.11

Carried $480,000: pays $60,000

Carried $360,000: pays $45,000

Short by $15,000 on a partial loss

BOARD 6 Total loss 6.11

Replacement cost $600,000. Carried $500,000.

Pays up to $500,000

Carried $360,000. Total loss.

Pays the limit: $360,000

- Total loss: the limit decides

BOARD 7 Above the limit 6.11

✓ Guaranteed: regardless of the limit

CDI guide

✓ Extended: above the limit, up to a stated amount

$400,000 x 125% = $500,000

✓ Ordinance or law: added code cost

BOARD 8 ACV or replacement cost 6.11

ACV = repair cost - depreciation

✓ Replacement cost: no depreciation taken

- ACV: most limited. Guaranteed: broadest.
- Often ACV first, until repairs

First check can look small

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Key numbers and formulas

6.11

- Coinsurance idea: carried / required
- Required = 80% x full replacement cost
- 80% x $500,000 = $400,000
- $40,000 loss: pays $40,000
- B: (carried / required) x replacement cost of the loss
- Required: 80% x $600,000
- Short by $15,000 on a partial loss
- Pays up to $500,000
- Pays the limit: $360,000
- $400,000 × 125% = $500,000
- ACV = repair cost - depreciation
- First check can look small

Common traps: each line is a wrong belief

6.11

✗ Use the sale price of the house

✗ Under 80%, the form pays ACV only

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Why the tempting answers fail (from the section practice) 6.11

1. Under HO-3 (HO 00 03 05 11), full replacement cost is $450,000. What is the least insurance that meets the condition for full replacement cost on a partial loss? 6.11

   Right: $360,000. 80% of $450,000 is $360,000.

   - $450,000: That is 100%.
   - $337,500: That is 75%.
   - $225,000: That is 50%.

2. Under HO-3 (HO 00 03 05 11), replacement cost is $500,000, and $300,000 is carried. A partial loss costs $40,000 to repair, and the damaged part's ACV is $28,000. With no deductible, what is paid? 6.11

   Right: $30,000. Required is $400,000. $300,000 / $400,000 x $40,000 = $30,000, more than the ACV.

   Steps: Required: 80% x $500,000 = $400,000. → Proportion: $300,000 / $400,000 x $40,000 = $30,000. → ACV is $28,000. The greater is $30,000.

   - $28,000: That is the lesser figure.
   - $40,000: That needs the test to be met.
   - $24,000: That divides by full replacement cost.

3. Under HO-3 (HO 00 03 05 11), replacement cost is $400,000, and the home is insured for $350,000. A total loss occurs. With no deductible, what is the most the form pays? 6.11

   Right: $350,000. The test is met, and the limit is the ceiling.

   - $400,000: That is above the limit.
   - $320,000: That is the required amount, not the limit.
   - $280,000: That is 80% of the limit.

4. Which statement correctly compares settlement bases? 6.11

   Right: ACV takes off depreciation, and replacement cost does not. That is the difference.

   - Replacement cost takes off depreciation, and ACV does not: This reverses them.
   - ACV includes the value of the land: Land is in neither.
   - They always pay the same amount: They differ whenever depreciation exists.

5. A home has a $400,000 limit with 20% extended replacement cost, and rebuilding costs $520,000. Before code costs, what is the most this coverage pays? 6.11

   Right: $480,000. $400,000 × 120% = $480,000.

   Steps: Extended pays up to the stated percent above the limit. → $400,000 × 120% = $480,000.

   - $520,000: That would be guaranteed replacement cost.
   - $500,000: That is 125%, not 20%.
   - $400,000: That ignores the extended amount.

6. A city requires new wiring to meet code when a damaged home is repaired. In Section 10102's wording, what pays that added cost? 6.11

   Right: Ordinance or law coverage. Section 10102 gives both names.

   - Actual cash value: That is a settlement basis.
   - Fair rental value: That is rental income.
   - Other structures coverage: That is a detached building.

6.12 Lab: one house fire

About 3 minutes of narration.

BOARD 1 The house and the policy 6.12

Form: HO 00 03 05 11. Invented facts.

Owner-occupant. HO-3.

Coverage A $400,000. Deductible $1,000.

Full replacement cost: $480,000

80% x $480,000 = $384,000

$400,000 is over $384,000: test met

BOARD 2 Duties on the night 6.12

- Prompt notice
- Protects the property
- Reasonable repairs: no limit added
- Starts an inventory
- Proof of loss: 60 days from request

BOARD 3 Coverages A and B 6.12

Kitchen + attached garage wall: $60,000

Coverage A: $60,000

Detached shed: $3,000

Coverage B: $3,000

- B does not reduce A
- Had a fence burned: ACV

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BOARD 4 Coverage C

6.12

New cost $20,000. Depreciation $8,000.

$20,000 - $8,000 = $12,000

Cash: $500

Cash: $200

Ring: $2,000, depreciation none

Ring: $2,000

$12,000 + $200 + $2,000 = $14,200

BOARD 5 Coverage D

6.12

4 months out

- Mortgage: not extra

Rental $3,000. Bills saved $500.

($3,000 - $500) x 4 = $10,000

Coverage D: $10,000

BOARD 6 The extras

6.12

Fire department charge: $300

Pays $300, no deductible

Debris: $2,000

Debris: inside the limit, $2,000

- Add to the building line
- Only the cash met a limit
- No earthquake or flood question here

BOARD 7 Total the claim

6.12

- Fire department: after the deductible

Your turn

Your turn: worked step by step in lesson 6.12.

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Key numbers and formulas 6.12

- 80% x $480,000 = $384,000
- $400,000 is over $384,000: test met
- Coverage A: $60,000
- Coverage B: $3,000
- $20,000 - $8,000 = $12,000
- Cash: $200
- Ring: $2,000
- $12,000 + $200 + $2,000 = $14,200
- ($3,000 - $500) x 4 = $10,000
- Coverage D: $10,000
- Pays $300, no deductible
- Debris: inside the limit, $2,000

Why the tempting answers fail (from the section practice) 6.12

1. Under HO-3 (HO 00 03 05 11), on Dana's facts, what stops Coverage C from paying the $500 of burned cash in full? 6.12
   Right: The $200 limit on money. Money has a $200 limit for any cause.
   - The theft limit on jewelry: That is for jewelry.
   - The Coverage D limit: That is for loss of use.
   - The 80% condition: That is for buildings.
2. Under HO-3 (HO 00 03 05 11), on Dana's facts, why does the $60,000 repair pay with no deduction for depreciation? 6.12
   Right: Coverage A meets the 80% test. That is the condition.
   - Coverage D is at 20% of A: Coverage D is a separate limit.
   - Fire is a named peril: HO-3 Coverage A is open peril, and this is not about peril.
   - The house has an attached garage: That decides the coverage, not the settlement.
3. Under HO-3 (HO 00 03 05 11), on Dana's facts, where does the deductible come off? 6.12
   Right: The total loss payable, once. The form says the total of all loss payable.
   - Each coverage separately, every time: That would take it four times.
   - Only Coverage A: The form says the total.
   - Only Coverage C: The form says the total.
4. Under HO-3 (HO 00 03 05 11), Dana's shed had burned, with the repair at $50,000 and Coverage A at $400,000. How much does Coverage B pay? 6.12
   Right: $40,000. 10% of $400,000 is $40,000.
   Steps: Coverage B limit: 10% of $400,000 = $40,000. → The loss of $50,000 is capped at $40,000.
   - $50,000: The limit caps it.
   - $0: The shed is covered up to the limit.
   - $80,000: That is 20%.

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