Lesson 1 Introduction to the Homeowners Policy

In this lesson we will set the foundations for our study of the homeowners policy.

Learning Objectives

After completing this lesson you will be able to:
1. Describe the structure of a Homeowners Policy.
2. Recommend the correct type of Homeowners Policy for a given risk.
3. Determine the type of occupancy of a given risk.
4. Identify risks eligible for Homeowners Policies.
5. Determine whether or not a person is "you" under a given Homeowners Policy.
6. Determine whether or not a specific activity is business activity in the view of a Homeowners Policy.
7. Determine whether or not a given person is an insured under a given Homeowners Policy.
8. Determine whether or not specific locations are insured locations under a given Homeowners Policy.

Forms to use in this lesson

HO 00 03 10 00 - Homeowners 3 Special Form

To get the most out of this lesson please print the form now.

| Note | This form is 22 pages long and will take some time to print. We will refer to this form through this course so keep it available. |
Lesson 1: Topic A Overview and Structure of the Homeowners Policy

In this topic we provide an overview and discuss the structure of the Homeowners Policy.

We will discuss:
- Homeowners Policy Exposures
- Policy Gaps
- Types of Homeowner's Policies
- Policy Structure

Homeowners Policy Exposures

Homeowners Policies are meant to cover the personal exposures of those who live in homes, apartments or condominiums. This policy will protect the insured for losses to real property (i.e. the house), personal property (i.e. contents), and for losses arising out of the insured's personal activities (e.g. playing baseball in a nearby park or playing golf on the golf course).

Policy Gaps

The homeowners policy, however, is not all inclusive and contains gaps into which even the average insured may fall:

Homeowners Policies exclude or limit coverage for some types of property
- Autos - motorized vehicles
- Watercraft
- Aircraft
- Recreational Vehicles
- Business property
- Rental property

Homeowners Policies exclude or limit certain types of losses:
- Ordinance or law
- Debris removal
Homeowners Policies exclude coverage for losses caused by some perils.

- Earthquake
- Flood
- Sewer back-up
- Nuclear

Homeowners Policies exclude liability coverage for losses from certain activities:

- Business activities
- Use of auto, watercraft, aircraft, recreational vehicles
- Rental activities
- Professional activities

Some of these gaps can be covered with separate policies or endorsements.

<table>
<thead>
<tr>
<th>Gap</th>
<th>Policy or Endorsement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>Personal Auto Policy</td>
</tr>
<tr>
<td>Aircraft</td>
<td>Aircraft Policy</td>
</tr>
<tr>
<td>Flood</td>
<td>Flood Policy</td>
</tr>
<tr>
<td>Professional Liability</td>
<td>E &amp; O or Malpractice Policy</td>
</tr>
<tr>
<td>Earthquake</td>
<td>Earthquake Endorsement</td>
</tr>
</tbody>
</table>

Be sure to review the presentation in Lesson 1 Topic A p4 of 14 to illustrate Homeowners Policy Gaps.

Learning Objective: Recommend the correct type of Homeowners Policy for a given risk.

Types of Homeowners Policies

There are several different Homeowners Policies available, and the specific number varies from insurance company to insurance company. We will discuss the Homeowners Special Form in depth in subsequent lessons. This chart summarizes all of the ISO homeowners forms available.
## Types of Homeowners Policies

<table>
<thead>
<tr>
<th>Policy Code</th>
<th>Policy Name</th>
<th>Provides:</th>
<th>Used to insure:</th>
<th>Image</th>
</tr>
</thead>
</table>
| HO 00 02 10 00 | Homeowners 2 - Broad Form   | - 16 Named perils (Broad) dwelling building coverage  
- 16 Named perils (Broad) personal property coverage                               | one to four family owner-occupied dwellings.                                         |       |
| HO 00 03 10 00 | Homeowners 3 - Special Form | - Open perils dwelling building coverage  
- Named perils personal property coverage                                               | one to four family owner-occupied dwellings.                                        |       |
| HO 00 04 10 00 | Homeowners 4 - Tenants/Contents Broad Form | - Named perils (Broad) coverage for tenant owned improvements and betterments  
- Named perils (Broad) personal property coverage                                     | the tenant of an apartment or leased condominium. Also used for occupant of a cooperative or occupant of a rented or one-family dwelling or part of a duplex or multiple-family dwelling. |       |
| HO 00 05 10 00 | Homeowners 5 - Comprehensive Form | - Open perils dwelling building and contents coverage                                           | one to four family owner-occupied dwellings.                                      |       |
Policy Structure

Learning Objective: Describe the structure of a Homeowners Policy.

