



NORTH CAROLINA RATE BUREAU
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June 3, 2002

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Revised Homeowners Insurance Rates

By letter dated May 1, 2002, the Rate Bureau announced changes in the Homeowners rate level as well as changes to the territory definitions. Included in the rate level changes was the introduction of base rates for the HO 00 06 policy form in lieu of relativity factors applied to the HO 00 04 base rate. Due to an oversight, the entire rating rule regarding the HO 00 06 was completely deleted. By this rule being deleted, companies have no rating rule for changing the HO 00 06 from a "Broad" form to a "Special" form.

The Department of Insurance has recently approved revisions to the Homeowners Manual to provide for changes in the rating rules to create a rating factor that is applied to the HO 00 06 base rates for changing the HO 00 06 from a "Broad" form to a "Special" form.

In that regard, please find attached revised Homeowners Manual pages to reflect these changes.

These changes are to become effective in accordance with the following rule of application:

These changes are applicable to all new and renewal policies effective on or after August 15, 2002.

Please see to it that this circular letter is brought to the attention of all interested personnel in your company.

Very Truly Yours,

F. Timothy Lucas

Personal Lines Manager

FTL:dp

Enclosures

P-02-12

EXCEPTIONS TO GENERAL RULES

101. LIMITS OF LIABILITY AND COVERAGE RELATIONSHIPS

The following is added to Paragraph F.:

Loss Settlement Condition Endorsement **HO 04 81** must be used with Form **HO 00 08**. It replaces the Repair Cost or Market Value Loss Settlement Provisions in **HO 00 08** with an Actual Cash Value Loss Settlement Condition.

The following paragraph is added:

G. All Forms

The limit of liability for Coverage **E** of Section **II** may be reduced to \$50,000 to \$25,000. Other limits below \$100,000 are not permitted.

104. ELIGIBILITY

Paragraph **G.** is replaced by the following:

G. Farm Property

1. A Homeowners Policy shall not be issued to cover any property to which farm forms or rates apply under the rules of the company. In no event shall a policy be issued to provide Section **I** property damage coverage to any property situated on premises used for farming purposes.
2. Optional Section **II** liability coverage is available for certain farm liability exposures as specified in Rule **615**.

106. PROTECTION CLASSIFICATION CODES AND INFORMATION

This rule is replaced by the following:

A. Codes

Protection Class	Code
1	01
2	02
3	03
4	04
5	05
6	06
7	07
8	08
9	09
9E	XX
9S	79
10	10

B. Protection Information

The Protection Class listings in the I Community Mitigation Classification manual apply to risks insured under Homeowners Program policies.

1. The protection class indicated applies in a municipality or classified area where a single class or fire protection is available throughout (Example: 8, 7, 6, etc.).

2. In a classified area where two or more classifications are shown (Example: 6/9 or 9S), the classification is determined as follows:

Distance To Fire Station	Class
a. 5 road miles or less with hydrant within 1,000 feet * First protection class (Example: 6/9 ... use Class 6)	*
b. 5 road miles or less with hydrant beyond 1,000 feet	9 or 9S
c. Over 5 road miles	10

In a classified area where two or more classifications are shown and an "E" is designated, (Example: 6/9E), the classification is determined as follows:

Distance To Fire Station	Class
a. 5 road miles or less with hydrant within 1,000 feet * First protection class (Example: 6/9 ... use Class 6)	*
b. Between 5 and 6 road miles	9E
c. Over 6 road miles	10

3. Rural Fire Protection Districts are areas which have been inspected and for which protection classes are published.
4. All other properties are Class 10.

201. POLICY PERIOD

Paragraph **D.** is replaced by the following:

- D.** Less than three years on a pro rata basis and may be extended for successive policy periods based upon the premiums, forms and endorsements then in effect for the company.

301. BASE PREMIUM COMPUTATION

Paragraph **A.2.** is replaced by the following:

2. Form HO 00 04

- a. From the Base Class Premium Table, select the **HO 00 04** premium for the territory that applies.
- b. From the Classification Table, select the Protection — Construction Classification Factor that applies.
- c. Multiply the Base Class Premium by the Protection — Construction Classification Factor and round to the nearest whole dollar to arrive at the Key Premium.
- d. From the Key Factor Table, select the Key Factor for the desired limit of liability. If the limit of liability is not shown in the tables, interpolate as illustrated in Paragraph **C.** of this rule.
- e. Multiply the Key Premium from **2.c.** by the Key Factor and round to the nearest whole dollar to arrive at the **BASE PREMIUM**.

