

Underwriting Philosophy

To the extent that any guideline in this manual is in conflict with the applicable state law, the law of the state will apply. These guidelines supersede any previously filed guidelines. All guidelines within this manual must be adhered to for a risk to be acceptable. These underwriting guidelines apply to both new and renewal business unless stated otherwise.

Risks where there is damage, deterioration, improper installation, improper maintenance or other deficiency in respect to any component or system, described throughout this guideline are unacceptable. In addition, conditions or hazards on or in respect to an insured location increasing the liability exposure render the risk unacceptable.

Principles Supported

As a matter of company policy, State Farm fully supports these principles: (1) No request for Homeowners insurance will be denied and no policy canceled or non-renewed solely because of age of a residence, location of a residence (unless in an area of inadequate fire protection or an area of excessive risk of loss including losses from a catastrophic event such as a hurricane or earthquake), type of construction (brick or frame), because another insurer declined, canceled, or non-renewed insurance, or because the applicant was insured by a FAIR Plan or other residual plan; (2) In no case will Homeowners insurance be denied because of age, sex, race, color, religion, sexual orientation, handicap or disability, national origin or familial or marital status of the owner or residents of the dwelling; (3) In all cases, eligible business will be offered with terms most favorable (broadest coverage and lowest premium) to the policyholder.

Each application for insurance will be considered on its individual merits. No application for insurance will be declined due to the physical condition of the property without a timely inspection of the property and a clear explanation of the reasons for declination. If the property can be improved to prevent declination, the applicant will be told what needs to be done.

Coverage may not be bound on property located outside the state where the agent is licensed.

Insurance Coverage Amount

The customer is responsible for selecting the insurance coverage amount. The agent's role is to assist and provide guidance, but the decisions on coverage and insurance amounts must be made by the customer. Selecting the proper coverage limit is similar to other decisions the customer needs to make regarding the size of their deductible or the need for optional coverage or

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endorsements.

Use of Replacement Cost Estimates

It is our desire that our customers use an estimate that the customer feels is appropriate for their home. Since the customer will always know more about their home than an agent or agent's team member, the estimating process should be customer driven rather than tool driven.

High Value Requirements

New Business High Value Requirements (\$1,500,000 or greater – Dwelling or Contents Amount)

- Minimum deductibles are ½% (\$1,000 minimum) for risks with Home/Auto Discount and 1% (\$1,000 minimum) for risks without Home/Auto Discount. Use an equivalent flat dollar deductible only if one or both of the above percent deductibles are not available.
- Risks must have a central station reporting fire and burglar alarm system, deadbolt lock, and fire extinguisher.
- HO-W only - Seasonal and Secondary Homes – A whole house water leak detection system with automatic shut off is required.

Binding Criteria

Definitions

"Unacceptable" means that if the described condition or situation exists, the entire risk or particular item will not be accepted for insurance coverage by the company.

"Non-Bindable" means the risk must not be bound, but a non-bound application (no effective date) marked "inquiry only" with comments including the required information. A premium deposit is not to be taken.

Applicant (New Business Only)

Unacceptable

- Applicant having any loss within the last three years. (Identity Restoration losses are not

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to be considered for eligibility or rating purposes.)

- Applicant with a prior conviction for arson, fraud, or other insurance related offenses
- Application with more than four named insureds

Non-Bindable

- Applicant that has been refused insurance or terminated by another company, including State Farm. As an exception coverage may be bound if all of the following conditions apply:
 - The applicant provides a copy of the letter from the prior carrier.
 - The letter contains the reason for termination.
 - The applicant meets State Farm's current underwriting guidelines.

