

A Valuable Homeowners Policy Coverage in the News

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During the recent firestorms fueled by the Santa Ana winds in Southern California, homeowners who had either been evacuated from their homes or lost them to the fires were able to take some comfort in Coverage D—Loss of Use, an important coverage provided to them by their homeowners insurance policy.

If the dwelling described in the homeowners policy is damaged by an insured peril and becomes unlivable, the named insured and the insured's family will be reimbursed for additional living expenses actually incurred and for fair rental value actually lost.

Additional living expense is the additional cost of maintaining the insured's normal standard of living after a covered loss. The additional cost refers to those expenses above the insured's usual amount of expenses before the loss, which could include reimbursement for the cost of temporary lodging, meals, and transportation.

For example, John's home in Orange County, California, is destroyed in a wildfire, and he and his family are forced to find temporary living arrangements. Under the Coverage D—Loss of Use provision of John's homeowners policy, the extra expense of living elsewhere, for example, in a hotel room or in a rented apartment, is a covered loss.

In another scenario, say that Susan and her family were evacuated from their San Diego home by civil authorities because the wildfire was approaching their neighborhood. In this situation, the cost of temporarily living in a hotel would also be a covered expense; the cost of the hotel room would be reimbursed for up to two weeks under Coverage D—Loss of Use until it

was deemed safe by the authorities for Susan and her family to return to their house, even if the fire did not damage the family's dwelling.

Coverage D—Loss of Use also includes fair rental value, which is the amount of rent, less any discontinued expenses, that the insured would have received for the residence, or any part of the residence rented to another individual for residential purposes, if the residence had not been damaged; however, Coverage D—Loss of Use does not cover any loss or expense resulting from cancellation of any lease or agreement.

Under Coverage D, reimbursement is made only for the period necessary to repair or replace the damaged residence or to move to a different, permanent residence.

An insured under a homeowners policy might incur additional living expense and lose fair rental value as the result of the same occurrence. In such a situation, homeowners policy Coverage D will cover both types of loss up to the applicable limit for Coverage D, which is customarily set as a percentage (such as 20%) of the limit of insurance on the insured dwelling itself.

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