

PROPERTY & CASUALTY

Producer Licensing Exam Study Manual

CHAPTER 3

Homeowners Insurance

Exam Weight: This chapter represents approximately 15% of the licensing exam — roughly 22 of 150 questions. Homeowners is one of the most detail-heavy chapters: the exam tests specific coverage limits, sub-limits, form differences, and which endorsement applies to which situation. Precision matters here.

Sub-chapters in this chapter:

- 3.1 Coverage Forms Overview — HO-2 through HO-8
- 3.2 Section I — Property Coverages (Coverages A, B, C, D)
- 3.3 Section II — Liability Coverages (Coverages E & F)
- 3.4 Perils Insured Against, Exclusions & Conditions
- 3.5 Selected Endorsements
- 3.6 Dwelling Policy Basics

Sub-Chapter 3.1

Coverage Forms Overview — HO-2 through HO-8

Form Comparisons · Who Each Form Serves · Coverage Scope Differences

Overview

The homeowners policy is not a single form — it is a family of forms, each designed for a different type of insured or dwelling. Understanding which form applies to whom, and how the forms differ in coverage scope, is foundational exam knowledge and essential for advising clients.

All homeowners forms share the same basic two-section structure: Section I (Property) and Section II (Liability). The differences are primarily in the scope of peril coverage and the eligible insured.

The HO Form Family

HO-2 — Broad Form

The HO-2 provides named perils coverage on both the dwelling (Coverage A), other structures (Coverage B), and personal property (Coverage C). It covers the Basic perils plus the Broad form additions (falling objects, weight of snow/ice, appliance water damage, collapse). It is less common today, as most buyers prefer the broader HO-3.

- **Who it covers:** Owner-occupants of one- to four-family residences
- **Dwelling coverage:** Named perils (Broad form perils)
- **Personal property:** Named perils (Broad form perils)

HO-3 — Special Form (Most Common)

The HO-3 is the standard homeowners form and by far the most widely sold. Its key distinction is the split approach: open perils (all-risk) on the dwelling and other structures, and named perils on personal property.

- **Who it covers:** Owner-occupants of one- to four-family residences

- **Dwelling coverage:** Open perils — all causes of loss except those excluded
- **Personal property:** Named perils (same list as HO-2 Coverage C)

EXAM TIP: The HO-3 is the default answer when the exam asks about the "standard homeowners policy." Know its split coverage approach: open perils on the dwelling, named perils on personal property.

HO-4 — Contents Broad Form (Renters Insurance)

The HO-4 is designed for tenants who rent their home. Since the tenant has no insurable interest in the building structure (the landlord's responsibility), the HO-4 covers only personal property and liability.

- **Who it covers:** Tenants/renters
- **Dwelling coverage:** None — the renter does not own the structure
- **Personal property:** Named perils (broad form)
- **Liability:** Yes — Coverage E and F apply

HO-5 — Comprehensive Form

The HO-5 is the broadest standard homeowners form. It provides open perils on both the dwelling AND personal property — the only standard form to offer open perils coverage on Coverage C. It is typically available only for higher-value, well-maintained homes.

- **Who it covers:** Owner-occupants (typically higher-value homes)
- **Dwelling coverage:** Open perils
- **Personal property:** Open perils — the key distinction from HO-3

HO-6 — Unit Owners Form (Condo Insurance)

The HO-6 is designed for condominium unit owners. The condo association's master policy covers the building and common areas; the HO-6 covers the unit owner's personal property, personal liability, and the interior of the unit (the "walls-in" portion).

- **Who it covers:** Condominium unit owners
- **Dwelling coverage:** Coverage A for interior unit structures (walls-in)

- **Personal property:** Named perils
- **Special consideration:** Loss assessment coverage for special assessments levied by the condo association

HO-7 — Mobile Home Form

The HO-7 adapts homeowners coverage for mobile homes and manufactured housing. The coverage structure parallels the HO-3 but addresses the unique construction and transportation characteristics of mobile homes.

HO-8 — Modified Coverage Form

The HO-8 is designed for older homes where replacement cost significantly exceeds market value — common for historic or architecturally unique structures. Providing replacement cost on these homes would create adverse selection (insureds over-insured relative to the home's economic value). The HO-8 settles losses at functional replacement cost or market value rather than full replacement cost.

- **Who it covers:** Owners of older homes where replacement cost > market value
- **Dwelling coverage:** Named perils (more restricted than HO-3)
- **Valuation:** Functional replacement cost or market value, not full replacement cost

HO Form Comparison Summary

Form	Who It Covers	Dwelling Perils	Contents Perils	Has Liability	Notes
HO-2	Homeowners	Named (Broad)	Named (Broad)	Yes	Less common today
HO-3	Homeowners	Open Perils	Named (Broad)	Yes	Most widely sold
HO-4	Renters	N/A	Named (Broad)	Yes	No dwelling coverage
HO-5	Homeowners	Open Perils	Open Perils	Yes	Broadest coverage
HO-6	Condo Owners	Named (Broad)	Named (Broad)	Yes	"Walls-in" coverage
HO-7	Mobile Home	Open Perils	Named (Broad)	Yes	Mobile/manufactured
HO-8	Older Homes	Named (Basic+)	Named (Basic+)	Yes	Market value settlement

Definitions Common to All HO Forms

All HO forms share a core set of definitions that shape coverage:

- **"Residence premises"**: The dwelling (and grounds) where the named insured primarily resides — the covered location. Coverage generally applies to occurrences at or arising from the residence premises.
- **"Insured"**: Includes the named insured, residents of the insured's household who are relatives, and residents under 21 in the named insured's care. This broader definition extends coverage to household family members automatically.
- **"Occurrence"**: An accident, including continuous or repeated exposure to the same condition. Liability coverage is triggered by an occurrence, not by the filing of a claim.
- **"Property damage"**: Physical injury to, or destruction of, tangible property including loss of use.

- **"Bodily injury"**: Physical harm, sickness, disease, or death — not including emotional distress without physical injury in most forms.

Key Terms — Sub-Chapter 3.1

Term	Definition
HO-2 (Broad Form)	Named perils coverage on both dwelling and personal property; covers Broad form perils.
HO-3 (Special Form)	Open perils on dwelling/other structures; named perils on personal property; the most common homeowners form.
HO-4 (Contents Broad Form)	Renters insurance; covers personal property and liability only — no dwelling structure coverage.
HO-5 (Comprehensive Form)	Open perils on both dwelling and personal property; the broadest standard homeowners form.
HO-6 (Unit Owners Form)	Condominium unit owners insurance; covers personal property, liability, and walls-in unit improvements.
HO-8 (Modified Coverage Form)	For older homes where replacement cost exceeds market value; settles at functional replacement cost or market value.
Residence Premises	The dwelling and grounds where the named insured primarily resides; the covered location.
Occurrence	An accident, including continuous or repeated exposure to the same condition; triggers liability coverage.
Walls-In Coverage	HO-6 term for Coverage A protection of interior walls, floors, ceilings, and fixtures that are the unit owner's responsibility.
Loss Assessment Coverage	Coverage for special assessments by a condo association for a covered loss to common areas, available under HO-6.

Quick Quiz — Sub-Chapter 3.1

5 questions · Circle the best answer · Check your work using the Answer Key on the following page

Name: _____ Score: _____ / 5

1. An HO-3 policy is best described as:
 - A. A named perils policy for both the dwelling and personal property
 - B. An open perils policy on the dwelling and named perils on personal property
 - C. An open perils policy on both the dwelling and personal property
 - D. A policy available only for renters

2. A detached garage on an insured's property is damaged in a windstorm. Under the HO-3, this structure would be covered under:
 - A. Coverage A — Dwelling
 - B. Coverage B — Other Structures
 - C. Coverage C — Personal Property
 - D. Coverage D — Loss of Use

3. Under a standard HO-3, Coverage B — Other Structures does NOT apply to a structure that is:
 - A. A detached workshop on the property
 - B. A fence separating the yard from a neighbor's property
 - C. A structure rented to someone other than a tenant of the dwelling
 - D. A detached carport connected by a breezeway

4. A homeowner's dwelling is destroyed by fire and she must live in a hotel and eat at restaurants for seven months during reconstruction. The costs above her normal living expenses are paid under:
 - A. Coverage A — Dwelling

- B. Coverage C — Personal Property
- C. Coverage D — Loss of Use
- D. Coverage E — Personal Liability

5. The standard HO-3 Coverage B — Other Structures limit is automatically set at what percentage of the Coverage A limit?

- A. 5%
- B. 10%
- C. 20%
- D. 50%

Answer Key — Quick Quiz — Sub-Chapter 3.1

Correct answers are highlighted in green. Review any missed questions before moving on.

1. An HO-3 policy is best described as:

- A. A named perils policy for both the dwelling and personal property
- B. An open perils policy on the dwelling and named perils on personal property**
- C. An open perils policy on both the dwelling and personal property
- D. A policy available only for renters

Explanation: The HO-3 is the standard homeowners form and the most widely sold policy. It provides open perils (special form) coverage on the dwelling (Coverage A) and other structures (Coverage B), and named perils coverage on personal property (Coverage C). The HO-5 extends open perils to personal property as well.

2. A detached garage on an insured's property is damaged in a windstorm. Under the HO-3, this structure would be covered under:

- A. Coverage A — Dwelling
- B. Coverage B — Other Structures**
- C. Coverage C — Personal Property
- D. Coverage D — Loss of Use

Explanation: Coverage B — Other Structures covers structures 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. A detached garage fits squarely within Coverage B. The standard Coverage B limit is 10% of the Coverage A dwelling limit.

3. Under a standard HO-3, Coverage B — Other Structures does NOT apply to a structure that is:

- A. A detached workshop on the property
- B. A fence separating the yard from a neighbor's property
- C. A structure rented to someone other than a tenant of the dwelling**
- D. A detached carport connected by a breezeway

Explanation: Coverage B excludes structures rented or held for rental to anyone other than a tenant of the dwelling itself. If a homeowner rents out a backyard cottage or separate unit to a

non-dwelling tenant for business purposes, that structure is excluded from Coverage B. Fences, carports, and workshops used by the homeowner are all covered under Coverage B.

4. A homeowner's dwelling is destroyed by fire and she must live in a hotel and eat at restaurants for seven months during reconstruction. The costs above her normal living expenses are paid under:

- A. Coverage A — Dwelling
- B. Coverage C — Personal Property
- C. Coverage D — Loss of Use**
- D. Coverage E — Personal Liability

Explanation: Coverage D — Loss of Use covers Additional Living Expense (ALE) — the extra costs the insured incurs to maintain their normal standard of living when a covered loss makes the residence uninhabitable. Only the amount above normal expenses is covered. Coverage D also includes Fair Rental Value if part of the home was being rented out.

5. The standard HO-3 Coverage B — Other Structures limit is automatically set at what percentage of the Coverage A limit?

- A. 5%
- B. 10%**
- C. 20%
- D. 50%

Explanation: Under the standard HO-3, Coverage B — Other Structures is automatically set at 10% of the Coverage A — Dwelling limit. If the dwelling is insured for \$400,000, Coverage B is \$40,000. This limit can be increased by endorsement if the insured has particularly valuable outbuildings.

Sub-Chapter 3.2

Section I — Property Coverages

Coverage A (Dwelling) · Coverage B (Other Structures) · Coverage C (Personal Property) · Coverage D (Loss of Use)

Overview

Section I of the homeowners policy addresses property coverage — protecting the physical assets of the insured's home and household. The four coverages in Section I work together to provide comprehensive property protection. Understanding the specific limits, sub-limits, inclusions, and exclusions of each coverage is essential for the exam.

Coverage A — Dwelling

Coverage A insures the dwelling structure — the house itself — and attached structures (attached garages, decks, porches). It also covers materials and supplies on or next to the residence premises intended for use in construction, alteration, or repair of the dwelling.

The Coverage A limit is the foundational number from which other Coverage limits are derived as percentages. It should be set at full replacement cost — the amount it would cost to rebuild the home entirely using current construction costs and materials of like kind and quality.

Under the HO-3, Coverage A is on an open perils basis — all causes of loss except those specifically excluded.