Buildings and Related Structures

Unacceptable

- Dwelling exhibiting interior or exterior deficiencies including but not limited to:
 - Deteriorated utility systems.
 - Roof, siding, or foundation in poor condition.
 - Steps or stairs that are unsafe and unsupported.
 - Porches and decks that are rotted, uneven, or obstructed.
 - Railings that are missing, not maintained, not properly anchored or installed or with defective vertical supports.
 - Home does not have a smoke detector (This requirement does not apply to Renters or Condominium Unitowners policies.)
- Shell home and/or "do-it-yourself" construction unless the dwelling is built in compliance with established building codes
- Dwellings under construction and applicant is acting as the general contractor.
- Dwelling with non-continuous, open foundation.
- Outbuilding or structure not in good condition.
 - Unacceptable structure may be excluded if remainder of risk is acceptable.
- Basement dwelling without means of exit (ex. egress windows)
- Manufactured Home
- Dwelling with unacceptable adjacent exposure that increases the risk to the insured property
 - An exception may be considered if the adjacent exposure is confined so as not to present an increased risk of loss to the dwelling insured.
- Dwelling built on landfill (i.e. waste dump)
 - An exception may be considered based on favorable information about methane

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- gas monitoring and control.
- Vertically Stacked Unit
 - An exception may be considered when a legal document exists which clearly details ownership rights, responsibility of each owner in case of loss, and the amount of coverage each owner is required to carry.
- Inadequate security
 - Deadbolt locks are required
- Dwellings elevated on stilts or piers
- Dwellings located on hillsides of greater than 30 degree grade
- Dwellings with evidence of prior earthquake damage
- Dwellings of frame construction elevated on cripple stud walls that are not braced and/or supported (i.e. plywood, bolted to the foundation every six feet).
 - NOTE: A cripple stud wall is a short, unreinforced, wood frame, stud wall connecting the masonry foundation to the first floor.
- Dwellings not anchored to the foundation at least every six feet, unless an Earthquake Activated Automatic Gas Shut-off device is installed.

Non-Bindable

A dwelling with any of the following characteristics:

- Uncorrected physical deficiencies in construction
- Being remodeled or relocated
- Construction using non-conventional building materials or methods.
 - Such construction includes, but is not limited to, underground structures, dome houses, log houses, rammed earth construction, and construction using insulated concrete forms. Log homes constructed by qualified contractors from a kit, manufactured logs or hand crafted logs may be bound.
- Multiple unit dwelling converted from single unit.
 - Conversion acceptable if performed by a professional contractor and the building is in excellent condition.

Building Service Equipment

Unacceptable

A dwelling with any of the following characteristics:

- Unvented gas space heaters:
 - Used a primary source of heat.

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- Used in sleeping areas.
- Not installed to the manufacture's specifications.
- Prohibited by local or state code requirements.
- Does not have an Oxygen Depletion Safety (ODS) device installed and listed by a recognized testing laboratory.
- An electric space heater as the only or primary source of heat.
- Portable kerosene heaters exhibiting any of the following characteristics:
 - Not listed by UL or other nationally recognized testing laboratory
 - Does not have warning labels regarding ventilation and proximity to combustibles
 - Not permitted by state or local codes
 - Not filled with a siphon pump away from living area and equipped with a fuel gauge
 - Used as the sole source of heat
- Utilities that do not comply with code requirements or are not properly maintained
- Knob & tube wiring
- Aluminum wiring, unless the policyholder provides a certificate from a licensed electrician stating that all connections have been repaired using methods approved by the U.S. Consumer Product Safety Commission.
- Two or more sewer or drain losses in the past three years
- Solid Fuel appliances exhibiting any of the following characteristics:
 - Homemade solid fuel burning appliances
 - Chimneys consisting of metal single wall stovepipe or unlisted metal chimneys
 - Unlined masonry chimneys
 - Wood burning appliances vented into the same flue or stovepipe with any other appliance (solid or fossil fuel)
 - Installed in a garage, detached structure used as a garage, or any detached structure where gasoline or any other flammable vapors or gasses are present
 - Used as the sole source of heat
 - Auger-fed and thermostatically controlled solid-fuel furnaces are acceptable as the sole source of heat.
 - Not listed by Underwriter's Laboratories (UL) or other nationally recognized testing laboratory
 - Not installed by a professional contractor or by applicant to manufacturer's specifications
 - If manufacturer allows reduced clearances, factory specifications are required.
 - Appliance and venting system are not properly maintained, including frequent cleaning of chimney.

Catastrophes

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Binding Authority

During a period of imminent danger or existence of a “watch” or “warning” from a natural disaster, coverage should not be written, bound, or endorsed to existing policies in the areas involved. Policy coverage's should not be increased, decreased, endorsed and deductible decreases should not be permitted. This restriction remains in effect until the passing of the emergency is announced by the National Weather Service or State Farm leadership.

