

LESSON 1.3 HOMEOWNERS POLICY: ELIGIBILITY

So far in this Insuring Personal Residential course, we have explored the Dwelling Policy and discussed what types of dwellings and occupancies Dwelling Policies are typically used for when a customer is ineligible for a Homeowners Policy. We identified why dwelling owners need either a Dwelling Policy or a Homeowners Policy and that Dwelling Policies are primarily used for rental properties, older homes in need of repair, or properties in difficult-to-insure locations.

We also discussed the three Dwelling Policy forms — the Basic Form, DP-1; the Broad Form DP-2; and the Special Form, DP-3. We detailed the differences in covered perils insured under each policy and discussed named peril versus open peril.

Let's move from our discussion of the Dwelling Policy to a discussion of the terms of eligibility for the Homeowners Policy. The Homeowners Policy is the most common form used to insure personal residential property. Take notes on this content to help you remember the features of the Homeowners Policy and eligibility factors related to it. These guidelines come from The General Rules section of the ISO Homeowners Policy Program Manual.

In the book *Homeowners' Coverage*, insurance expert Christopher Boggs explains that individual homeowners may have different reasons for purchasing homeowners' coverage. However, their objective is the same — they want their claims to be paid at times of loss. That is why, the author goes on to say, that insurance professionals must be thoroughly familiar with the policy language, understand the breadth of coverage in policies, and know how to protect clients against coverage gaps.

The Homeowners Policy is the first package policy to be used within the insurance industry. It is called a "package" because it bundles together property and liability coverages for a customer's property, dwelling and/or contents, *and* for personal liability into one policy. This makes the Homeowners Policy very different from the Dwelling Policy, which does not automatically provide liability coverage. Liability coverage includes bodily injury or property damage inflicted through neglect of another by an "insured."

As we have mentioned before, the Insurance Services Office (ISO), provides standardized insurance forms and publishes a Homeowners Program Manual that gives information regarding the most recent changes to policy and rating information. Rating information reflects the price that an insurer believes it will cost to take on the financial responsibility for an insured's potential claims. Specifically, the Homeowners Program Manual contains the rules and classifications governing the calculation of premium and writing of the Homeowners Policy — The Rules of Eligibility. Rules of eligibility in the Homeowners Policy Program Manual focus on insurance coverage for owner-occupied residences.

Insurance companies, or carriers, can make changes to the standardized forms offered by the Insurance Services Office (ISO) to reflect their own policy offerings. Likewise, eligibility rules, underwriting guidelines, and other characteristics may also differ among insurance

companies, so insurance professionals must check each carrier's guidelines and requirements before quoting and issuing policies. Underwriting guidelines for a homeowners policy are narrower than those used for a dwelling policy and consider specific details like:

- the age of a dwelling's roof,
- the last time the dwelling's plumbing and electrical systems were updated,
- the history of prior losses for the client and the dwelling, and
- the dwelling's year of construction.

Insurance carriers have different guidelines, depending upon their location in the country. Recall that *exposures* are conditions that leave a homeowner open to risk. In northern states, for example, winter brings different exposures than it does in southern states. In the north, snow and ice are exposures, but in the Midwest and south, hail and tornadoes are common exposures. On the West Coast, wildfire is a major exposure just as it is in Texas. Each of these eligibility guidelines, based on response, may increase premium, decrease premium, or exclude the client from eligibility under a Homeowners Policy. However, if a client is not eligible for a Homeowners Policy, they may be eligible for a Dwelling Policy.

As with Dwelling Policy Forms, there are several types of Homeowner Policy Forms that can be used to provide insurance coverage. We will look at these in greater detail later in the course, but to understand some concepts in this lesson, let's briefly discuss Homeowners Policy forms.

- There are four forms we can use for dwellings occupied by the owner. Insurance professionals commonly refer to them as Owner Occupied Homeowner Policy Forms and they are the HO-2, HO-3, HO-5, and HO-8.
- The Tenant or Renter Policy Form, known as the HO-4 policy, is used for the client who does not own the home but needs coverage for personal belongings and liability.
- The Condo or Unit Owner Policy Form, known as the HO-6 policy, is used for the client who owns and occupies one unit in a multi-unit building, like a condo.

As with the Dwelling Policy, the Homeowners Policy has rules about occupancy. Look at these guidelines that come from The General Rules section of the ISO Homeowners Policy Program Manual.

A Homeowners Policy will not cover trailer houses and mobile homes, but the HO-4 Tenant Policy will cover personal property owned by a tenant of a trailer house or mobile home. All Homeowners Policy forms, except the Tenant Policy Form, HO-4, and the Condo Policy Form, HO-6, may be issued to a client who owns a one-to-four-family dwelling that is used exclusively for residential purposes if the client is an occupant of that dwelling. Roomers and Boarders are allowed under a homeowner policy as well. A one-family dwelling may not be occupied by more than one additional family or two roomers or boarders, while a

two-, three-, or four-family dwelling will allow occupancy of two families per individual unit or one family and two roomers or boarders per individual unit. You know, from our examination of the Dwelling Policy, that roomers or boarders are individuals who rent rooms in a dwelling commonly occupied by the owner and/or other individuals.