KEY POINT: Coverage A does NOT include land. Land itself is not an insurable loss — it cannot be destroyed by fire, though a structure on it can. The policy limit should reflect only the building replacement cost, not the property's total real estate value.

Coverage B — Other Structures

Coverage B insures structures 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. Common examples: detached garages, storage sheds, fences, swimming pool enclosures, and driveways (attached to the property, not the house).

Standard Coverage B limit: 10% of the Coverage A limit (automatically included, no additional premium required). This limit can be increased by endorsement.

Coverage B exclusions:

- Structures rented or held for rental to any person other than a tenant of the dwelling
- Structures used in whole or in part for business purposes (other than incidental private garage use)

EXAM TIP: The Coverage B limit is 10% of Coverage A. If Coverage A is \$300,000, Coverage B is \$30,000. This is automatically provided — no endorsement needed for the standard 10%.

Coverage C — Personal Property

Coverage C insures the personal property (contents) owned or used by the insured anywhere in the world. This worldwide scope is one of Coverage C's most valuable features — property in a hotel room, vacation home, storage unit, or college dormitory is all covered.

Coverage C Limit

Unlike Coverage A and B, Coverage C does not have an automatic percentage relationship to Coverage A under standard forms. The insured selects the Coverage C limit at policy inception based on a personal property inventory.

Special Sub-Limits Under Coverage C

Certain categories of personal property are subject to special dollar limits, regardless of the total Coverage C limit. These sub-limits reflect the higher-than-average theft and loss risk of these items. The standard sub-limits in the HO-3 include (approximate figures that vary by insurer):

Property Category	Standard Sub-Limit (Theft)
Money, bank notes, coins, medals	\$200
Securities, accounts, deeds, letters of credit	\$1,500
Watercraft and trailers	\$1,500
Jewelry, watches, furs, precious/semi-precious stones	\$1,500
Silverware, goldware, pewterware	\$2,500
Firearms and related equipment	\$2,500
Electronic apparatus in/on a motor vehicle	\$1,500
Business property on premises	\$2,500
Business property off premises	\$500

EXAM TIP: The sub-limits table is high-value exam material. Know these amounts: jewelry/watches \$1,500 (theft); silverware \$2,500 (theft); firearms \$2,500 (theft); business property on premises \$2,500; money \$200. The solution for exceeding sub-limits is always a Personal Articles Floater or scheduling endorsement.

What Coverage C Does NOT Cover

Even within Coverage C, certain property is excluded entirely:

- Animals, birds, or fish
- Motor vehicles (other than motorized equipment used to service the residence)
- Aircraft and parts
- Property of roomers, boarders, or tenants not related to the insured
- Property in an apartment regularly rented to others
- Property rented or held for rental to others away from the residence
- Credit cards and electronic fund transfer cards

Coverage for Student Property

Personal property of a student who is a resident relative temporarily living away at school is covered under the parent's homeowners policy, subject to a special limit —

typically 10% of the Coverage C limit, with a minimum of \$1,000. This provision only applies while the student is enrolled full-time.

Coverage D — Loss of Use

Coverage D activates when a covered loss makes the residence premises uninhabitable. It provides two types of coverage:

- **Additional Living Expense (ALE):** The necessary increase in living expenses to maintain the insured's normal standard of living during the period of restoration. This is the EXTRA cost above what the insured normally spends — not the full cost of replacement housing.
- **Fair Rental Value:** If part of the insured's residence is rented to others, Coverage D pays the fair rental value of that portion for the shortest time required to repair or replace the damaged area.

The Coverage D limit is typically 30% of Coverage A in standard HO forms. The coverage period is the shortest time required to repair or replace the damage, not an open-ended benefit.

WATCH OUT: Coverage D pays only the additional expense above normal — not the total replacement living cost. A homeowner who normally spends \$1,500/month on housing and now spends \$2,500/month in a hotel receives \$1,000/month in ALE, not \$2,500.

Additional Coverages in Section I

Beyond the four main coverages, HO policies include several Additional Coverages that pay for specific types of expenses without separate deductibles:

- **Debris Removal:** Pays to remove debris of covered property after a covered loss. If combined with the main loss, debris removal can extend coverage up to an additional amount.
- **Reasonable Repairs:** Pays for emergency repairs necessary to protect property from further damage following a covered loss (e.g., boarding up broken windows).

- **Trees, Shrubs, Plants:** Covers plants and trees damaged by specific listed perils (not wind, hail, or weight of ice/snow, notably) up to \$500 per item and 5% of Coverage A in total.
- **Fire Department Service Charge:** Pays service charges (up to \$500) when the fire department is called to protect covered property.
- **Property Removed:** Covers property removed from the premises to protect it from a covered loss, for 30 days on an open perils basis.
- **Credit Card / EFT Card Forgery:** Pays up to \$500 for unauthorized use of credit or debit cards, forgery of checks, or counterfeit money.
- **Collapse:** Covers direct physical loss involving abrupt collapse of a covered building from specified causes.

Key Terms — Sub-Chapter 3.2

Term	Definition
Coverage A — Dwelling	Insures the dwelling structure and attached structures; open perils under HO-3; does not include land.
Coverage B — Other Structures	Insures detached structures on the residence premises; 10% of Coverage A; excludes rented structures.
Coverage C — Personal Property	Insures personal property owned or used by the insured anywhere in the world; subject to special sub-limits.
Coverage D — Loss of Use	Pays additional living expense and fair rental value when a covered loss makes the home uninhabitable; typically 30% of Coverage A.
Additional Living Expense (ALE)	The excess cost above normal living expenses to maintain standard of living during a covered displacement.
Fair Rental Value	Loss of rental income from a portion of the insured premises rented to others when a covered loss makes it uninhabitable.

Term	Definition
Special Sub-Limits	Lower dollar caps applied to high-theft-risk property categories (jewelry, firearms, silverware, etc.) within Coverage C.
Personal Articles Floater (PAF)	Scheduled endorsement or separate policy providing open perils, agreed value coverage for individual high-value items.
Student Property	Personal property of a full-time student resident relative living away at school; covered at 10% of Coverage C (min. \$1,000).
Debris Removal	Additional coverage paying for removal of debris from covered property after a covered loss.

Quick Quiz — Sub-Chapter 3.2

5 questions · Circle the best answer · Check your work using the Answer Key on the following page

Name: _____ Score: _____ / 5

- Under a standard HO-3, which of the following items of personal property is subject to a special sub-limit rather than the full Coverage C limit?
 - A \$3,000 flat-screen television
 - A \$5,000 collection of antique firearms
 - Clothing valued at \$2,000
 - A laptop computer used for personal purposes
- A homeowner's jewelry is stolen from her home. Her Coverage C limit is \$80,000 and she has no scheduling endorsements. The standard HO-3 theft sub-limit for jewelry is typically:
 - \$500
 - \$1,500
 - \$2,500
 - \$10,000

3. Coverage C — Personal Property of an HO-3 policy typically covers the insured's personal property:

- A. Only while it is on the residence premises
- B. Anywhere in the world, subject to policy conditions
- C. Only in the United States and Canada
- D. Only while in a vehicle or at the insured's primary residence

4. A homeowner uses a room in her home as her primary business office, with \$15,000 worth of business computers and equipment stored there. Under a standard HO-3:

- A. Business property is fully covered under Coverage C like any other personal property
- B. Business property at the residence is subject to a sub-limit — often \$2,500 — under the standard policy
- C. Business property is completely excluded from Coverage C with no recovery available
- D. Business property is covered only if the insured has a separate business rider attached

5. Personal property belonging to a college student living in a dormitory is covered under the parents' HO-3 policy as a "resident relative." This coverage applies at what percentage of the Coverage C limit?

- A. 10%
- B. 50%
- C. No coverage — college students must purchase renters insurance
- D. 100% — full Coverage C applies

Answer Key — Quick Quiz — Sub-Chapter 3.2

Correct answers are highlighted in green. Review any missed questions before moving on.

1. Under a standard HO-3, which of the following items of personal property is subject to a special sub-limit rather than the full Coverage C limit?

- A. A \$3,000 flat-screen television
- B. A \$5,000 collection of antique firearms**
- C. Clothing valued at \$2,000
- D. A laptop computer used for personal purposes

Explanation: Firearms are one of the categories of personal property subject to special sub-limits under Coverage C. The standard policy limits firearms recovery to a specified dollar amount (often \$2,500) for theft losses regardless of the overall Coverage C limit. Televisions, clothing, and personal-use computers are covered at full value up to the Coverage C limit.

2. A homeowner's jewelry is stolen from her home. Her Coverage C limit is \$80,000 and she has no scheduling endorsements. The standard HO-3 theft sub-limit for jewelry is typically:

- A. \$500
- B. \$1,500**
- C. \$2,500
- D. \$10,000

Explanation: Under the standard HO-3, theft of jewelry, watches, furs, and precious and semiprecious stones is subject to a special limit of \$1,500 per occurrence, regardless of the total Coverage C limit. To insure jewelry above this sub-limit, the insured must schedule the items on a Personal Articles Floater or Scheduled Personal Property endorsement.

3. Coverage C — Personal Property of an HO-3 policy typically covers the insured's personal property:

- A. Only while it is on the residence premises
- B. Anywhere in the world, subject to policy conditions**
- C. Only in the United States and Canada
- D. Only while in a vehicle or at the insured's primary residence

Explanation: Coverage C provides worldwide coverage for the insured's personal property. If the insured's luggage is stolen while traveling internationally, or property is damaged while in storage across the country, Coverage C applies. This worldwide scope is one of the most valuable aspects of homeowners personal property coverage.

4. A homeowner uses a room in her home as her primary business office, with \$15,000 worth of business computers and equipment stored there. Under a standard HO-3:

- A. Business property is fully covered under Coverage C like any other personal property
- B. Business property at the residence is subject to a sub-limit — often \$2,500 — under the standard policy**
- C. Business property is completely excluded from Coverage C with no recovery available
- D. Business property is covered only if the insured has a separate business rider attached

Explanation: Standard homeowners policies sub-limit business property kept on the residence premises — typically \$2,500. This sub-limit reflects the policy's design as a personal lines product, not a commercial one. A home-based business with significant property or liability exposure needs either the Home Business Insurance Coverage endorsement or a separate commercial policy.

5. Personal property belonging to a college student living in a dormitory is covered under the parents' HO-3 policy as a "resident relative." This coverage applies at what percentage of the Coverage C limit?

- A. 10%
- B. 50%**
- C. No coverage — college students must purchase renters insurance
- D. 100% — full Coverage C applies

Explanation: Under most HO-3 policies, personal property of a resident relative who is a student living away from home at school is covered at up to 10% of the Coverage C limit (subject to a minimum of \$1,000 in some forms). This is a commonly tested coverage feature. The student is still a resident of the household for insurance purposes, but coverage is limited.

Sub-Chapter 3.3

Section II — Liability Coverages

Coverage E (Personal Liability) · Coverage F (Medical Payments) · Exclusions · Duty to Defend

Overview

Section II of the homeowners policy addresses liability protection — coverage for the insured's legal responsibility for bodily injury or property damage caused to others. Unlike property coverage, which protects the insured's own assets from physical loss, liability coverage protects the insured from financial consequences when they are legally responsible for harming others.

Coverage E — Personal Liability

Coverage E pays damages for which the insured is legally obligated due to:

- **Bodily injury (BI):** Physical harm, sickness, or disease — caused to others by an occurrence arising from the insured's premises or activities.
- **Property damage (PD):** Physical damage to or destruction of another person's tangible property caused by an occurrence.

Coverage E also pays for the cost of defending the insured against covered claims — even if the claim is groundless, false, or fraudulent. Defense costs are paid in addition to the policy limit (they do not erode the limit) in standard homeowners forms.

Standard Coverage E limit: \$100,000 per occurrence, though \$300,000 is increasingly common and higher limits are available. Higher limits provide meaningful protection given that personal injury verdicts can be substantial.

Coverage E — Major Exclusions

Certain types of liability are excluded from Coverage E and require separate coverage:

- **Business activities:** Liability arising from the insured's business operations — even if conducted from home. Business liability requires commercial coverage.