Coverage should be declined during a period of imminent danger. Underwriting will communicate additional catastrophe related binding restrictions as appropriate. This does not relieve you of the responsibility for taking independent action in declining coverage during a period of imminent danger from a disaster.

Condominium Risks

Unacceptable

A dwelling with any of the following characteristics:

- Increased Condominium Unitowners Coverage A as a substitute for a master policy or when a large gap in coverage exists.
 - Examples of such gaps include a large deductible, wind/ hail exclusion, or no earthquake coverage in the master policy.
- No master policy
- The condominium unit rented 100% of the time. (May be written under the Rental Condominium Unitowners Program). If unit is rented less than 100% of the time provide specific information regarding:
 - Name of property manager (if any) handling rental arrangements
 - Control over rental arrangements by the applicant
 - Applicant's knowledge of the tenants
- Homeowners coverage on condominiums unless the risk is a row house, townhouse, or detached dwelling and not a unit in a multistory building with other units above or below it.
 - If owned under true condominium ownership, provide copy of association documents requiring this form of insurance.

Non-Bindable

A dwelling with any of the following characteristics:

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- The Loss Assessments limit exceeding \$25,000.
 - Attach a copy of the condominium association property and liability policies, including any umbrella or excess policies. In certain cases the condominium agreement and by-laws may be requested.
- The master policy having the following characteristics:
 - Property damage deductible exceeding \$5,000
 - Excluded perils
 - Buildings not insured to value required in association documents
 - Low General Liability limits
- Resort area condominiums rented to others on a weekly or less basis

Fire Protection

Protected Risks

Protected risks are eligible and may be bound. A protected risk is any risk that:

- Is within ten road miles of a servicing fire department,
- Has water available for firefighting, and
- Is accessible by fire department equipment year round.

If fire department service requires subscription to an assessment fire department, the risk may be bound if the applicant(s) subscribes and payments are current. If there is a solid fuel appliance in the dwelling and the installation meets State Farm underwriting standards, the risk may be bound.

Unprotected Risks

An unprotected risk is any risk that does not meet the standard to be classified as protected.

Unprotected risks with no public fire protection are generally unacceptable. However, an unprotected risk may be submitted non-bind subject to the following:

- Wildfire mitigation completed, if in a wildfire area.
 - Approved roof (tile, composition, rock, concrete) - wood is not approved.
 - Defensible clear space with flammable vegetation and debris removed.
 - Approved spark arrestors on chimneys.
 - Enclosed roof eaves.

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- Underside of balconies and above ground decks enclosed with 1/4 inch wire mesh.
- Dwelling must have a working phone, fire extinguishers and smoke detectors.
- Risk is not located on a steep hillside or in a narrow canyon.
- If dwelling is not visible from public road, the address must be clearly posted at the driveway entrance.
- Meets all other underwriting guidelines.

The underwriter may require additional photographs and underwriting information, such as an on-site inspection, to consider an unprotected risk.

Occupancy

Unacceptable

A dwelling with any of the following characteristics:

- Rooming/boarding houses with more than two roomers or boarders
- Fixed mounted burglar bars in dwellings occupied by more than one family or with roomers or boarders
 - Risks with quick release burglar bars are acceptable.
- Unacceptable Child Care (See Child Care Liability Endorsement)
- Unacceptable Adult Family Home (See Adult Family Home Endorsement)
- Adult /Senior Day Care
- Farming activity on premises
- The extent of the business emanating from the residence alters the character of the private residence so the business occupancy increases the risk of liability or property damage loss to resemble that of a business.