The Homeowners Policy is a package policy that combines coverage for loss to real and personal property with coverage for personal liability. The coverages are indivisible, that is, you can't write a Homeowners Policy with one of the coverages and not the others. You will generally find a Homeowners Policy structured as follows:

- Declarations Page
  - Coverage A - Dwelling
  - Coverage B - Other Structures
  - Coverage C - Personal Property
  - Coverage D - Loss of Use
  - Coverage E - Personal Liability
  - Coverage F - Medical Payments

- Homeowners Policy Coverage Form

- Endorsements
The format of homeowners policies also varies slightly from one type of Homeowners Policy to another. The amount of each property coverage is based on a percentage of either the dwelling limit or the personal property limit, depending on which type of Homeowners Policy form you are writing. The following chart summarizes how the property coverages are granted in each type of policy.

<table>
<thead>
<tr>
<th>Coverage</th>
<th>HO 2, HO 3 And HO 5</th>
<th>HO 4</th>
<th>HO 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage A - Dwelling</td>
<td>Value of dwelling building (house)</td>
<td>No Coverage A</td>
<td>$1,000</td>
</tr>
<tr>
<td>Coverage B - Other</td>
<td>10% of Coverage A</td>
<td>No Coverage B</td>
<td>No Coverage B</td>
</tr>
<tr>
<td>Structures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage C - Personal</td>
<td>50% of Coverage A</td>
<td>Selected by insured</td>
<td>Selected by insured</td>
</tr>
<tr>
<td>Property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage D - Loss of</td>
<td>30% of Coverage A</td>
<td>30% of Coverage C</td>
<td>50% of Coverage C</td>
</tr>
<tr>
<td>Use</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Some insureds may need different limits for some of the coverages. In later lessons, we'll study which of these can be modified.

**Homeowners Policy Declarations Page**

The first page of a homeowners policy is typically the Declarations Page. This page makes the policy a custom policy for the people and property it covers. Be sure to review the presentation in Lesson 1 Topic A p13 of 14 to illustrate a Sample Declarations Page.
Lesson 1: Topic B Policy Eligibility

The type of policy for which a given person or family is eligible is determined by the type of ownership, the occupancy of the premises and the underwriting guidelines of the insurance company. Ownership is related to the type of dwelling, e.g., one-family home, apartment, etc. Occupancy is concerned with whether or not the insured will occupy the dwelling. The company's underwriting guidelines consider factors such as value, age, the available fire protections, etc.

Ownership and Occupancy

Learning Objective: Determine the type of occupancy of a given risk.

There are many types of ownership and occupancies in the residential world. These are the types of occupancies eligible for Homeowners and Dwelling Policies.

**Single-Family dwelling** - A one-family house.

**Owner occupied** - A dwelling in which one unit is occupied by an owner as a residence.

**Contract of sale** - A dwelling occupied by a person/s who is purchasing the dwelling from the owner under a contract by making monthly payments to the owner, who is the seller. The title remains in the name of the seller.

**Life estate** - A dwelling which the previous owner has deeded to new owner/s, while keeping the right to live in the dwelling for the balance of his or her life.

**Trusts** - A dwelling, which the grantor/beneficiary lives in the residence and it is owned by a trust. The [HO 05 43 Resident Held in Trust Endorsement](#) protects the ownership interests. This can be used only when the trustee, named insured, or the grantor and/or beneficiary regularly reside in the residence.

**Multi-family** - A dwelling building designed to be occupied by more than one family, each in a separate living space. Two-family owner-occupied dwellings are eligible for a Homeowners Policy in all states. Three and four-family, owner-occupied dwellings are eligible for a Homeowners Policy in some states.