- **Motor vehicle liability:** Liability arising from ownership, maintenance, or use of motor vehicles — covered by auto insurance.
- **Watercraft liability (certain vessels):** Liability from certain larger or more powerful watercraft is excluded (smaller watercraft below threshold horsepower/length may be covered).
- **Aircraft:** All aircraft liability is excluded.
- **Intentional acts:** Bodily injury or property damage intentionally caused by the insured.
- **Professional services:** Liability arising from rendering or failing to render professional services (doctors, lawyers, accountants need professional liability policies).
- **Communicable disease:** Liability for transmitting a communicable disease.
- **Physical abuse:** Bodily injury arising from physical or sexual abuse.
- **War:** Liability arising from war or warlike acts.

EXAM TIP: The most important Coverage E exclusion to know is business activities. Any business-related liability at the home is excluded from standard Coverage E. This is tested frequently and requires either an endorsement (Business Pursuits, Home Day Care) or a commercial policy.

Coverage F — Medical Payments to Others

Coverage F is a no-fault medical payments coverage — it pays for necessary medical expenses of a person injured:

- On the residence premises with the insured's permission, OR
- Away from the premises when the injury is caused by the insured's activities, an animal owned by the insured, or a resident employee's activities

Coverage F pays regardless of who was at fault. No negligence determination is required. Its purpose is to promote goodwill, prevent litigation over minor injuries, and quickly compensate injured third parties.

Standard Coverage F limit: \$1,000 per person per accident (can be increased by endorsement to \$5,000 or more).

Who Coverage F Does NOT Cover

Coverage F is specifically for third parties. It does NOT cover:

- The named insured
- Residents of the insured's household
- Persons eligible for workers' compensation benefits (household employees injured on the job)
- Persons injured by intentional acts

KEY POINT: Coverage F is for guests and third parties, not household members. If the insured or a family member is injured at home, that is a health insurance or disability matter — not a Coverage F claim. The purpose is goodwill to outsiders.

Additional Coverages in Section II

Section II also includes two Additional Coverages:

- **Claim Expenses:** Pays costs incurred in defending or investigating claims — court costs, interest on judgments, reasonable expenses incurred at the insurer's request.
- **First Aid Expenses:** Pays first aid rendered to others at the time of a bodily injury accident covered by the policy.

Key Terms — Sub-Chapter 3.3

Term	Definition
Coverage E — Personal Liability	Pays damages the insured is legally obligated to pay for bodily injury or property damage caused to others by an occurrence; also covers defense costs.

Term	Definition
Coverage F — Medical Payments to Others	No-fault payment of medical expenses for third parties injured on the insured's premises or by the insured's activities; does not require negligence.
Bodily Injury (BI)	Physical harm, sickness, disease, or death caused to a person other than the insured.
Property Damage (PD)	Physical injury to or destruction of tangible property owned by others.
Occurrence	An accident, including continuous or repeated exposure to the same condition; the trigger for Coverage E.
Duty to Defend	Insurer's obligation to defend covered claims regardless of merit; defense costs paid in addition to the Coverage E limit.
Business Activities Exclusion	Coverage E does not apply to liability arising from the insured's business activities; requires separate commercial coverage.
Motor Vehicle Exclusion	Coverage E does not cover automobile liability; covered by auto insurance.
Personal Injury	Offenses such as libel, slander, defamation, and invasion of privacy; not covered by standard Coverage E — requires a Personal Injury endorsement.

Quick Quiz — Sub-Chapter 3.3

5 questions · Circle the best answer · Check your work using the Answer Key on the following page

Name: _____ Score: _____ / 5

1. Coverage E — Personal Liability in a homeowners policy covers:
 - A. Physical damage to the insured's own property caused by the insured

- B. The insured's legal liability for bodily injury or property damage caused to others by an occurrence
 - C. Medical expenses for injuries sustained by the insured
 - D. Liability arising from the insured's business operations
2. A guest at an insured's home slips on an icy porch and sustains a broken arm. The guest's medical bills are \$4,000. The homeowner is NOT found negligent. Coverage F — Medical Payments to Others:
- A. Does not apply because the homeowner was not negligent
 - B. Pays the \$4,000 medical bills regardless of the homeowner's negligence or lack thereof
 - C. Applies only if the homeowner is found legally liable at trial
 - D. Pays only emergency room charges, not follow-up medical care
3. Which of the following losses is EXCLUDED from Coverage E — Personal Liability in a standard HO-3?
- A. A guest who trips over a rug in the insured's home and breaks a wrist
 - B. A neighbor's child who is injured by the insured's dog on the insured's property
 - C. Bodily injury arising from the insured's business activities conducted from the home
 - D. Accidental property damage caused by the insured's child to a neighbor's fence
4. Coverage F — Medical Payments to Others generally does NOT cover medical expenses for:
- A. A neighbor's child injured while playing in the insured's yard
 - B. A delivery person injured at the insured's front door
 - C. A resident of the household who trips and falls in the home
 - D. A guest injured by the insured's pet at an off-premises location
5. Under the standard HO-3, the insurer's duty to defend under Coverage E:
- A. Applies only if the insured is ultimately found legally liable
 - B. Requires the insured to hire and pay for their own attorney
 - C. Exists even if the claim against the insured is groundless, false, or fraudulent

D. Ends as soon as the claim is filed, with defense thereafter at the insured's expense

Answer Key — Quick Quiz — Sub-Chapter 3.3

Correct answers are highlighted in green. Review any missed questions before moving on.

1. Coverage E — Personal Liability in a homeowners policy covers:

- A. Physical damage to the insured's own property caused by the insured
- B. The insured's legal liability for bodily injury or property damage caused to others by an occurrence**
- C. Medical expenses for injuries sustained by the insured
- D. Liability arising from the insured's business operations

Explanation: Coverage E pays for damages the insured is legally obligated to pay due to bodily injury or property damage caused by an occurrence. It also pays defense costs. It does not cover property damage to the insured's own property (Coverage A/B/C handles that), the insured's own medical expenses (separate health insurance), or business liability (excluded from homeowners).

2. A guest at an insured's home slips on an icy porch and sustains a broken arm. The guest's medical bills are \$4,000. The homeowner is NOT found negligent. Coverage F — Medical Payments to Others:

- A. Does not apply because the homeowner was not negligent
- B. Pays the \$4,000 medical bills regardless of the homeowner's negligence or lack thereof**
- C. Applies only if the homeowner is found legally liable at trial
- D. Pays only emergency room charges, not follow-up medical care

Explanation: Coverage F — Medical Payments to Others is a no-fault coverage — it pays for the medical expenses of a person injured on the insured's premises or by the insured's activities, without requiring a determination of negligence. This is a goodwill payment designed to handle minor injury claims quickly and avoid litigation. Coverage E (liability) requires a finding of legal obligation.

3. Which of the following losses is EXCLUDED from Coverage E — Personal Liability in a standard HO-3?

- A. A guest who trips over a rug in the insured's home and breaks a wrist
- B. A neighbor's child who is injured by the insured's dog on the insured's property

C. Bodily injury arising from the insured's business activities conducted from the home

D. Accidental property damage caused by the insured's child to a neighbor's fence

Explanation: Business activities are a major exclusion from homeowners liability coverage. If the insured conducts a business from the home and injures a client or business contact in connection with that business activity, Coverage E does not apply. Homeowners liability is for personal, non-business activities. Business liability requires commercial insurance or specific endorsements.

4. Coverage F — Medical Payments to Others generally does NOT cover medical expenses for:

A. A neighbor's child injured while playing in the insured's yard

B. A delivery person injured at the insured's front door

C. A resident of the household who trips and falls in the home

D. A guest injured by the insured's pet at an off-premises location

Explanation: Coverage F does not cover injuries to the insured or residents of the insured's household — it is specifically designed to cover injuries to third parties (guests, visitors, neighbors). Household residents have their own health insurance, and their bodily injury is not covered under the homeowners policy as a liability matter.

5. Under the standard HO-3, the insurer's duty to defend under Coverage E:

A. Applies only if the insured is ultimately found legally liable

B. Requires the insured to hire and pay for their own attorney

C. Exists even if the claim against the insured is groundless, false, or fraudulent

D. Ends as soon as the claim is filed, with defense thereafter at the insured's expense

Explanation: Like all liability policies, the homeowners policy's duty to defend is broader than the duty to indemnify. The insurer must defend any covered claim even if it is groundless, false, or fraudulent — as long as it alleges bodily injury or property damage that could potentially be covered. The defense duty ends when the limit is exhausted, not when the claim is filed.

Sub-Chapter 3.4

Perils Insured Against, Exclusions & Conditions

Named Perils List · Major Exclusions · Policy Conditions · Insured's Duties

Overview

Understanding what the homeowners policy covers requires equal attention to what it excludes. The major exclusions in homeowners policies represent some of the most common sources of coverage disputes and are heavily tested on the exam. The policy conditions establish the rules of engagement between insured and insurer — and failing to meet them can jeopardize coverage.

Named Perils for Coverage C (HO-3)

Under the HO-3, Coverage C — Personal Property is covered only for these named perils:

- Fire or lightning
- Windstorm or hail
- Explosion
- Riot or civil commotion
- Aircraft
- Vehicles
- Smoke
- Vandalism or malicious mischief
- Theft
- Falling objects
- Weight of ice, snow, or sleet
- Accidental discharge or overflow of water from plumbing, heating, AC, or automatic sprinkler

- Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot water heating system
- Freezing of household systems
- Sudden and accidental damage from electrical current (not including power surge)
- Volcanic eruption

Major Section I Exclusions

These exclusions apply regardless of any other cause contributing to the loss:

Earth Movement

All forms of earth movement — earthquake, landslide, earth sinking, subsidence, mudslide — are excluded. The earth movement exclusion is absolute and applies even if the earth movement is triggered by a covered cause (like a gas explosion). Separate earthquake coverage or an endorsement is required.

Flood

Flood is defined broadly to include surface water, waves, tidal water, overflow of any body of water, and water that backs up through sewers or drains if caused by flooding. Water that enters a home from the ground up — through window wells, foundation walls, or basement floors — during a flood event is excluded. NFIP or private flood insurance is required.

Important distinction: Sudden and accidental water discharge from a plumbing or HVAC system IS covered. The flood exclusion targets external water intrusion — not internal system failures.

Power Failure

Loss caused by power failure originating off the residence premises is excluded. If food spoils because of a utility company outage, the standard homeowners policy does not cover it.

Neglect

Damage resulting from the insured's failure to use all reasonable means to protect property from further loss after an initial covered loss is excluded. This reinforces the insured's duty after loss to protect property from further damage.

War and Nuclear Hazard

All losses arising from war, warlike acts, nuclear hazard, or nuclear radiation are excluded — these are systemic, potentially unlimited-exposure risks that private insurance cannot absorb.

Intentional Loss

Loss resulting from an act committed by or at the direction of the insured with intent to cause a loss. This exclusion is personal to the insured — it does not prevent an innocent co-insured from recovering in some states.

Business Activity

Property used for business purposes at the residence is subject to the sub-limit (\$2,500) discussed in Sub-Chapter 3.2. Business property away from the premises is further restricted (\$500). Business liability is excluded from Coverage E entirely.

Sewer or Drain Backup

Water damage from backed-up sewers or drains is excluded under the standard policy (separate from the flood exclusion). This is one of the most common sources of water damage claims and can be added back by endorsement for a modest premium.

Policy Conditions

The conditions section of the homeowners policy establishes the rules governing the policy's operation. Key conditions include:

Insured's Duties After Loss (Section I)

1. Promptly notify the insurer or agent.
2. Protect the property from further damage — make reasonable temporary repairs and keep records of repair costs.

3. Cooperate with the insurer's investigation — provide records, documents, and submit to examination under oath if requested.
4. Prepare an inventory of damaged personal property.
5. Submit a proof of loss within 60 days (unless extended by insurer).
6. Allow the insurer to inspect the property.

Insured's Duties — Section II

7. Promptly notify the insurer of the occurrence.
8. Cooperate with the insurer in its investigation and defense.
9. Forward legal papers immediately — every demand, notice, summons, or process must be sent to the insurer.
10. Do not make payments, assume obligations, or incur expenses without the insurer's consent (except first aid).
11. Cooperate with the insurer in the enforcement of subrogation rights.