Non-Bindable

A dwelling with any of the following characteristics:

- Vacant, unoccupied, or frequently unoccupied due to travel
- Occupied by more than one family, without a second means of exit from each unit, including basement units
- Bed and Breakfast Operations (See Underwriting Resource – Option IO)

Roof (New Business Only)

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Risks with damaged or deteriorated roofs increase the potential for loss and are unacceptable. A visual and physical inspection, as required by Underwriting, will allow assessment of the roof condition. Dwellings with the following roof coverings installed over any living space are ineligible for Non-Tenant Homeowners:

- Asphalt composition over wood shake/shingle
- Asphalt composition roll roofing
- More than two layers of asphalt shingles
- Roofing products deemed obsolete, including but not limited to:
 - Asbestos shingles
 - T-Lock shingles

If the applicant is a named insured on an existing State Farm Non-Tenant Homeowners, Renters, Condominium Unitowners, Manufactured Home, Farm/Ranch or Rental Dwelling policy and agrees to replace the roof within the first policy term, coverage may be bound with a minimum 2% all-peril deductible (or its equivalent where percentage deductibles are not available). The roof must be otherwise well maintained and in good condition. The deductible can only be reduced if the roof is replaced with an eligible roof type. If the roof is not replaced, the policy must be non-renewed. In states where non-renewal for failure to comply with requirements is not permitted, the roof is ineligible and the policy must be declined.

For new business and existing customers with T-lock shingles, coverage may be bound with a minimum 2% all-peril deductible (or its equivalent where percentage deductibles are not available). The roof must be otherwise well maintained and in good condition. The deductible can only be reduced if the roof is replaced with an eligible roof type. A roof replacement is not required for T-lock roofs in good condition at time of issuance. However, the 2% minimum deductible must be maintained until the roof is replaced.

Seasonal Risks

Unacceptable

A dwelling with any of the following characteristics:

- Beach properties
- Used primarily as rooming or boarding houses
- Not easily accessible, except for periodic heavy snow conditions
- Rented to others more than occasionally

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Coastal Consistency (New Business Only)

Unacceptable

Dwellings inside the setback are ineligible.

The setback is designed to mitigate the exposure that exists along the coast. Dwellings exposed to elements on the coast are subject to more weather, corrosion, wave action from storms, landslides, and potential tsunamis from ocean earthquakes.

Wildfire

Unacceptable

Non-Tenant Homeowners, Renters and Condominium Unitowners with the following are ineligible for new business:

- High or Very High Wildfire risk exposure

High and Very High risk are determined using data from a vendor (CoreLogic®) based upon the following risk components: (1) fuel/vegetation, (2) slope, (3) aspect (i.e. whether a sloped area is north or south facing, which can affect how hot or dry it is), and (4) fire history.

Non-tenant Homeowners, Renters and Condo Unitowners with the following may require a wildfire inspection and completion of the wildfire checklist for new business:

- Low or Moderate Wildfire risks exposure and ISO Brush Area

Dwellings located in areas exposed to wildfire, whether rural or urban, can be submitted bound. However, non-tenant homeowners, renters, and condo unitowner policies require a wildfire inspection and completion of the wildfire checklist. The inspection results and wildfire checklist will be evaluated to determine acceptability.

Dwellings not meeting the following guidelines are generally unacceptable (new and renewal business):

- Risk must be accessible to emergency vehicles year round.
- All structures must be accessible by at least one paved or gravel road consisting of two or more lanes (minimum width of 25 feet) capable of accommodating emergency vehicles.

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The paved or gravel road must be accessible and unobstructed from both directions.

- Is the address posted at the beginning of the driveway and clearly marked with light reflective material? Driveways must be able to accommodate emergency vehicles
- According to CA law (PRC 4291), 100 feet of defensible space around the structure must be maintained as noted:
 - Within 30 feet:
 - Removal of all flammable vegetation and any dead or dying plants. (Well pruned single trees or other vegetation trimmed of all dead and dying foliage may be kept.)
 - Within 70 feet:
 - Removal of surface litter to not exceed a depth of three inches (i.e., fallen leaves, twigs, pods, small branches, needles, pinecones, bark, etc.)
 - Removal of logs and stumps unless embedded.
 - Removal of snags (standing dead trees) in excess of one per acre.
 - Separation of fuels based on property characteristics (slope, vegetation size/type, grass, trees, etc.)
 - Grasses should not exceed four inches in height except where separated from other fuels and necessary to stabilize soil in which case grasses may be up to 18 inches in height.
 - Clearance between trees and shrubs should be between 4 and 40 feet depending on slope, size, and type of vegetation.
 - Additional information is available from the CA Department of Forestry and Fire Protection.
- Tree branches must not extend within 10 feet from the ground, from the roof structures, and/or from chimneys/stovepipes.
- Firewood and all other combustible materials must be stored at least 30 feet from the dwelling. If the structure is on a slope these items must be stored uphill from the structure.
- Wooden Yard Structures: The presence of wooden yard structures (e.g. arbors, pergolas, trellises, playground equipment) should be considered in relationship to the overall exposure. Yard structures, by themselves, should not be the sole basis of an eligibility decision.
- All dead trees within 50 feet of a structure must be removed (including beetle-kill trees).
- Above ground fuel storage tanks (including propane and fuel oil) should maintain an area of 10 feet clear of debris and combustible materials around the tank.
- An approved Class A (composition, tile, metal, concrete) roof is required for all structures. Wood shake and shingle roofs are not approved.
- All roof eaves on structures must be enclosed
- Roofs and gutters must be clear of debris