**Non-owner occupied** - A one to four-family dwelling in which no portion is occupied by an owner of the building. These are eligible for Dwelling Policies.
Townhouse - Similar to single family dwelling. May be a free standing building or a portion of a building. Owner owns building or portion of the building and land beneath. May be joint ownership of common elements and there may be a property owners association.

Cooperative - A form of property ownership in which each owner owns an interest in the entire building or complex and has a right to occupy a specific area of the building. The owners do not own their apartments or units, as is the case in a condominium.

Condominium - A form of ownership in which each owner owns a specific unit in a multiple-unit building, and is part-owner, along with all the other unit owners, of the common elements of the building such as stairwells, hallways, etc.

The following is a summary of the types of occupancies eligible to be covered by first Homeowners Policies and second Dwelling Policies. These are a reflection of eligibility only and do not imply coverage. The eligible occupancies listed here are from the ISO eligibility rules. Each insurance company has its own Homeowners Manual containing eligibility rules and underwriting guidelines. You must be familiar with the company's guidelines to handle personal residential business with that company.

Learning Objective: Identify risks eligible for Homeowners Policies.

Homeowners Policy Eligibility

1. One, two, three or four family owner-occupied dwelling, used primarily for residential purposes. If the dwelling is a two or more family dwelling and two of the living spaces are occupied by co-owners, a Homeowners Policy may be issued in the name of one of the owner occupants and the other co-owner covered by a Homeowners Tenants Policy. For example, if brothers, Jim and John buy a duplex and each lives in one of the living spaces, Jim could be insured by a Homeowners 3 - Special Form as owner and John by a HO 04 Tenants Form.

2. Each single family unit may have up to two roomers or boarders.

3. Seasonal dwellings. Dwellings that are unoccupied continuously for three or more months.

4. Dwelling under construction.

5. Life Estate - A Homeowners Policy is written for the occupant, and the estate or the new owner is named as additional insured using additional insured endorsement. Trusts - A Homeowners Policy is written for the trustee, named insured, or the grantor/beneficiary who regularly resides in the residence.

6. Contract of sale - Homeowners Policy for buyer/occupant with contract of sale seller named as additional insured on the additional insured endorsement.

7. Non-owner tenant on a HO 04 Tenants Form.
Dwelling Policy Eligibility

1. One to four-family dwelling
2. Owner or non-owner occupied

These are the policies that you use for rental homes owned by the insured and rented to a tenant. They are also used on lower valued dwellings or dwellings in less protected fire districts, which are not eligible for a Homeowners Policy.
Lesson 1: Topic C Definitions

The following definitions are common to all of the provisions of a Homeowners Policy. They are on the first page so that the meaning of key words is presented before the discussion of coverage. The defined words and phrases are in quotation marks wherever they appear in the policy. Remember as we go through this topic that we are discussing definitions and not coverage.

Learning Objective: Determine whether or not a person is "you" under a given Homeowners Policy.

You and Your" are important, because a person who fits the definition gets the broadest coverage the policy provides. To qualify as "you" a person must either:

1. Be named on the Declarations Page; or
2. Be the spouse of a person named on the Declarations Page and be a resident of the same household as the person named on the Declarations Page.

The phrase "resident of the same household" means that the person's legal residence is the household of the spouse named, even though he or she may be temporarily living somewhere else. For example, the person could be living in another state or country on a temporary work assignment and be a resident of the named spouse's household.

Tip Whenever possible, name both spouses on the Declarations Page.

We, Us, and Our

"We," "Us," and "Our" are terms used throughout the policy to refer to the carrier providing coverage.

Aircraft Liability, Hovercraft Liability, Motor Vehicle Liability, and Watercraft Liability

In addition, certain words and phrases are defined in the policy:

"Aircraft Liability," "Hovercraft Liability," "Motor Vehicle Liability" and "Watercraft Liability" are defined for liability coverage exclusions. They include:

a. Ownership
b. Maintenance, occupancy, operation, use, loading or unloading
c. Entrustment
d. Failure to supervise or negligent supervision
e. Vicarious liability

Refer to page 1 of the [HO 00 03 Homeowners 3 Special Form](#) for complete definitions.
**Bodily Injury**

Any injury to the body or any sickness and/or disease that results from the injury (while at an insured location and/or activities of an insured). It also includes death.