Our Dwelling Policy eligibility discussion touched on seasonal occupancy. The ISO Homeowners Program Manual defines seasonal dwellings as dwellings with a continuous lack of occupancy of three or more consecutive months during any one-year period. These seasonal homes are commonly used for personal seasonal vacations or retreats. Seasonal dwellings are also eligible for a Homeowners Policy when owned and occupied by the client.

Also, like the Dwelling Policy, the Homeowners Policy may be issued to cover dwellings under construction, or in the course of construction. The policy must be issued only in the name of the dwelling's intended owner-occupant(s).

By now you're probably sensing the common theme of the Homeowners Policy Program. The owner of the dwelling must be an occupant of the dwelling you intend to insure. There are, though, some other ownership scenarios where an individual may not be the actual **owner** or an **occupant**, but the dwelling is still eligible for a policy under the ISO Homeowners Policy Program. Next, we will review various types of ownership or occupancy scenarios and identify appropriate forms for insuring these specific risks.

One of these ownership scenarios to review is a one- to four-family dwelling co-owned by two or more unrelated parties. If there is a dwelling with two-, three-, or four-family units such as a duplex, triplex, or 4-plex and two or more of those units are occupied by both co-owners, each occupying a unit with a separate entrance, a Homeowners Policy can be written for one of the owners. Only one of the owners can be a named insured on the policy Declarations Page, except in the case of a married couple, so the Homeowners Policy will need an endorsement to name the second owner as an insured. Endorsements, or riders, are amendments, changes, or additions to language in the policy contract that affect coverage. In this case, the Additional Insured – Residence Premises Endorsement Form (HO 04 41) should be used to add the second co-owner as an “insured” for Coverage A – Dwelling, and for Coverage B – Other Structures, and premises liability. In addition, the co-owner occupying a separate unit of the insured dwelling will need a Renter Policy Form, HO-4, to cover their personal contents and liability.

Another alternate ownership situation is when a client places their home into a Trust. Sometimes individuals will set up a trust, then purchase a home naming that trust as the owner of the property. A trust is often used to protect assets, like a home, and ensure that appointed beneficiaries get the benefit of using those assets without probate, or having to prove validity of a will, and without estate tax implications if something happens to the trust founder.

The Parties of a Trust are:

- The Trustor, settlor, or grantor
- The Trustee
- The Beneficiary

The trustor sets up the Trust. The second person, the trustee, manages the trust. The trustee is often the grantor's attorney or accountant. The third person, the beneficiary, is the person who receives the trust assets after the grantor dies. The individual that sets up the trust, the trustor or grantor, must occupy the home. Only then will the customer be eligible for a Homeowners Policy. The trustor will be the named insured on the policy and the Trust and trustees will be named insureds by adding the Trust Endorsement Form, HO 06 15.

The use of Life Estates is another way to address a unique ownership situation. A Homeowners Policy may be issued to the occupant of a dwelling under a life estate arrangement. Life estates differ from trusts in that the life estate splits ownership between the giver and receiver. Many parents create a life estate and "gift" their home to their child to reduce their assets so they can qualify for Medicaid health benefits. Even though the parent still retains interest in the property, Medicaid will not count the home as an asset in determining financial eligibility for Medicaid. The parent will be the named insured on the Homeowners Policy and the child will be an additional insured by using the Additional Insured Endorsement Form, HO 04 41, previously mentioned. The life estate provides residential coverage for both parent and child.

Lastly, the final eligible alternate ownership scenario we will address is that of a long-term purchase or contract of sale. A Homeowners Policy may also be issued to the purchaser-occupant or occupants who have entered into a long-term installment contract for the purchase of the dwelling. In these situations, the person who will be named as the insured on the policy has entered into a contract with the deeded owner of the property stating that title of the property does not pass from the seller until all the terms of the installment contract have been satisfied. Think of it as a "Lease to Own" type agreement. In this situation, the purchaser will be the named insured on the policy and the seller will be named on the Additional Insured Endorsement Form, HO 04 41, to cover the seller's interest in the business and provide premises liability.

As you can see, there are several different types of eligibility for residential insurance options in the Homeowners Policy Program. It is not just a straightforward owner-occupied dwelling that qualifies for an ISO Homeowners Policy. It's essential that an insurance professional ask questions to clearly understand how to determine which homeowners' policy program suits a customer. Before you move on to learn about the different types of Homeowners Forms and Endorsements available for insuring specific risks, take some time to review your knowledge of what you learned.