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- Spark arrestors must be installed on all chimneys and stovepipes and be constructed of metal screening with openings not exceeding ¼ inch.
- Raised decks must be kept clear of accumulations of combustible materials.
- Wood Siding: The presence of wood siding on the exterior of the home should be considered in relationship to the overall exposure. Wood siding, by itself, should not be the sole basis of any eligibility decision. Log homes are not considered being built with wood siding for purposes of these guidelines.
 - Wood Siding may become chipped or cracked to expose untreated wood. Additionally, wood siding exposed to weather elements over time may lose any fire retardant coating. Consider the condition of the wood siding.
 - Wood siding may be more likely to ignite if there is fuel closer to the dwelling. Consider the proximity of fuel sources to exterior walls covered by wood siding.

NOTE: Risks must be served by a recognized fire department located within ten miles and fire hydrant within 1000 feet.

Managed Growth Areas (New Business Only)

Non-Tenant

As a result of growth and sustainability planning, Non-Tenant Homeowners are ineligible in Managed Growth Areas. Managed Growth Areas are reviewed on a regular basis and can be defined as areas with concerns stated below as examples.

- Rate Inadequacy
- High Market Penetration
- High Loss Frequency

Exception: New Business applications can be submitted non-bound in Managed Growth Areas if the conditions below are met:

- The applicant(s) are existing Homeowners, Renters, Condo Unitowner, Manufactured Home, or Farm/Ranch 3 State Farm policyholder(s) who have had continuous coverage with us for the last 36 months or
- The applicant(s) are existing Rental Dwelling State Farm policyholders(s) who have had continuous coverage with us for the last 36 months and are converting risk to a Homeowners (must be same named insured(s) or spouse at same location)
- The risk is not in a wildfire **High or Very High** risk area
- The risk is not in the coastal setback area

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Hail (New Business Only)

Dwellings with wood shake/shingle roof coverings and an extreme or highest hail exposure are ineligible for Non-Tenant Homeowners, except:

- If the applicant is a named insured on an existing State Farm Non-Tenant Homeowners, Renters, Condo Unitowners, Manufactured Homes, or Farm/Ranch policy:
 - Coverage may then be bound with a minimum 2% all-peril deductible or its equivalent where percentage deductibles are not available.
 - Roof must be otherwise well maintained and in good condition.
 - The deductible can only be reduced if the roof is replaced with a non-wood shake/shingle roof.

Liability

Unacceptable

A dwelling with any of the following characteristics:

- Landscape hazards and inadequate maintenance of sidewalks
- Inoperable vehicles, appliances, trash or other debris around the exterior of the dwelling
- Outdoor fuel tanks showing evidence of deterioration, spills or leaks.
- Liability exposures which are not limited to usage by the owner, tenant, and guest.
- Swimming pools that do not have the following safety features:
 - In ground: Pool or yard fencing including self-closing and locking gates
 - Above ground: Stairs/ladders that can be removed, secured or locked to prevent access
- Trampolines, skateboard ramps and playground equipment which are not in good condition or working order or are not securely anchored or are not regularly maintained
- Uncommon recreational equipment, including but not limited to zip lines, roller coasters, and Ferris Wheels
- Dogs, if the dog:
 - Has a history of biting.
 - Is trained as an attack, guard, personal protection or fighting dog.
 - Demonstrates high levels of anxiety or temperament.
- Animals, if the animal:
 - Is a wild animal.
 - Is not kept in a secured enclosure.