**Business**

Learning Objective: Determine whether or not a specific activity is business activity in the view of a Homeowners Policy.

This short definition includes many activities and has serious impact on coverage. The Homeowners Policies are Personal Lines policies intended to cover personal activities. Business is a commercial activity and the policy defines business so that it can exclude it when necessary. The policy defines business as a trade, profession or occupation which habitually occupies time, efforts, attention; and is engaged in for gain, livelihood, or profit.

The following are specifically excepted, and therefore are not a *business:*

1. Any activities, not listed in b., c. or d. below, for which an insured received not more than $2,000 in the twelve months before the inception of the policy
2. Volunteer activities performed for no money other than expenses
3. Home day care for no money other than an exchange of services
4. Home day care to a relative of an insured

**Example**

- Anyone who works for a salary or wages is engaged in *business* while working.
- A person who works as an electrician for a contractor and moonlights by doing electrical work on weekends is engaged in a *business* while working for the contractor and while moonlighting.
- A person who refinishes furniture as a hobby and becomes so good at it that friends bring her furniture to refinish is engaged in a *business,* if the friends pay for the work.

Exceptions: Coverage for insured minors who are involved in the occasional or part-time, self-employed business pursuits of the type normally undertaken by minors. Here are a few examples: baby-sitting, lawn and garden maintenance, newspaper delivery, computer instruction, web page design, and house painting.

**Employee**

This means an employee or leased employee of the insured whose duties are other than those performed by a *residence employee.*
Insured

**Learning Objective:** Determine whether or not a given person is "insured" under a given Homeowners Policy.

This is also an important definition and the ramifications are often missed or misunderstood. It is necessary to be an "insured" to be covered for liability. To be an "insured" a person must fit one of the following criteria:

1. Be "you" as defined above, or
2. Be a resident of the household of "you" as defined above, and
   a. Related to "you," or
   b. Under 21 and in the care of anyone named above.
3. Be a full time student, who was a resident of "your" household, and is under the age:
   a. 24 and is your relative
   b. 21 and not a relative, but in your care

| Note
| HO 05 27 Additional Insured Endorsement - Student Living Away From the Residence Premises can be added to provide insurers with the option to insure students who do not meet the criteria for coverage specified in the above definition.

4. Other members of "your" household

There is a growing number of "insureds" who have nontraditional household arrangements. They might consist of:

- an unrelated senior living with the named insured, also a senior, to share living expenses or for companionship
- a person of any age or gender living with the named insured to share expenses or in a personal relationship

**HO 04 58 10 00 Other Members Of Your Household** endorsement can be used to add coverage for a person who is not an "insured," but is a resident of the named insured's household.

**Examples of number 1**

- John, the owner of the house whose name is listed on the Declarations Page
- John's spouse, Ethel, who resides with John and whose name is not listed on the Declarations Page
- John's wife, Ethel, who is listed on the Declarations page, regardless of her residence
Examples of number 2
- John and Ethel's son, Ralph, who lives with John and Ethel
- Ralph's three year old son, Jeff, who lives with John and Ethel
- A 16 year old exchange student from Germany, who is staying with John and Ethel for the school year

Example of number 3
- John and Ethel's 23 year old daughter, Penelope, who usually lives at home, and is away at college

Example of number 4
- John and Ethel's 69 year old friend, Peter, who is living with them

There are three other categories of "insured." All of them are "insureds" for only Liability Coverage, Section II of the Homeowners Policies. They are:
1. anyone who has custody of an "insured's" animal or animals, with the permission of the insured;
2. anyone who has custody of an "insured's" watercraft with the permission of the insured;
3. and anyone who is using a vehicle which is covered by the Homeowners Policy. The Homeowners Policy provides Liability Coverage for some vehicles and anyone using one of these vehicles is an "insured," provided:
   a. the person is an employee of "you" or a resident relative, or someone under 21 in the care of either you or a resident relative, or
   b. the person is using the vehicle on an insured location, with "your" permission.

Be sure to review the presentation in Lesson 1 Topic C p9 of 16 to illustrate Three Categories of Insured.