Concealment or Fraud

If any insured has intentionally concealed or misrepresented a material fact or circumstance relating to the insurance, the entire policy may be voided. This applies to both the application process and the claims process.

Cancellation

The insurer may cancel the policy for nonpayment of premium (10 days' notice) or for reasons that increase the risk (30 days' notice for policies in force more than 60 days). The insured may cancel at any time on request. Return premium is pro rata for insurer-initiated cancellation and short rate for insured-initiated cancellation in most states.

Key Terms — Sub-Chapter 3.4

Term	Definition
Earth Movement Exclusion	Excludes all forms of earth movement — earthquake, landslide, subsidence, mudslide — from standard HO coverage.
Flood Exclusion	Excludes surface water, overflow of bodies of water, and water entering from the ground; requires NFIP or private flood insurance.
Water Backup Exclusion	Excludes water damage from backed-up sewers or drains (separate from flood); can be added by endorsement.
Power Failure Exclusion	Excludes losses caused by power outages originating off premises.
Neglect	An exclusion for losses resulting from the insured's failure to protect property from further damage after an initial covered loss.
Intentional Loss Exclusion	Excludes losses caused by the insured's deliberate acts with intent to cause a loss.
Proof of Loss	A sworn, written statement of the details of a covered loss; must be submitted within 60 days under standard policy conditions.
Concealment or Fraud Condition	Policy may be voided if any insured intentionally misrepresents or conceals a material fact during application or claims.
Examination Under Oath	The insurer's right to require the insured to answer questions under oath as part of a claim investigation.

Quick Quiz — Sub-Chapter 3.4

5 questions · Circle the best answer · Check your work using the Answer Key on the following page

Name: _____ Score: _____ / 5

- 1.** An HO-3 policy excludes coverage for flood damage. A homeowner's basement floods after a heavy rainstorm and she suffers \$30,000 in damage. To have been covered for this loss, she would need:

 - A. To have purchased the open perils endorsement
 - B. Flood insurance through the National Flood Insurance Program (NFIP) or a private flood insurer
 - C. An umbrella policy with flood coverage
 - D. Coverage D — Loss of Use automatically covers flood damage to personal property

- 2.** An insured's home is damaged by an earthquake. The standard HO-3:

 - A. Covers earthquake as a named peril
 - B. Excludes earthquake — separate earthquake coverage or an endorsement is required
 - C. Covers earthquake only if it also causes fire damage
 - D. Covers earthquake under the open perils provision because it is not specifically excluded

- 3.** A standard HO-3 excludes "intentional loss" by the insured. Which scenario would most likely be covered despite the insured's involvement?

 - A. The insured sets fire to the home for the insurance money
 - B. The insured's 8-year-old child accidentally breaks a neighbor's window while playing
 - C. The insured deliberately destroys a neighbor's fence after a dispute
 - D. The insured burns personal papers that turn out to have value

- 4.** Water damage from a backed-up sewer or drain is:

 - A. Covered under the standard HO-3 as water damage
 - B. Excluded from the standard HO-3 but can be added by endorsement
 - C. Covered only if the backup is caused by a covered peril like a windstorm
 - D. Fully covered under Coverage D — Loss of Use

- 5.** An insured's home is destroyed by fire while it is under renovation and temporarily unoccupied. The insurer may reduce or deny coverage based on the:

- A. Coinsurance clause, because the insured failed to maintain adequate limits
- B. Vacancy or unoccupancy provisions, which may restrict coverage after a defined period
- C. Assignment clause, because the home is being renovated for resale
- D. Personal contract clause, because coverage cannot be transferred to a contractor

Answer Key — Quick Quiz — Sub-Chapter 3.4

Correct answers are highlighted in green. Review any missed questions before moving on.

1. An HO-3 policy excludes coverage for flood damage. A homeowner's basement floods after a heavy rainstorm and she suffers \$30,000 in damage. To have been covered for this loss, she would need:

- A. To have purchased the open perils endorsement
- B. Flood insurance through the National Flood Insurance Program (NFIP) or a private flood insurer**
- C. An umbrella policy with flood coverage
- D. Coverage D — Loss of Use automatically covers flood damage to personal property

Explanation: Flood — including surface water, overflow of bodies of water, and water that backs up through sewers — is a standard exclusion in all homeowners policies (and virtually all standard property policies). Coverage must be obtained separately through the NFIP (administered by FEMA) or an eligible private flood insurer. Standard homeowners policies do not cover flood regardless of the form used.

2. An insured's home is damaged by an earthquake. The standard HO-3:

- A. Covers earthquake as a named peril
- B. Excludes earthquake — separate earthquake coverage or an endorsement is required**
- C. Covers earthquake only if it also causes fire damage
- D. Covers earthquake under the open perils provision because it is not specifically excluded

Explanation: Earth movement — including earthquake, landslide, earth sinking, and subsidence — is a standard exclusion in all HO forms. Earth movement is excluded by name in the standard policy's exclusions. To obtain earthquake coverage, the insured must purchase a separate earthquake policy or add an Earthquake endorsement to the homeowners policy.

3. A standard HO-3 excludes "intentional loss" by the insured. Which scenario would most likely be covered despite the insured's involvement?

- A. The insured sets fire to the home for the insurance money

B. The insured's 8-year-old child accidentally breaks a neighbor's window while playing

- C. The insured deliberately destroys a neighbor's fence after a dispute
- D. The insured burns personal papers that turn out to have value

Explanation: The intentional loss exclusion applies to intentional acts by the insured, but accidental acts by the insured or family members are covered under both Coverage C and Coverage E. An 8-year-old child accidentally breaking a window is an unintentional act — this would be covered under Coverage E (personal liability) for the property damage caused to the neighbor.

4. Water damage from a backed-up sewer or drain is:

- A. Covered under the standard HO-3 as water damage
- B. Excluded from the standard HO-3 but can be added by endorsement**
- C. Covered only if the backup is caused by a covered peril like a windstorm
- D. Fully covered under Coverage D — Loss of Use

Explanation: Sewer or drain backup is specifically excluded from standard homeowners policies. The water backup exclusion is separate from the flood exclusion, though both relate to water entering the home from external sources. Most insurers offer a Water Back-Up of Sewers and Drains endorsement that adds this coverage for a modest additional premium.

5. An insured's home is destroyed by fire while it is under renovation and temporarily unoccupied. The insurer may reduce or deny coverage based on the:

- A. Coinsurance clause, because the insured failed to maintain adequate limits
- B. Vacancy or unoccupancy provisions, which may restrict coverage after a defined period**
- C. Assignment clause, because the home is being renovated for resale
- D. Personal contract clause, because coverage cannot be transferred to a contractor

Explanation: Homeowners policies — like commercial property policies — contain vacancy and unoccupancy provisions that restrict coverage after a home has been vacant or unoccupied for a specified period (often 60 days in commercial forms; homeowners forms vary). If a home under renovation has been vacant long enough to trigger the provision, certain coverages may be restricted or excluded.

Sub-Chapter 3.5

Selected Endorsements

PAF · Personal Property RC · Home Day Care · Watercraft · Personal Injury · Business Pursuits

Overview

Endorsements are the key tools for customizing homeowners coverage to fit the insured's actual needs. The PSI exam content outline specifically identifies a set of homeowners endorsements that are frequently tested. A producer who understands which endorsement applies to which situation provides far better service — and avoids serious E&O exposure.

Scheduled Personal Property / Personal Articles Floater (PAF)

The PAF (also called a "floater" or Scheduled Personal Property endorsement) provides open perils, agreed value, worldwide coverage for individually listed high-value personal property items. Common categories:

- Jewelry and watches
- Fine arts and antiques
- Musical instruments
- Silverware
- Furs
- Golf equipment
- Cameras and photography equipment
- Stamps and coins

Key PAF features:

- **Open perils:** Covers all causes of loss except those specifically excluded — broader than Coverage C named perils.
- **No deductible:** Most PAF coverage has no deductible (or a very small one).

- **Agreed value:** Each item is scheduled with its appraised or purchase-price value; losses are settled at that agreed amount.
- **Worldwide coverage:** Property is covered anywhere in the world.
- **Accidental breakage:** Fragile items (fine arts, musical instruments) are covered for accidental breakage — not available under Coverage C.

EXAM TIP: When the exam presents a scenario involving a high-value item that exceeds Coverage C sub-limits (jewelry over \$1,500, fine art, etc.), the PAF is always the correct answer. It is the standard solution for bridging Coverage C gaps.

Personal Property Replacement Cost Endorsement

Standard Coverage C settles personal property losses at actual cash value (ACV) — replacement cost minus depreciation. A five-year-old laptop may have an ACV of \$200 even though a new equivalent costs \$700. The Personal Property Replacement Cost endorsement eliminates the depreciation deduction, paying the full cost to replace covered property with new items of like kind and quality.

Important conditions:

- The insured must actually repair or replace the property to receive full replacement cost (same condition as Coverage A/B replacement cost).
- The endorsement typically increases Coverage C premiums by 10-20%.
- Items that are antiques, fine arts, or irreplaceable (and thus have no direct replacement) may be excluded from the RC endorsement and need a PAF instead.

Limited Fungi, Wet or Dry Rot, or Bacteria Coverage

Standard homeowners policies broadly exclude or limit recovery for mold, fungi, wet rot, dry rot, and bacteria — even when these conditions result directly from a covered water loss. This endorsement restores limited coverage:

- Covers remediation costs for mold/fungi/bacteria that result from a covered cause of loss

- Subject to a specified dollar cap (often \$10,000)
- Does not cover mold resulting from flood, groundwater, or other excluded water sources
- Does not cover pre-existing mold conditions

Permitted Incidental Occupancies — Residence

This endorsement extends homeowners coverage (both property and liability) to minor, incidental business activities conducted from the home — such as a small professional office, music studio, or art studio. It is appropriate for low-key business use of one or two rooms where clients do not regularly visit.

It is NOT appropriate for:

- Regulated operations like licensed day care
- Operations where multiple clients regularly visit the premises
- Manufacturing or product operations

Earthquake Endorsement

Adds coverage for losses caused by earth movement — earthquake, landslide, earth sinking, and subsidence — which are excluded from all standard HO forms. The earthquake endorsement typically:

- Has a separate, higher deductible — often expressed as a percentage of coverage (e.g., 5-15% of Coverage A) rather than a flat dollar amount
- Covers both the dwelling and personal property for earthquake damage
- Applies to all forms of earth movement, not just seismic events

Scheduled Personal Property / Personal Articles Floater

(See full discussion under Sub-Chapter 3.5 header above.)

Home Day Care Coverage Endorsement

A licensed day care operation conducted from the home creates significant liability and property exposures that standard homeowners coverage — and the Permitted Incidental Occupancies endorsement — do not adequately address. The Home Day Care Coverage endorsement specifically:

- Extends Coverage E (personal liability) to day care operations and related claims (injuries to day care children, claims by parents)
- Provides business property coverage for day care equipment and supplies
- Is designed specifically for licensed day care operations, not general business use

WATCH OUT: If a homeowner operates a licensed day care without this endorsement, they have a significant uninsured liability exposure. A child injured during day care activities would fall under the business activities exclusion of standard Coverage E, leaving the operator without defense or indemnity coverage.

Business Pursuits Endorsement

The Business Pursuits endorsement extends Coverage E to cover the named insured's personal liability arising from business activities — specifically, activities for which the insured is employed (not self-employed business operations, which need commercial coverage). It is most commonly used by:

- Teachers and school personnel (covering activities related to their employment)
- Salespeople, real estate agents, and other professionals who interact with customers outside a fixed office
- Employees whose work activities occasionally create personal liability exposures

Business Pursuits does NOT replace commercial general liability — it extends personal homeowners liability to cover employment-related exposures that would otherwise be excluded.

Watercraft Endorsement

Standard Coverage E excludes liability from watercraft above specified thresholds. The typical exclusion applies to:

- Owned inboard or inboard-outdrive boats with more than 50 horsepower
- Owned watercraft of 26 feet or more in length
- Owned sailing vessels 26 feet or more in length

The Watercraft endorsement extends Coverage E to include liability from specific watercraft that trigger the exclusion. Different levels of coverage can be endorsed — hull damage (physical damage to the boat) requires a separate inland marine or watercraft policy.