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- Arrived outside the U.S. entering the country illegally absent the proper permits, inspection and quarantine period.

Note: Exceptions can be made for approved Service Animals

Business

Adult Family Home Endorsement

Liability coverage for operations in the home providing 24-hour care for elderly and functionally disabled adults (not related to the named insured by blood or marriage), may be considered on a non-binding basis subject to the following underwriting criteria:

- The applicant must be licensed by the state as an adult care provider/home, if required.
- Care is provided for no more than six adults.
- No unusual or extraordinary modifications to the premises, other than disability accessible features, that would distinguish the home from other residential dwellings in the area.
- No medical care is provided other than dispensing "over the counter" medication or help with physician-prescribed, self-administered medication.
- The Adult Care business must be operated under a personal name (it cannot be a corporation or LLC) and it must be located in the insured's primary residence.

If an Adult Family Home business that is unacceptable for our liability endorsement is operated in the home, the risk is unacceptable for a Homeowners policy.

The above guidelines apply in addition to the regular Homeowners underwriting requirements.

Child Care Liability Endorsement

Agents may bind coverage if no more than six children are cared for and if the applicant is licensed where required by law. The only situations where exemptions will be allowed are:

1. Children cared for are related by blood or marriage to the caregiver.
2. Children cared for are from one family in addition to the caregiver's children.
3. The care provided is part of a cooperative arrangement between parents and no payment is involved.

Natural, adopted, or foster children who are members of the household should not be counted. The care of foster children is normally not considered either a business pursuit or a

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child care operation.

Coverage for this endorsement is unacceptable if:

- More than six children are cared for at any one time.
- The applicant is not licensed according to state law.

The risk is unacceptable for Homeowners coverage if the child care operation does not meet the above criteria or is not insured.

Renewal Business Only

Midterm Cancellations

Policies may be canceled mid-term only for the following reasons:

- Nonpayment of premium.
- Conviction of a crime increasing any hazard insured against.
- Fraud or material misrepresentation.
- Grossly negligent acts or omissions increasing any of the hazards insured against.
- Physical changes making the property uninsurable.

Non-Renewal / Reduction in Coverage

Any decision to non-renew a policy must be based on one or more of the following:

- Does not meet the eligibility requirements for the Homeowner program as delineated in the Rules section of the Rating Manual.
- Does not meet the existing business underwriting criteria delineated in this Underwriting Guide.
- Failure to meet or comply with policy conditions as specified in the policy contract.
- Policies that demonstrate:
 - History of unrepaired damage to the structure.
 - Lack of maintenance of the structure and property.
- Policies where the overall loss history or facts of loss indicate a substantial risk of future loss, including where customer behavior contributed to loss through carelessness, indifference, or negligence. See “Reunderwriting Based on Loss History” below for more detail.

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Reunderwriting Based on Loss History

Policies that have experienced a recent loss and have the following loss history in the last 10 years will be reviewed for non-renewal:

- A non-weather related loss with policy tenure of three years or less.
- Any loss with policy tenure of three years or less where there was also a loss prior to the policy inception.
- A claim on a property that has been reported as vacant.
- A seasonal/secondary residence that has two or more fire/smoke or water losses.
- A claim involving bodily injury or medical payment caused by dogs.
- Two or more water or crime losses on a Renters policy.
- Two or more losses due to the same or similar cause of loss with a policy tenure of five years or less.
- Two or more unrelated losses with policy tenure of five years or less.
- Two or more negligent fire losses.
- Three or more unrelated losses.

Policies that have experienced a recent loss and have the following loss history in the last 10 years will be reviewed for removal of sewer back-up coverage:

- A sewer back-up loss with policy tenure of three years or less.
- A sewer back-up loss on a Renters policy.

Consideration will be given if additional information received from the customer indicating that the risk of future loss has been eliminated or substantially reduced.

Customer's with a loss within the last three years are ineligible for a deductible decrease.

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