301. BASE PREMIUM COMPUTATION (Cont'd)

Paragraph ~~A.3.~~ is added:

~~3. Form HO 00 06~~

~~Refer to Rule A.3. of the Classification Pages for the rating instructions.~~

Paragraph **B.3.** is replaced by the following:

- 3. Special Personal Property Coverage – **HO 00 03** (Endorsement **HO 32 36**) and **HO 00 06** (Endorsement **HO 32 35**)

302. LOSS SETTLEMENT OPTIONS

A. Functional Replacement Cost Loss Settlement – HO 00 02 and HO 00 03 Only

Coding: 39/439 or 40/440

- 1. The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.
- 2. The policy may be endorsed to provide building loss settlement exclusively on a functional replacement cost basis if, at the time of loss, the amount of insurance on the damaged building is 80% or more of the functional replacement cost of the building immediately before the loss. Functional Replacement Cost means the amount which it would cost to repair or replace the damaged building with less costly common construction materials and methods which are functionally equivalent to obsolete, antique or custom construction materials and methods.
- 3. Develop the BASE PREMIUM in accordance with Rule **301.** for the amount of insurance selected for this option. However, if Endorsement **HO 04 94** Windstorm or Hail Exclusion is also made a part of the policy then develop the BASE PREMIUM in accordance with Additional Rule – Windstorm or Hail Exclusion.

Use Endorsement **HO 32 50** Functional Replacement Cost Loss Settlement – North Carolina.

B. Actual Cash Value Loss Settlement – HO 00 02 and HO 00 03 Only

Coding: 37/437

- 1. The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.
- 2. The policy may be endorsed to provide building loss settlement exclusively on an actual cash value basis if, on the inception date of the policy, the Coverage **A** limit of liability selected by the insured is less than 80% of the full replacement cost of the dwelling.

- 3. To develop the BASE PREMIUM for the Coverage **A** limit of liability shown in the policy declarations:

- a. Multiply the Coverage **A** limit of liability by the appropriate factor from the table shown below and round to the nearest \$1,000.

% of Replacement Value	Factor
20%	4.00
30%	2.67
40%	2.00
50%	1.60
60%	1.33
70%	1.14

- b. Develop a BASE PREMIUM in accordance with Rule **301.** for the amount of insurance computed in **B.3.a.** above.

- c. Multiply the premium determined in **B.3.b.** by the appropriate factor from the table noted below.

% of Replacement Value	Factor
20%	.73
30%	.74
40%	.75
50%	.76
60%	.77
70%	.78
80%	.80

- d. If Endorsement **HO 04 94** Windstorm or Hail Exclusion is also made a part of the policy then develop the BASE PREMIUM in accordance with Additional Rule – Windstorm or Hail Exclusion and multiply that BASE PREMIUM by the appropriate factor from the table above.

Use Endorsement **HO 04 81** Actual Cash Value Loss Settlement.

C. Special Loss Settlement – All Forms Except HO 00 04 and HO 00 06

Exception Code 5

- 1. The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.
- 2. This percentage amount may be modified to 50%, 60% or 70% of replacement value without affecting the loss settlement provisions. If this option is selected, the Coverage **A** limit of liability representing 50%, 60% or 70% of replacement value is to be shown in the policy declarations.

EXCEPTION PAGES

302. LOSS SETTLEMENT OPTIONS (Cont'd)

3. To develop a BASE PREMIUM for the Coverage A limit of liability shown in the policy declarations:

a. Multiply the Coverage A limit of liability by the appropriate factor from the table below and round to the nearest \$1,000.

% of Replacement Value	Factor
50%	1.60
60%	1.33
70%	1.14

b. Develop a BASE PREMIUM in accordance with Rule 301. for the amount of insurance computed in C.3.a. above. However, if Endorsement HO 04 94 Windstorm or Hail Exclusion is also made a part of the policy then develop the BASE PREMIUM in accordance with Additional Rule – Windstorm or Hail Exclusion for the amount of insurance computed in C.3.a. above.

c. Multiply the premium determined in C.3.b. by the appropriate factor from the table noted below.

% of Replacement Value	Factor
50%	.96
60%	.97
70%	.98

Use Endorsement HO 04 56 Special Loss Settlement.

303. ORDINANCE OR LAW COVERAGE

Paragraph B.2.a. is replaced by the following if Endorsement HO 04 94 Windstorm or Hail Exclusion is also made a part of the policy:

B.2. Premium

a. Forms HO 00 02 and 03

To develop the BASE PREMIUM multiply the premium computed in accordance with the Additional Rule – Windstorm or Hail Exclusion, by the appropriate factor shown below:

Percentage of Coverage A Increase in Amount		Factors Coverage A Limit	
Total Amount		\$60,000 to \$140,000	All Other
15%	25%	1.13	1.05
40%	50%	1.35	1.14
65%	75%	1.51	1.20
90%	100%	1.67	1.27
For each add'l 25% increment, add:		.16	.07

304. SPECIAL PERSONAL PROPERTY COVERAGE – HO 00 03 AND HO 00 06

This rule is replaced by the following:

A. HO 00 03 Only

1. Coverages A and B under Form HO 00 03 are insured against additional risks of physical loss subject to certain exclusions. Coverage C is insured against perils named in the form.

2. The policy may be endorsed to insure Coverage C against additional risks of physical loss subject to certain exclusions.

(When Rule 302., Special Loss Settlement is used, this option may not be used.)

3. Develop the BASE PREMIUM in accordance with Rule 301.

Status Code 7

Use Endorsement HO 32 36 Special Personal Property Coverage – HO 00 03 only.