Personal Injury Endorsement

Standard Coverage E covers bodily injury and property damage — not personal injury torts. The Personal Injury endorsement adds coverage for:

- False arrest, detention, or imprisonment
- Malicious prosecution
- Libel, slander, defamation of character
- Invasion of privacy
- Wrongful eviction or wrongful entry

These offenses arise in personal contexts more frequently than many people realize — a social media post that defames a neighbor, a landlord who improperly evicts a tenant, or an allegation of false accusation can all generate personal injury liability claims.

Home Business Insurance Coverage Endorsement

For homeowners who operate a significant business from the home — beyond the scope of the Permitted Incidental Occupancies endorsement — the Home Business Insurance Coverage endorsement provides a more robust package:

- Coverage for business personal property at and away from the home
- Business liability coverage including products and completed operations
- Business income coverage for lost income when the home is damaged
- Coverage for client injury on the premises

This endorsement is appropriate for small businesses where the home is the primary operating location and the business has grown beyond what the Permitted Incidental Occupancies endorsement was designed to cover.

Key Terms — Sub-Chapter 3.5

Term	Definition
Personal Articles Floater (PAF)	Open perils, agreed value, no-deductible, worldwide coverage for individually scheduled high-value personal property.
Personal Property Replacement Cost Endorsement	Eliminates the depreciation deduction from Coverage C settlements, paying full replacement cost.
Limited Fungi Endorsement	Provides capped coverage for mold/fungi remediation resulting from a covered cause of loss.
Earthquake Endorsement	Adds coverage for earth movement, including earthquake, landslide, and subsidence; typically has a percentage deductible.
Home Day Care Coverage Endorsement	Extends liability and property coverage to licensed day care operations conducted from the residence.
Business Pursuits Endorsement	Extends Coverage E to cover the insured's personal employment-related liability from business activities.
Permitted Incidental Occupancies	Extends coverage to minor, incidental business use of the residence (office, studio); not for regulated or high-traffic operations.
Watercraft Endorsement	Extends Coverage E to watercraft that exceed the standard homeowners watercraft exclusion thresholds.

Term	Definition
Personal Injury Endorsement	Adds coverage for personal injury offenses — libel, slander, defamation, invasion of privacy — not covered by standard Coverage E.
Home Business Insurance Coverage	Comprehensive endorsement for home-based businesses requiring more than incidental coverage.

Quick Quiz — Sub-Chapter 3.5

5 questions · Circle the best answer · Check your work using the Answer Key on the following page

Name: _____ Score: _____ / 5

1. A homeowner wants to insure a \$25,000 diamond engagement ring. The standard HO-3 sub-limit for jewelry theft is \$1,500. The best way to obtain full coverage for the ring is to:

- A. Increase the Coverage C limit to cover the ring's full value
- B. Schedule the ring on a Personal Articles Floater or Scheduled Personal Property endorsement
- C. Purchase a separate standalone jewelry policy only for theft losses
- D. Add the ring to Coverage B — Other Structures

2. The Personal Property Replacement Cost endorsement on an HO-3 changes Coverage C valuation from:

- A. Named perils to open perils
- B. Replacement cost to agreed value
- C. Actual cash value (ACV) to replacement cost without depreciation
- D. Stated amount to functional replacement cost

- 3.** An HO-3 insured operates a licensed day care center from her home. Which endorsement would provide the most appropriate solution for the liability exposure created by the day care operation?
- A. Business Pursuits endorsement
 - B. Home Day Care Coverage endorsement
 - C. Personal Injury endorsement
 - D. Permitted Incidental Occupancies endorsement
- 4.** A homeowner's neighbor claims that the homeowner told mutual acquaintances that the neighbor was embezzling money at work, damaging the neighbor's reputation. The homeowner's standard HO-3:
- A. Covers this claim under Coverage E as an occurrence involving personal injury
 - B. Does not cover this — defamation is not covered under standard Coverage E
 - C. Covers this only if a lawsuit is filed
 - D. Covers this under Coverage F — Medical Payments to Others
- 5.** A homeowner's teenage son accidentally causes a fire while using the family powerboat at a lake. The HO-3 Watercraft endorsement would be most relevant if:
- A. The boat is stored in the garage at the residence premises
 - B. The boat is over a certain horsepower or length threshold that triggers the watercraft exclusion in the base policy
 - C. The fire damages only the boat, which is covered under Coverage C
 - D. The teenager is an unlicensed operator, making the standard policy applicable

Answer Key — Quick Quiz — Sub-Chapter 3.5

Correct answers are highlighted in green. Review any missed questions before moving on.

1. A homeowner wants to insure a \$25,000 diamond engagement ring. The standard HO-3 sub-limit for jewelry theft is \$1,500. The best way to obtain full coverage for the ring is to:

- A. Increase the Coverage C limit to cover the ring's full value
- B. Schedule the ring on a Personal Articles Floater or Scheduled Personal Property endorsement**
- C. Purchase a separate standalone jewelry policy only for theft losses
- D. Add the ring to Coverage B — Other Structures

Explanation: A Personal Articles Floater (PAF) or Scheduled Personal Property endorsement is the standard method for insuring valuable items that exceed the policy's sub-limits. The item is individually listed (scheduled) with its appraised value. PAF coverage is typically open perils, worldwide, with no deductible — significantly broader than the base homeowners policy coverage for that item.

2. The Personal Property Replacement Cost endorsement on an HO-3 changes Coverage C valuation from:

- A. Named perils to open perils
- B. Replacement cost to agreed value
- C. Actual cash value (ACV) to replacement cost without depreciation**
- D. Stated amount to functional replacement cost

Explanation: Standard HO-3 Coverage C (personal property) is settled at actual cash value — replacement cost minus depreciation. The Personal Property Replacement Cost endorsement removes the depreciation deduction, so the insurer pays the full cost to replace covered personal property with new items of like kind and quality, without reducing the payment for age or wear.

3. An HO-3 insured operates a licensed day care center from her home. Which endorsement would provide the most appropriate solution for the liability exposure created by the day care operation?

- A. Business Pursuits endorsement

B. Home Day Care Coverage endorsement

- C. Personal Injury endorsement
- D. Permitted Incidental Occupancies endorsement

Explanation: The Home Day Care Coverage endorsement specifically addresses the liability and property exposures of a licensed day care operation in the home. Business Pursuits provides liability extension for incidental business activities, but regulated day care operations require the specific Home Day Care endorsement. Permitted Incidental Occupancies addresses minor office use, not regulated day care.

4. A homeowner's neighbor claims that the homeowner told mutual acquaintances that the neighbor was embezzling money at work, damaging the neighbor's reputation. The homeowner's standard HO-3:

- A. Covers this claim under Coverage E as an occurrence involving personal injury
- B. Does not cover this — defamation is not covered under standard Coverage E**
- C. Covers this only if a lawsuit is filed
- D. Covers this under Coverage F — Medical Payments to Others

Explanation: Standard Coverage E covers bodily injury and property damage liability — not personal injury offenses like libel, slander, or defamation. To cover personal injury offenses (including libel, slander, false arrest, invasion of privacy), the insured must add the Personal Injury endorsement to the homeowners policy. Without it, these claims are not covered.

5. A homeowner's teenage son accidentally causes a fire while using the family powerboat at a lake. The HO-3 Watercraft endorsement would be most relevant if:

- A. The boat is stored in the garage at the residence premises
- B. The boat is over a certain horsepower or length threshold that triggers the watercraft exclusion in the base policy**
- C. The fire damages only the boat, which is covered under Coverage C
- D. The teenager is an unlicensed operator, making the standard policy applicable

Explanation: The standard homeowners policy excludes liability arising from watercraft above certain thresholds — typically boats over a specified length or horsepower, or any inboard motorboat. Below those thresholds, watercraft liability is covered. The Watercraft endorsement extends liability coverage to watercraft that would otherwise trigger the exclusion. The thresholds and endorsement terms vary by insurer.

Sub-Chapter 3.6

Dwelling Policy Basics

DP Forms · Coverage Differences from HO · When to Use a Dwelling Policy

Overview

While homeowners policies are designed for owner-occupied residences, dwelling policies (DP forms) are designed for residential properties that do not qualify for or do not need a full homeowners policy — particularly rental properties and non-owner-occupied dwellings. The exam tests basic knowledge of dwelling policy forms, their coverage scope, and the key differences from HO forms.

When Is a Dwelling Policy Used?

A dwelling policy is typically used when:

- The dwelling is a rental property (not owner-occupied)
- The owner occupies the dwelling but it does not qualify for a homeowners policy (e.g., because of business use, older condition, or other underwriting factors)
- The insured wants to insure the dwelling only, without personal property or liability coverage (which can be added separately)
- The insured is a landlord who needs property coverage but whose tenants will obtain their own renters insurance

The Three Dwelling Forms

DP-1 — Basic Form

The most basic and least expensive dwelling form. Covers only a very limited list of perils: fire, lightning, and internal explosion. Some versions add windstorm, hail, and a few other perils for an additional premium. Settlement is typically at actual cash value.

DP-2 — Broad Form

Provides named perils coverage comparable to the HO-2/HO-3 Coverage C named perils list — the Broad form perils. More comprehensive than DP-1. Losses settled at replacement cost on the dwelling if the insured maintains adequate insurance.

DP-3 — Special Form

The broadest dwelling form — open perils on the dwelling structure, similar to the HO-3's Coverage A treatment. Any cause of loss not specifically excluded is covered. Settlement at replacement cost when required insurance is maintained.

Key Differences: Dwelling Policy vs. Homeowners Policy

Understanding what dwelling policies include and exclude compared to homeowners policies is important for the exam:

Feature	HO-3	DP-1	DP-2	DP-3
Dwelling coverage	Open perils	Very limited named	Named — Broad	Open perils
Personal property	Named perils	Optional / limited	Optional	Optional
Liability (Coverage E/F)	Included	Not included	Not included	Not included
For whom	Owner-occupant	Landlord / non-HO	Landlord / non-HO	Landlord / non-HO
Theft coverage	Yes	No	Yes	Yes

KEY POINT: The most important difference: dwelling policies do NOT automatically include liability coverage (Coverage E and F). Liability coverage must be added separately or purchased through a separate policy. This is a critical gap for landlords who need to be aware of their liability exposure.

Dwelling Policy Coverages

When purchased, dwelling policy coverages generally mirror the homeowners structure:

- **Coverage A — Dwelling:** The main dwelling structure.

- **Coverage B — Other Private Structures:** Detached garages, fences, and other structures (optional in some DP forms).
- **Coverage C — Personal Property of Landlord:** The landlord's property in the building (appliances, maintenance equipment); not the tenant's belongings.
- **Coverage D — Fair Rental Value:** Lost rental income if the covered structure becomes uninhabitable due to a covered loss. Note: Dwelling policies use "fair rental value" in Coverage D rather than Additional Living Expense, because the owner is not living there.
- **Coverage E — Additional Living Expense:** Available in some DP forms for owner-occupants who are displaced from the dwelling.
- **Automatic Increase in Insurance:** An endorsement that automatically adjusts the dwelling limit periodically to reflect construction cost inflation.
- **Broad Theft Coverage:** An endorsement extending theft coverage on dwelling policies, which do not include theft by default.
- **Dwelling Under Construction:** Coverage for dwellings in the course of construction — typically on a builders risk basis.
- **Personal Liability Supplement:** A separate liability endorsement that can be added to a dwelling policy to provide Coverage E and F equivalent protection.

Key Terms — Sub-Chapter 3.6

Term	Definition
Dwelling Policy	A property policy for residential structures not eligible for or not needing a full homeowners policy; commonly used for rental properties.
DP-1 (Basic Form)	Most limited dwelling form; covers only fire, lightning, and internal explosion; ACV settlement.
DP-2 (Broad Form)	Named perils dwelling form covering Broad form perils; replacement cost on dwelling if adequately insured.