1. Loan of a dog gone bad
   John and Ethel ask their neighbor Sam to watch their dog while they are away for the weekend. If John and Ethel's dog bites someone, while they are away, Sam is an insured for Liability Coverage under John and Ethel's Homeowners Policy.

   An exception to this provision is any person or organization that has custody in the course of any business. So, a kennel, which had custody of John and Ethel's dog while they were away for the weekend, would not be an insured under John and Ethel's Homeowners Policy.
2. Covered boating accident
   If John and Ethel loan their boat to Sam, Sam is an insured for Liability Coverage under John and Ethel's Homeowners Policy.

   An exception to this provision is any person or organization that has custody in the course of any business. So, a marina, which had custody of John and Ethel's boat for repairs, would not be an insured under John and Ethel's Homeowners Policy.

3. Covered mini-bike accident
   John and Ethel own a small motorized bike and let a friend ride it in their backyard. The friend is an insured under John and Ethel's Homeowners, as long as the bike is covered.

**Insured location**

**Learning Objective:** Determine whether or not specific locations are "insured" locations under a given Homeowners Policy.

There are eight parts to this definition. These locations are defined for Liability Coverages and do not affect Property Coverage.

<table>
<thead>
<tr>
<th>1. The &quot;residence premises.&quot; (The &quot;residence premises&quot; is defined separately.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Any part of other premises, structures or grounds used by &quot;you&quot; as a residence, if it is:</td>
</tr>
<tr>
<td>a. Listed on the Declarations page, or</td>
</tr>
<tr>
<td>b. &quot;You&quot; become the owner during the policy period.</td>
</tr>
</tbody>
</table>

**Example**
- A second residence owned by John and Ethel and listed on the Declarations page
- A vacation cottage which John and Ethel purchase during the current policy period

<table>
<thead>
<tr>
<th>3. A premises used in connection with either of the first two parts of the definition</th>
</tr>
</thead>
</table>

**Example**
- A mini-storage space rented by John and Ethel to store personal property

<table>
<thead>
<tr>
<th>4. Any place an insured is staying, temporarily, provided the insured doesn't own it</th>
</tr>
</thead>
</table>

**Example**
- A hotel room rented by John and Ethel while on vacation

<table>
<thead>
<tr>
<th>5. Vacant land</th>
</tr>
</thead>
</table>

This is less broad than it seems. If the land is used for farming it is not vacant land. The land can be owned or rented to the "insured."
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6.</td>
<td>Land where an insured is building a home</td>
</tr>
<tr>
<td></td>
<td><strong>Example</strong></td>
</tr>
<tr>
<td></td>
<td>• A lot on which John and Ethel are building their new home</td>
</tr>
<tr>
<td>7.</td>
<td>Cemetery plots</td>
</tr>
<tr>
<td>8.</td>
<td>Part of premises an insured rents for personal use</td>
</tr>
<tr>
<td></td>
<td>This does not include any rental for business use.</td>
</tr>
<tr>
<td></td>
<td><strong>Example</strong></td>
</tr>
<tr>
<td></td>
<td>• A hall rented for a wedding, party or anniversary</td>
</tr>
</tbody>
</table>

**Motor Vehicle**

In Lesson 2 Topic B there will be a more in depth discussion about motor vehicles. The definition of "**motor vehicle**" is defined as:

a. A self-propelled land or amphibious vehicle; or  
b. Any trailer or semitrailer which is being carried or towed by or hitched for towing by a vehicle described in a. above

**Occurrence**

"**Occurrence**" is an accident which is sudden and fixed in time or includes repeated exposure. It is defined for Liability Coverage purposes only and does not appear in Section I Property Coverages.

**Property Damage**

Damage to property of others, i.e., property belonging to someone other than an insured. The term is defined for Liability Coverages only. Note that it includes loss of use. For example, John cuts down a large tree on his residence premises and the tree falls on a neighbor's house. The neighbor's house is damaged and the electrical service is disconnected by the tree. The neighbor must move into a motel until the house is repaired. The cost of the motel is loss of use and would be part of the "**property damage**" claim of the neighbor.
Residence employee

A domestic employee who works for an "insured." This includes cooks, gardeners, butlers, etc.

Residence premises

This is the home listed on the Declarations page.