B. HO 00 06 Only

1. Coverage C under Form HO 00 06 is insured against perils named in the form. The policy may be endorsed to insure Coverage C against additional risks of physical loss subject to certain exclusions.

2. This option may only be used when the condominium or cooperative unit is owner occupied.

3. ~~Develop~~ Multiply the BASE PREMIUM ~~developed~~ in accordance with Rule 301. by 1.40.

Status Code 7

Use Endorsement HO 32 35 Unit-Owners – Coverage C – Special Coverage – HO 00 06 Only.

402. TOWNHOUSE OR ROW HOUSE – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

This rule is replaced by the following:

The premium for an eligible 1 or 2 family dwelling in a town or row house structure is computed by multiplying the BASE PREMIUM by the appropriate factor below.

Total No. of Individual Family Units Within the Fire Division*	No. of Family Code	Protection Class	
		1-8	9, 9S & Over
1 & 2	(1 & 3)	1.00	1.00
3 & 4	(2)	1.10	1.15
5 – 8	(4)	1.25	1.30
9 & Over	(4)	Refer to Company	

* An eligible two family owner-occupied dwelling attached to a one family dwelling but not separated by a fire wall would be considered 3 individual family units within a fire division. Four 2 family dwellings not separated by a fire wall would be considered 8 individual family units.

**407. ADDITIONAL AMOUNTS OF INSURANCE –
FORMS HO 00 02 AND HO 00 03 (Cont'd)**

The last sentence in Paragraph C.2. is replaced by the following:

Use Endorsement **HO 32 11**, Additional Limits of Liability for Coverages **A, B, C** and **D**.

**408. ACTUAL CASH VALUE LOSS SETTLEMENT –
WINDSTORM OR HAIL LOSSES –
TO ROOF SURFACING –
ALL FORMS EXCEPT HO 00 04**

This rule does not apply.

505. EARTHQUAKE COVERAGE

Paragraph A. is replaced by the following:

- A.** The policy may be endorsed to provide coverage against a loss resulting from the peril of Earthquake. This peril shall apply to all Section I Coverages for the same limits provided in the policy. For Form **HO 00 03** with **HO 32 36** and Form **HO 00 06** with **HO 32 35**, this peril is automatically included for Coverage **C**.

Use Endorsement **HO 04 54** Earthquake.

Paragraph D.2.c. and D.2.d. are replaced by the following:

- c.** Coverage **A** and **C** limits for Form **HO 00 06** without **HO 32 35**.
- d.** Coverage **A** limit only for Form **HO 00 03** with **HO 32 36** and **HO 00 06** with **HO 32 35**.

**507. FORM HO 00 06 COVERAGE A DWELLING BASIC
AND INCREASED LIMITS AND SPECIAL
COVERAGE – HO 00 06**

Paragraph A. is replaced by the following:

A. Basic Limits

The policy automatically provides a basic Coverage **A** limit of \$1,000 on a named perils basis. If increased limits are not desired, enter "\$1,000" under Coverage **A** – Dwelling on the Declarations pages.

Limit Code 1

Paragraph B. is replaced by the following:

B. Increased Limits

The basic limit may be increased. The premium is developed based on the additional limit of insurance. ~~The premium for each additional \$1,000 of insurance is developed as follows: To develop the premium for each additional \$1,000 of insurance, multiply the HO 00 06 Key Factor for "Each Add'l \$1,000" by the HO 00 06 Key Premium.~~

~~1. Multiply the HO 00 04 Key Factor for "Each Add'l \$1,000" by the HO 00 04 Key Premium.~~

~~2. Multiply the product developed in 1. above by the HO 00 06 factor shown in Rule 301. in the state pages.~~

Report Limit Code as follows:

Limits		Code
\$ 1,001	– 9,999	2
10,000	– 19,999	3
20,000	– 29,999	4
30,000	– 39,999	5
40,000	– 49,000	6
50,000	– 59,999	7
60,000	– 69,999	8
70,000	– and Over	9

Paragraph C. is replaced by the following:

C. Special Coverage

The Section I Perils Insured Against may be broadened to cover additional risks of loss. The additional premium is developed as shown on the state rate page.

Does not affect coding.

Use Endorsement **HO 32 34** Unit-Owners Coverage **A** – Special Coverage.

**508. FORM HO 00 06 UNITS REGULARLY
RENTED TO OTHERS**

Paragraph B. is replaced by the following:

- B.** The Coverage **C** minimum limit of liability may be waived when the value of the insured's personal property in the rented unit is less than \$6,000.

Paragraph C. is replaced by the following:

C. Premium

Multiply the Coverage **C** BASE PREMIUM (less credit for higher deductibles) by a factor of .25.

515. PERSONAL PROPERTY

Paragraph D.3. is replaced by the following:

3. Silverware, Goldware and Pewterware

The special limit of liability (25% of Coverage **C**) for loss by theft of silverware, etc., may be increased. Charge the additional rate per \$500 shown on the state rate pages.

Paragraph D.4. is replaced by the following:

4. Firearms

The special limit of liability (10% of Coverage **C**) for loss by theft of firearms may be increased in increments of \$100. Charge the additional rate per \$100 shown on the state rate pages.