Term	Definition
DP-3 (Special Form)	Open perils dwelling form — the broadest dwelling policy; replacement cost on dwelling.
Fair Rental Value	Lost rental income when a covered loss makes the rented premises uninhabitable; the dwelling policy equivalent of Coverage D.
Landlord Policy	Informal term for a dwelling policy used by property owners who rent the structure to tenants.
Automatic Increase in Insurance	An endorsement that periodically adjusts the dwelling coverage limit to keep pace with construction cost inflation.
Dwelling Under Construction	Builders risk-type coverage for a dwelling being constructed; typically on an open perils basis.
Personal Liability Supplement	An optional liability endorsement that can be added to a dwelling policy to provide homeowners-equivalent Coverage E and F.

Quick Quiz — Sub-Chapter 3.6

5 questions · Circle the best answer · Check your work using the Answer Key on the following page

Name: _____ Score: _____ / 5

- The HO-4 policy form is designed for:
 - Homeowners who own the structure they live in
 - Tenants who rent their home — it covers personal property and liability but not the dwelling structure
 - Owners of condominium units
 - Mobile home owners
- An owner of a condominium unit would typically purchase which homeowners form?

- A. HO-2
- B. HO-3
- C. HO-6
- D. HO-8

3. An HO-8 policy is most commonly used for:

- A. New construction homes
- B. Mobile homes and manufactured housing
- C. Older homes where replacement cost significantly exceeds market value
- D. High-value homes requiring agreed value coverage

4. The HO-2 policy differs from the HO-3 primarily in that:

- A. HO-2 covers only the dwelling, not personal property
- B. HO-2 provides named perils coverage on both the dwelling and personal property, while HO-3 provides open perils on the dwelling
- C. HO-2 is available only for renters
- D. HO-2 provides higher liability limits than HO-3

5. Under the standard HO-3, the Limited Fungi, Wet or Dry Rot, or Bacteria Coverage endorsement addresses:

- A. A complete removal of all mold exclusions from the policy
- B. A limited extension of coverage for mold remediation costs resulting from a covered water loss
- C. Coverage for mold damage caused by flood or earthquake
- D. An automatic increase in Coverage A limits when mold is discovered

Answer Key — Quick Quiz — Sub-Chapter 3.6

Correct answers are highlighted in green. Review any missed questions before moving on.

1. The HO-4 policy form is designed for:

- A. Homeowners who own the structure they live in
- B. Tenants who rent their home — it covers personal property and liability but not the dwelling structure**
- C. Owners of condominium units
- D. Mobile home owners

Explanation: The HO-4 — commonly called renters insurance — is designed for tenants. It provides Coverage C (personal property), Coverage D (loss of use), Coverage E (personal liability), and Coverage F (medical payments to others). It does not cover the dwelling structure (the landlord's responsibility). HO-6 is for condo unit owners; HO-2 and HO-3 are for homeowners.

2. An owner of a condominium unit would typically purchase which homeowners form?

- A. HO-2
- B. HO-3
- C. HO-6**
- D. HO-8

Explanation: The HO-6 is specifically designed for condominium unit owners. It covers the unit owner's personal property, personal liability, and — importantly — the interior walls, floors, and fixtures of the unit that are the owner's responsibility (often described as "walls-in" coverage). The condo association's master policy typically covers the building structure and common areas.

3. An HO-8 policy is most commonly used for:

- A. New construction homes
- B. Mobile homes and manufactured housing
- C. Older homes where replacement cost significantly exceeds market value**
- D. High-value homes requiring agreed value coverage

Explanation: The HO-8 is designed for older or historic homes where the replacement cost to rebuild exceeds the market value — a situation that creates adverse selection if replacement

cost coverage is offered. The HO-8 provides modified replacement cost or market value settlement rather than full replacement cost, addressing the insurer's concern about over-insurance while still providing meaningful coverage.

4. The HO-2 policy differs from the HO-3 primarily in that:

- A. HO-2 covers only the dwelling, not personal property
- B. HO-2 provides named perils coverage on both the dwelling and personal property, while HO-3 provides open perils on the dwelling**
- C. HO-2 is available only for renters
- D. HO-2 provides higher liability limits than HO-3

Explanation: The key difference is the scope of peril coverage on the dwelling. HO-2 is a "Broad Form" — it provides named perils coverage on the dwelling and personal property (covering Basic form perils plus Broad form additions like falling objects and ice damage). HO-3 provides open perils on the dwelling and named perils on personal property. HO-3 provides significantly broader dwelling coverage.

5. Under the standard HO-3, the Limited Fungi, Wet or Dry Rot, or Bacteria Coverage endorsement addresses:

- A. A complete removal of all mold exclusions from the policy
- B. A limited extension of coverage for mold remediation costs resulting from a covered water loss**
- C. Coverage for mold damage caused by flood or earthquake
- D. An automatic increase in Coverage A limits when mold is discovered

Explanation: Standard homeowners policies typically exclude or severely limit coverage for mold, fungi, wet rot, dry rot, and bacteria. The Limited Fungi endorsement adds a capped amount of coverage for mold remediation when the mold results from a covered water loss (not from flood or groundwater). The coverage is limited in amount and applies only to mold caused by a covered cause of loss.

Chapter 3 Quiz

25 questions · Covers all six sub-chapters · Passing score: 80% (20/25)

Instructions: This quiz covers all of Chapter 3. Circle the single best answer for each question. When you are finished, check your answers using the Answer Key on the pages following this quiz.

Name: _____ Score: _____ / 25

1. Under the HO-3, which coverage part provides open perils protection on the dwelling structure?
 - A. Coverage B
 - B. Coverage A
 - C. Coverage C
 - D. Coverage D

2. A covered homeowner's fence is damaged by a fallen tree. This claim would be paid under:
 - A. Coverage A — Dwelling
 - B. Coverage B — Other Structures
 - C. Coverage C — Personal Property
 - D. Coverage E — Personal Liability

3. The standard HO-3 Coverage C — Personal Property limit for business property kept on the residence premises is typically:
 - A. Full Coverage C limit
 - B. \$2,500
 - C. \$500
 - D. Zero — business property is fully excluded

- 4.** A homeowner's guest is injured at a backyard barbecue when a grill tips over. The homeowner is not found negligent. Coverage F — Medical Payments to Others will:
- A. Not apply because there is no negligence
 - B. Pay the guest's reasonable medical expenses regardless of fault
 - C. Pay only if the guest files a formal lawsuit
 - D. Pay only for emergency room treatment
- 5.** The standard HO-3 theft sub-limit for silverware and goldware is typically around:
- A. \$500
 - B. \$2,500
 - C. \$1,500
 - D. \$10,000
- 6.** Coverage D — Loss of Use pays for Additional Living Expense (ALE). ALE is defined as:
- A. The total cost of the hotel where the insured stays during repairs
 - B. The extra costs above the insured's normal living expenses to maintain their standard of living during a covered loss
 - C. The fair rental value of the insured's home for the entire repair period
 - D. Mortgage or rent payments during the period the home is uninhabitable
- 7.** Flood damage is excluded from standard homeowners policies. A homeowner can obtain flood coverage through:
- A. Adding an endorsement to the HO-3
 - B. The National Flood Insurance Program (NFIP) or an eligible private flood insurer
 - C. Increasing the Coverage A limit above 100% of replacement cost
 - D. The state's essential insurance program
- 8.** An HO-3 insured's personal property is damaged by a peril that is NOT listed in the Coverage C named perils. The claim is:
- A. Covered under the open perils provision of Coverage C

- B. Not covered — Coverage C applies only to listed named perils
 - C. Covered at 50% under the other insurance provision
 - D. Covered if the insured upgrades to the HO-5 form retroactively
- 9.** A homeowner's personal liability policy limits are \$100,000 per occurrence. A guest at a party sues for \$300,000 after a covered accident. The homeowners insurer will:
- A. Pay only \$100,000 and abandon the defense
 - B. Defend the suit and pay up to \$100,000 in damages if the verdict exceeds that amount
 - C. Require the insured to settle immediately before a verdict
 - D. Automatically increase the limit to cover the full verdict
- 10.** A homeowner with an HO-3 loses her diamond bracelet during a vacation in Europe. Coverage C applies because:
- A. Europe is specifically listed as a covered territory
 - B. Coverage C covers personal property anywhere in the world
 - C. Only theft losses are covered internationally, not mysterious disappearance
 - D. International coverage requires a rider
- 11.** The HO-5 differs from the HO-3 primarily in that:
- A. HO-5 provides higher liability limits
 - B. HO-5 provides open perils coverage on personal property in addition to the dwelling
 - C. HO-5 is available only for newly constructed homes
 - D. HO-5 eliminates the deductible for Coverage C losses
- 12.** A homeowner schedules a \$12,000 violin on a Personal Articles Floater. The violin is accidentally damaged when the insured trips while carrying it. This claim is:
- A. Not covered — accidental breakage is excluded from all floaters
 - B. Covered under the PAF, which typically covers accidental breakage for scheduled musical instruments
 - C. Covered only under Coverage C, not the PAF
 - D. Covered only if the insured has taken reasonable care of the instrument

13. A homeowner's teenager throws a party while the parents are away. A guest is seriously injured in a fight started by an uninvited person. Coverage E will:

- A. Not apply because the parents did not authorize the party
- B. Generally apply because Coverage E covers occurrences on the insured premises regardless of who caused them (subject to exclusions)
- C. Apply only to injuries caused by the teenager, not by third-party guests
- D. Not apply because the injury arose from an assault, which is an intentional act

14. The Personal Property Replacement Cost endorsement on an HO-3 most significantly benefits the insured by:

- A. Increasing the Coverage C limit by 20%
- B. Eliminating the deductible on Coverage C claims
- C. Paying the full cost to replace covered personal property with new items, without depreciation deduction
- D. Extending Coverage C to cover business property at full value

15. An HO-3 insured's home is severely damaged. The insured's family moves into a comparable rental home at \$2,500/month while repairs are completed over four months. Their normal housing cost was \$1,800/month (mortgage payment). Coverage D — Additional Living Expense pays:

- A. \$10,000 — the full four months of rental cost
- B. \$2,800 — the difference between rental and mortgage over four months
- C. Nothing — mortgage payments continue whether the home is habitable or not
- D. The full rental cost plus \$1,800/month to cover the suspended mortgage

16. A homeowner wants to extend Coverage E to include liability for personal injury offenses such as libel, slander, and defamation. The appropriate endorsement is:

- A. Business Pursuits endorsement
- B. Home Day Care Coverage endorsement
- C. Personal Injury endorsement

D. Permitted Incidental Occupancies endorsement

17. An insured homeowner regularly rents out a backyard cottage on the property. The cottage would be covered under Coverage B — Other Structures:

- A. At full replacement cost, same as the dwelling
- B. Only while it is NOT being rented out
- C. Not at all — Coverage B excludes structures rented to others
- D. Only for named perils, even though the dwelling has open perils coverage

18. The HO-6 policy for condominium unit owners primarily covers:

- A. The entire condo building including common areas and the unit
- B. The unit owner's personal property, personal liability, and walls-in improvements to the unit
- C. Only the unit owner's personal property — no liability coverage is included
- D. The unit owner's structural share of the building based on percentage ownership

19. An earthquake endorsement added to a homeowners policy differs from standard homeowners coverage because:

- A. It eliminates the standard flood exclusion in addition to covering earthquake
- B. It covers earth movement — which is excluded from all standard HO forms — including earthquake, landslide, and subsidence
- C. It increases the Coverage A limit to cover the higher construction costs after seismic events
- D. It is automatically included in all HO-3 policies in earthquake-prone states

20. Under a standard HO-3, mold damage that results directly from a covered water loss (such as a burst pipe) is most accurately described as:

- A. Fully covered without limitation under Coverage A
- B. Excluded regardless of cause, even if it results from a covered peril
- C. Limited or excluded under the standard policy but potentially covered by the Limited Fungi endorsement

D. Covered up to the Coverage A limit with no separate sub-limit

21. A homeowner accidentally backs the car into the garage, causing \$8,000 in structural damage to the garage. This claim would be covered under:

- A. Coverage A — Dwelling
- B. Coverage B — Other Structures, subject to applicable exclusions
- C. Coverage E — Personal Liability (insured is liable to themselves)
- D. This loss is not covered under any homeowners section

22. A homeowner's dog bites a mail carrier who is injured on the property. Coverage E will:

- A. Not apply — dog bites are universally excluded from homeowners policies
- B. Generally cover the claim as a bodily injury occurrence on the insured premises
- C. Apply only if the dog had no prior history of aggression
- D. Pay only the mail carrier's medical bills, not any liability damages

23. Under the HO-3, personal property of a full-time college student living in a campus dormitory is covered as a resident relative. The coverage limit for off-premises student property is:

- A. The full Coverage C limit — student property is treated identically to on-premises property
- B. A sub-limit, typically 10% of Coverage C (subject to a minimum)
- C. Zero — the student must purchase a separate renters insurance policy
- D. The full Coverage C limit but on an ACV basis only

24. The Permitted Incidental Occupancies — Residence endorsement would be most appropriate for:

- A. A licensed day care center operating from the home
- B. A homeowner who occasionally uses one room as an office for administrative tasks related to a small professional practice
- C. A homeowner who rents out the entire home on short-term rental platforms

D. A homeowner who stores business inventory in the garage

25. In which scenario would a homeowner most likely need the Business Pursuits endorsement rather than relying on standard Coverage E?

- A. The homeowner's child accidentally damages a neighbor's property
- B. The homeowner, who works as a real estate agent, shows a client a property and the client is injured
- C. The homeowner hosts a neighborhood cookout and a guest is injured
- D. The homeowner's pet causes damage to a visitor's property

26. An insured's HO-3 dwelling is insured for \$350,000 replacement cost. The insurer requires that the dwelling be insured to at least 80% of replacement cost to avoid a coinsurance-type penalty. This means the minimum required coverage is:

- A. \$280,000
- B. \$315,000
- C. \$350,000
- D. \$420,000

Answer Key — Chapter 3 Quiz

Correct answers are highlighted in green. Review any missed questions before moving on.

1. Under the HO-3, which coverage part provides open perils protection on the dwelling structure?

- A. Coverage B
- B. Coverage A**
- C. Coverage C
- D. Coverage D

Explanation: Coverage A — Dwelling is the open perils (special form) section of the HO-3. It covers the dwelling against all causes of loss except those specifically excluded. Coverage C (personal property) is on a named perils basis under the HO-3; the HO-5 extends open perils to Coverage C as well.

2. A covered homeowner's fence is damaged by a fallen tree. This claim would be paid under:

- A. Coverage A — Dwelling
- B. Coverage B — Other Structures**
- C. Coverage C — Personal Property
- D. Coverage E — Personal Liability

Explanation: A fence is a structure on the residence premises separate from the dwelling — it falls under Coverage B — Other Structures. Coverage B is set at 10% of the Coverage A limit automatically and covers outbuildings, fences, detached garages, and similar structures.

3. The standard HO-3 Coverage C — Personal Property limit for business property kept on the residence premises is typically:

- A. Full Coverage C limit
- B. \$2,500**
- C. \$500
- D. Zero — business property is fully excluded

Explanation: Business property at the residence is covered under Coverage C but subject to a sub-limit — typically \$2,500 in the standard policy. The policy is designed for personal use; significant business property requires commercial coverage or a home business endorsement.

4. A homeowner's guest is injured at a backyard barbecue when a grill tips over. The homeowner is not found negligent. Coverage F — Medical Payments to Others will:

- A. Not apply because there is no negligence
- B. Pay the guest's reasonable medical expenses regardless of fault**
- C. Pay only if the guest files a formal lawsuit
- D. Pay only for emergency room treatment

Explanation: Coverage F is a no-fault coverage paying for medical expenses of third parties injured on the premises or by the insured's activities, without requiring proof of negligence. Its purpose is goodwill and small-claim settlement. The absence of negligence does not eliminate Coverage F.

5. The standard HO-3 theft sub-limit for silverware and goldware is typically around:

- A. \$500
- B. \$2,500**
- C. \$1,500
- D. \$10,000

Explanation: Silverware, goldware, pewterware, and related items are subject to a special theft sub-limit — typically \$2,500 in the standard HO policy forms. Like jewelry, these items should be scheduled on a Personal Articles Floater to obtain full replacement cost coverage.

6. Coverage D — Loss of Use pays for Additional Living Expense (ALE). ALE is defined as:

- A. The total cost of the hotel where the insured stays during repairs
- B. The extra costs above the insured's normal living expenses to maintain their standard of living during a covered loss**
- C. The fair rental value of the insured's home for the entire repair period
- D. Mortgage or rent payments during the period the home is uninhabitable

Explanation: ALE covers only the amount above normal living expenses. If the insured normally spends \$200/week on food and now spends \$350/week eating at restaurants while displaced, the ALE is \$150/week — the excess, not the full restaurant bill. This prevents an insured from profiting from a loss through inflated "living expenses."

7. Flood damage is excluded from standard homeowners policies. A homeowner can obtain flood coverage through:

- A. Adding an endorsement to the HO-3

B. The National Flood Insurance Program (NFIP) or an eligible private flood insurer

- C. Increasing the Coverage A limit above 100% of replacement cost
- D. The state's essential insurance program

Explanation: Flood is excluded from all standard homeowners forms. The primary source of flood insurance is the NFIP (administered by FEMA), which is available to property owners in participating communities. Private flood insurance has also grown significantly in recent years as an alternative. There is no homeowners endorsement that adds flood coverage in the standard market.

8. An HO-3 insured's personal property is damaged by a peril that is NOT listed in the Coverage C named perils. The claim is:

- A. Covered under the open perils provision of Coverage C
- B. Not covered — Coverage C applies only to listed named perils**
- C. Covered at 50% under the other insurance provision
- D. Covered if the insured upgrades to the HO-5 form retroactively

Explanation: Coverage C of the HO-3 is a named perils coverage. If the cause of the personal property loss is not one of the named perils listed in the policy, there is no Coverage C coverage for that loss. To have open perils coverage on personal property, the insured needs the HO-5 or a Personal Property Replacement Cost endorsement with open perils extension.

9. A homeowner's personal liability policy limits are \$100,000 per occurrence. A guest at a party sues for \$300,000 after a covered accident. The homeowners insurer will:

- A. Pay only \$100,000 and abandon the defense
- B. Defend the suit and pay up to \$100,000 in damages if the verdict exceeds that amount**
- C. Require the insured to settle immediately before a verdict
- D. Automatically increase the limit to cover the full verdict

Explanation: The insurer defends the suit and pays damages up to the policy limit. If the verdict is \$300,000 and the limit is \$100,000, the insurer pays \$100,000 (plus defense costs, which are usually outside the limit). The insured is personally liable for the \$200,000 excess. This illustrates why adequate liability limits — or an umbrella policy — are important.

10. A homeowner with an HO-3 loses her diamond bracelet during a vacation in Europe. Coverage C applies because:

- A. Europe is specifically listed as a covered territory
- B. Coverage C covers personal property anywhere in the world**

- C. Only theft losses are covered internationally, not mysterious disappearance
- D. International coverage requires a rider

Explanation: Coverage C — Personal Property provides worldwide coverage for the insured's personal property. Whether the loss occurs at home, in a hotel abroad, or anywhere else, the standard homeowners Coverage C applies. The specific peril, however, must still be one of the covered named perils.

11. The HO-5 differs from the HO-3 primarily in that:

- A. HO-5 provides higher liability limits
- B. HO-5 provides open perils coverage on personal property in addition to the dwelling**
- C. HO-5 is available only for newly constructed homes
- D. HO-5 eliminates the deductible for Coverage C losses

Explanation: The HO-5 (Comprehensive Form) provides open perils coverage on both the dwelling (Coverage A/B) AND personal property (Coverage C). The HO-3 is open perils on the dwelling but named perils on personal property. The HO-5 is the broadest standard homeowners form available.

12. A homeowner schedules a \$12,000 violin on a Personal Articles Floater. The violin is accidentally damaged when the insured trips while carrying it. This claim is:

- A. Not covered — accidental breakage is excluded from all floaters
- B. Covered under the PAF, which typically covers accidental breakage for scheduled musical instruments**
- C. Covered only under Coverage C, not the PAF
- D. Covered only if the insured has taken reasonable care of the instrument

Explanation: Personal Articles Floaters typically cover scheduled items on an open perils basis, including accidental breakage for fragile items like fine arts and musical instruments. This broader coverage is one of the key advantages of scheduling valuable items on a PAF versus relying on Coverage C sub-limits.

13. A homeowner's teenager throws a party while the parents are away. A guest is seriously injured in a fight started by an uninvited person. Coverage E will:

- A. Not apply because the parents did not authorize the party
- B. Generally apply because Coverage E covers occurrences on the insured premises regardless of who caused them (subject to exclusions)**
- C. Apply only to injuries caused by the teenager, not by third-party guests

D. Not apply because the injury arose from an assault, which is an intentional act

Explanation: Coverage E covers the insured's legal liability for bodily injury caused by an occurrence — including occurrences on the insured premises. Even if an uninvited third party started a fight, the homeowner may have premises liability for allowing dangerous conditions (an unsupervised party). The insurer defends and potentially pays, subject to intentional act exclusions applied to the actual actor.

14. The Personal Property Replacement Cost endorsement on an HO-3 most significantly benefits the insured by:

A. Increasing the Coverage C limit by 20%

B. Eliminating the deductible on Coverage C claims

C. Paying the full cost to replace covered personal property with new items, without depreciation deduction

D. Extending Coverage C to cover business property at full value

Explanation: The Personal Property Replacement Cost endorsement eliminates the depreciation deduction that applies under ACV valuation. A five-year-old laptop worth \$300 ACV would be replaced for its actual replacement cost — perhaps \$900 for a new equivalent. This endorsement significantly improves claim settlements for personal property.

15. An HO-3 insured's home is severely damaged. The insured's family moves into a comparable rental home at \$2,500/month while repairs are completed over four months. Their normal housing cost was \$1,800/month (mortgage payment). Coverage D — Additional Living Expense pays:

A. \$10,000 — the full four months of rental cost

B. \$2,800 — the difference between rental and mortgage over four months

C. Nothing — mortgage payments continue whether the home is habitable or not

D. The full rental cost plus \$1,800/month to cover the suspended mortgage

Explanation: ALE pays the additional cost above normal living expenses. Normal housing cost: \$1,800/month. Actual housing cost: \$2,500/month. ALE: \$700/month × 4 months = \$2,800. The mortgage payment continues regardless (it's a loan obligation, not a living expense). Coverage D pays only the excess cost above what the insured would normally spend.

16. A homeowner wants to extend Coverage E to include liability for personal injury offenses such as libel, slander, and defamation. The appropriate endorsement is:

A. Business Pursuits endorsement

B. Home Day Care Coverage endorsement

C. Personal Injury endorsement

D. Permitted Incidental Occupancies endorsement

Explanation: Standard Coverage E covers bodily injury and property damage liability — not personal injury torts like defamation, libel, slander, false arrest, or invasion of privacy. The Personal Injury endorsement specifically adds coverage for these offenses, which can arise in the personal context (social media posts, disputes with neighbors, etc.).

17. An insured homeowner regularly rents out a backyard cottage on the property. The cottage would be covered under Coverage B — Other Structures:

A. At full replacement cost, same as the dwelling

B. Only while it is NOT being rented out

C. Not at all — Coverage B excludes structures rented to others

D. Only for named perils, even though the dwelling has open perils coverage

Explanation: The Coverage B exclusion for structures rented to others (other than as an incidental rental to a tenant who also occupies the main dwelling) means that a backyard cottage regularly rented out as a separate unit is excluded from Coverage B. The owner needs either a landlord policy or a specific endorsement to cover the cottage as a rental property.

18. The HO-6 policy for condominium unit owners primarily covers:

A. The entire condo building including common areas and the unit

B. The unit owner's personal property, personal liability, and walls-in improvements to the unit

C. Only the unit owner's personal property — no liability coverage is included

D. The unit owner's structural share of the building based on percentage ownership

Explanation: The HO-6 covers (1) the unit owner's personal property, (2) personal liability (Coverage E) and medical payments (Coverage F), and (3) Coverage A for the interior portions of the unit that are the owner's responsibility ("walls-in" — interior walls, floors, ceilings, fixtures). The building structure and common areas are the responsibility of the condo association's master policy.

19. An earthquake endorsement added to a homeowners policy differs from standard homeowners coverage because:

A. It eliminates the standard flood exclusion in addition to covering earthquake

B. It covers earth movement — which is excluded from all standard HO forms — including earthquake, landslide, and subsidence

- C. It increases the Coverage A limit to cover the higher construction costs after seismic events
- D. It is automatically included in all HO-3 policies in earthquake-prone states

Explanation: Earth movement — including earthquake, landslide, earth sinking, and subsidence — is excluded from all standard homeowners forms. An Earthquake endorsement specifically fills this gap. It does not affect the flood exclusion. In high-risk areas, standalone earthquake policies are often more appropriate than a homeowners endorsement.

20. Under a standard HO-3, mold damage that results directly from a covered water loss (such as a burst pipe) is most accurately described as:

- A. Fully covered without limitation under Coverage A
- B. Excluded regardless of cause, even if it results from a covered peril
- C. Limited or excluded under the standard policy but potentially covered by the Limited Fungi endorsement**
- D. Covered up to the Coverage A limit with no separate sub-limit

Explanation: Standard homeowners policies broadly exclude or severely limit coverage for mold, fungi, wet rot, and bacteria. Even when mold results directly from a covered water loss, coverage is restricted. The Limited Fungi, Wet or Dry Rot, or Bacteria Coverage endorsement provides a capped amount of mold remediation coverage when the mold arises from a covered cause of loss (but not flood or groundwater).

21. A homeowner accidentally backs the car into the garage, causing \$8,000 in structural damage to the garage. This claim would be covered under:

- A. Coverage A — Dwelling
- B. Coverage B — Other Structures, subject to applicable exclusions**
- C. Coverage E — Personal Liability (insured is liable to themselves)
- D. This loss is not covered under any homeowners section

Explanation: The detached garage is an Other Structure covered under Coverage B. Accidental physical damage to a covered structure by a named peril (in this case, vehicle impact, which is a covered peril) would be paid under Coverage B. The fact that the insured caused the damage accidentally does not preclude coverage — Coverage E (liability) is for damage to others' property, not the insured's own.

22. A homeowner's dog bites a mail carrier who is injured on the property. Coverage E will:

- A. Not apply — dog bites are universally excluded from homeowners policies

B. Generally cover the claim as a bodily injury occurrence on the insured premises

- C. Apply only if the dog had no prior history of aggression
- D. Pay only the mail carrier's medical bills, not any liability damages

Explanation: Dog bites are covered under Coverage E as bodily injury occurrences, absent a specific breed exclusion or prior-bite exclusion that some insurers apply. Coverage E pays damages the insured is legally obligated to pay, plus defense costs. Many states have strict liability statutes for dog bites, making this a common Coverage E claim. Some insurers exclude certain breeds or dogs with known bite history.

23. Under the HO-3, personal property of a full-time college student living in a campus dormitory is covered as a resident relative. The coverage limit for off-premises student property is:

- A. The full Coverage C limit — student property is treated identically to on-premises property

B. A sub-limit, typically 10% of Coverage C (subject to a minimum)

- C. Zero — the student must purchase a separate renters insurance policy
- D. The full Coverage C limit but on an ACV basis only

Explanation: Full-time students living at school are treated as resident relatives under most homeowners policies. Their personal property is covered but subject to a sub-limit — typically 10% of Coverage C (with a minimum of \$1,000 in some forms). This is a commonly tested provision. While 10% may be adequate for modest property, students with valuable electronics or equipment should consider supplemental renters insurance.

24. The Permitted Incidental Occupancies — Residence endorsement would be most appropriate for:

- A. A licensed day care center operating from the home

B. A homeowner who occasionally uses one room as an office for administrative tasks related to a small professional practice

- C. A homeowner who rents out the entire home on short-term rental platforms
- D. A homeowner who stores business inventory in the garage

Explanation: The Permitted Incidental Occupancies — Residence endorsement extends homeowners liability and sometimes property coverage to minor, incidental business uses of the residence (such as a small office or studio). It is not appropriate for regulated operations like day care (which needs the Home Day Care endorsement) or significant commercial activities.

25. In which scenario would a homeowner most likely need the Business Pursuits endorsement rather than relying on standard Coverage E?

- A. The homeowner's child accidentally damages a neighbor's property
- B. The homeowner, who works as a real estate agent, shows a client a property and the client is injured**
- C. The homeowner hosts a neighborhood cookout and a guest is injured
- D. The homeowner's pet causes damage to a visitor's property

Explanation: The Business Pursuits endorsement extends Coverage E to cover the insured's liability arising from business activities (other than those requiring specific endorsements like day care). A real estate agent who injures a client during a business showing has a business-related liability that standard Coverage E excludes. The endorsement covers the insured's personal (non-employer) liability in their occupation.

26. An insured's HO-3 dwelling is insured for \$350,000 replacement cost. The insurer requires that the dwelling be insured to at least 80% of replacement cost to avoid a coinsurance-type penalty. This means the minimum required coverage is:

- A. \$280,000**
- B. \$315,000
- C. \$350,000
- D. \$420,000

Explanation: $80\% \times \$350,000 = \$280,000$. Most homeowners policies do not use a traditional coinsurance clause but may contain provisions that require the dwelling to be insured to a minimum percentage of replacement cost to receive full replacement cost benefits. If the insured carries less than the required minimum, the settlement may be reduced or converted to ACV. Here, \$280,000 is the 80% threshold.

Master Key Terms — Chapter 3

All key terms from Chapter 3, formatted for flashcard use.

Term	Definition
HO-2 (Broad Form)	Named perils on both dwelling and personal property; covers Broad form perils.
HO-3 (Special Form)	Open perils on dwelling; named perils on personal property; most widely sold form.
HO-4 (Renters/Contents)	Personal property and liability only; no dwelling coverage; for tenants.
HO-5 (Comprehensive)	Open perils on both dwelling and personal property; broadest standard form.
HO-6 (Unit Owners/Condo)	Personal property, liability, and walls-in coverage for condo unit owners.
HO-7 (Mobile Home)	Open perils dwelling, named perils contents, for mobile/manufactured housing.
HO-8 (Modified Coverage)	Named perils; functional replacement cost or market value settlement; for older homes.
Residence Premises	The insured's primary dwelling location; where coverage generally applies.
Occurrence	An accident (including continuous exposure); trigger for homeowners liability coverage.
Walls-In Coverage	HO-6 Coverage A for interior unit improvements the condo owner is responsible for.

Term	Definition
Coverage A — Dwelling	Open perils (HO-3) coverage on the dwelling structure and attached structures.
Coverage B — Other Structures	Covers detached structures; 10% of Coverage A limit; excludes rented structures.
Coverage C — Personal Property	Worldwide named perils coverage for personal property; subject to special sub-limits.
Coverage D — Loss of Use	Pays additional living expense (extra costs above normal) when home is uninhabitable.
Additional Living Expense (ALE)	The excess cost above normal living expenses to maintain standard of living during displacement.
Special Sub-Limits	Lower Coverage C caps for high-theft-risk categories: jewelry \$1,500; silverware \$2,500; firearms \$2,500; money \$200.
Student Property	10% of Coverage C (min. \$1,000) for full-time student resident relatives living away at school.
Coverage E — Personal Liability	Covers damages the insured is legally obligated to pay for BI or PD to others; includes defense costs.
Coverage F — Medical Payments	No-fault medical payments to third parties injured on premises or by insured's activities.
Business Activities Exclusion	Standard Coverage E does not cover liability arising from business operations.
Motor Vehicle Exclusion	Automobile liability excluded from homeowners; covered by auto insurance.
Personal Injury	Offenses including libel, slander, defamation; not covered by standard Coverage E; requires endorsement.

Term	Definition
Earth Movement Exclusion	All forms of earth movement excluded from standard HO forms.
Flood Exclusion	Surface water and overflow of bodies of water excluded; requires NFIP or private flood insurance.
Water Backup Exclusion	Sewer and drain backup excluded; can be restored by endorsement.
Intentional Loss Exclusion	No coverage for losses caused by the insured's deliberate acts.
Personal Articles Floater (PAF)	Open perils, agreed value, no-deductible scheduled coverage for high-value personal property items.
Personal Property RC Endorsement	Pays full replacement cost on personal property without depreciation deduction.
Limited Fungi Endorsement	Capped coverage for mold/fungi remediation from a covered cause of loss.
Earthquake Endorsement	Adds earth movement coverage; typically a percentage deductible.
Home Day Care Endorsement	Extends liability and property coverage to licensed day care operations from the home.
Business Pursuits Endorsement	Extends Coverage E to employment-related liability excluded by standard homeowners.
Permitted Incidental Occupancies	Extends coverage to minor, incidental business use of residence.
Watercraft Endorsement	Extends Coverage E to watercraft exceeding standard exclusion thresholds.

Term	Definition
Personal Injury Endorsement	Adds libel, slander, defamation, and invasion of privacy coverage to Coverage E.
DP-1 (Basic Dwelling)	Fire, lightning, and internal explosion; ACV settlement; most basic dwelling form.
DP-2 (Broad Dwelling)	Named perils (Broad) on dwelling; replacement cost if adequately insured.
DP-3 (Special Dwelling)	Open perils on dwelling; broadest dwelling form.
Fair Rental Value	Lost rental income when covered loss makes rented premises uninhabitable; Coverage D in dwelling policies.
Automatic Increase in Insurance	Endorsement adjusting dwelling limit periodically for construction cost inflation.

Crossword Puzzle Clue List — Chapter 3

Clues and answers for the Chapter 3 crossword puzzle. Answer words are in brackets.

- The most widely sold homeowners form; open perils on dwelling, named perils on contents [HO3]
- Homeowners form for renters; no dwelling coverage [HO4]
- Homeowners form providing open perils on both dwelling and personal property [HO5]
- Homeowners form for condominium unit owners [HO6]
- Homeowners form for older homes where replacement cost exceeds market value [HO8]
- Covers structures on the premises not attached to the dwelling; 10% of Coverage A [COVERAGEB]
- Pays the additional cost above normal expenses when a covered loss displaces the insured [ADDITIONALLIVINGEXPENSE]
- Worldwide named perils coverage for the insured's personal belongings [COVERAGEDC]
- Standard theft sub-limit for jewelry and watches in an HO-3 [ONETHOUSANDFIVEHUNDRED]
- Standard theft sub-limit for silverware and goldware in an HO-3 [TWOHOUSANDFIVEHUNDRED]
- Coverage that pays for others' medical bills regardless of the insured's negligence [COVERAGEDF]
- Open perils, agreed value, no-deductible coverage for individually scheduled valuables [PERSONALARTICLESFLOATER]
- Endorsement eliminating depreciation from Coverage C settlements [PERSONALPROPERTYREPLACEMENTCOST]
- Adds libel, slander, and defamation coverage not included in standard Coverage E [PERSONALINJURYENDORSEMENT]
- Endorsement for a licensed day care operation conducted from the home [HOMEDAYCARE]
- Extends Coverage E to employment-related business liability [BUSINESSPURSUITS]
- Coverage E does not apply to liability from this type of activity [BUSINESS]

- All forms of earth movement are excluded by this policy provision [EARTHMOVEMENTEXCLUSION]
- Water from surface flooding is excluded; this separate program provides the coverage [NFIP]
- Water from backed-up sewers is excluded but can be added back by this [ENDORSEMENT]
- Sworn written statement submitted by insured detailing a covered loss [PROOFOFLOSS]
- Accidental damage to a neighbor's property by the insured is covered under this section [COVERE]
- Most basic dwelling policy form covering only fire, lightning, and explosion [DP1]
- Open perils dwelling form — the broadest available [DP3]
- Lost rent when covered loss makes a rental property uninhabitable [FAIRRENTALVALUE]
- Endorsement adjusting dwelling limits periodically for inflation [AUTOMATICINCREASE]
- An 8-year-old child accidentally breaking a window is covered because it was this type of act [ACCIDENTAL]
- Defense costs in the homeowners policy are paid in addition to this [POLICYLIMIT]
- The HO-3 Coverage D limit is typically this percentage of Coverage A [THIRTY]
- Resident relative full-time college student personal property is covered at this percentage of Coverage C [TEN]