May 16, 2002

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Dwelling Policy Program
Inflation Guard Endorsement – North Carolina

The Commissioner of Insurance has approved a new Inflation Guard Endorsement – North Carolina which is designed for use with the Dwelling Policy Program on an optional basis. Enclosed is a copy of the approved Inflation Guard Endorsement – North Carolina HO 32 70 08 02 and a copy of the revised Manual Rule to be used in conjunction with the Endorsement.

The new Inflation Guard Endorsement – North Carolina DP 32 70 08 02 is similar to the current DP 32 11 – Automatic Increase In Insurance – North Carolina with the exception that the new DP 32 70 provides that Coverage A limits of liability will be adjusted at the same rate as the change in the index shown on the Declarations, Billing Notice or named on the form in lieu of a fixed percentage.

These changes become effective in accordance with the following Rule of Application:

These changes become effective with respect to policies written on or after May 15, 2002.

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

Very truly yours,

F. Timothy Lucas

Personal Lines Manager

FTL:dp

Enclosure

P-02-9
INFLATION GUARD ENDORSEMENT – NORTH CAROLINA
(Forms DP 00 02 and DP 00 03 Only)

The limits of liability for Coverage A is shown in the Declarations. These limits will be adjusted at the same rate as the change in the Index shown on the Declarations or billing notice (or named below)*.

To find the limits on any date:

a. Divide the latest Index level by the Index level as of the effective date of this endorsement;
b. Multiply the result obtained in a. by each limit of liability.

The premium for this policy at the next anniversary date will be based on the Coverage A limit of liability determined on that date by the provisions of this endorsement.

If the Coverage A limit of liability shown in the Declarations is revised during the policy term, the effective date of this endorsement, for the purpose of calculating the change in the index level, will be deemed to be the same as the effective date of the Coverage A revision.

The limits of liability will not be reduced during the current policy term below that for which premium was paid.

(Index___________________________________)*
(Published by_____________________________)*

* May be deleted at company discretion.

All other provisions of this policy apply.
407. AUTOMATIC INCREASE IN INSURANCE

This rule is replaced by the following:

Does not affect coding.

A. Automatic Increase in Insurance Endorsement – DP 32 11

1. The policy may be endorsed to provide automatic annual increases in the Coverage A, B and C limits of liability. Apply a factor to the BASE PREMIUM as follows:

<table>
<thead>
<tr>
<th>Amount of Annual Increase</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>1.02</td>
</tr>
<tr>
<td>6%</td>
<td>1.03</td>
</tr>
<tr>
<td>8%</td>
<td>1.04</td>
</tr>
<tr>
<td>Each Add'l 4% over 8% add:</td>
<td>.02</td>
</tr>
</tbody>
</table>

2. The premium for a 3 year policy is 3.2 times the annual policy premium.


B. Inflation Guard Endorsement - DP 32 70

1. The policy may be extended to automatically adjust the limit of liability applicable to Coverage A under the Dwelling Policy. This limit will be adjusted at the same rate as the change in the Index shown on the Declarations, billing notice or named on the form.

2. There is no additional charge for this endorsement. Companies electing to use this endorsement must use it exclusively and are required to notify the North Carolina Rate Bureau of their election.

3. The following Indexes have been approved by the Department of Insurance and may be used with the approved Inflation Guard Endorsement.

   (a) Marshall & Swift Boeckh (MS/B) Residential Cost Index published by the American Appraisal Company, Inc.

   (b) Composite Construction Cost Index published by the U.S. Department of Commerce.

   (c) Consumer Price Index published by the U.S. Department of Labor.


4. Use Inflation Guard Endorsement DP 32 70.

408. PROTECTIVE DEVICES

This rule is replaced by the following:

Does not affect coding.

Alarms, Smoke Detectors, Fire Extinguishers and Automatic Sprinklers

Approved and properly maintained installations of fire alarms, smoke detectors, automatic sprinklers and fire extinguishers in the dwelling may be recognized for a reduced premium – developed by applying the selected factors to the fire BASE PREMIUM.

<table>
<thead>
<tr>
<th>Type of Installation*</th>
<th>Mobile or Trailer Home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Station Reporting Fire Alarm</td>
<td>.90</td>
</tr>
<tr>
<td>Fire Department Reporting Fire Alarm</td>
<td>.93</td>
</tr>
<tr>
<td>Local Fire Alarm Smoke Detectors</td>
<td>.95</td>
</tr>
<tr>
<td>Automatic Sprinklers in all areas including attics, bathrooms, closets, attached structures</td>
<td>.80</td>
</tr>
<tr>
<td>Automatic Sprinklers in all areas except attic, bathroom, closet and attached structure areas that are protected by a fire detector</td>
<td>.90</td>
</tr>
<tr>
<td>Fire Extinguishers – see below for description</td>
<td>.95</td>
</tr>
</tbody>
</table>

* Refer to Company for eligibility, types of systems and devices, installation, and available credits.

A premium credit for Fire Extinguishers shall be allowed if the dwelling has, installed on each floor and basement in a readily accessible place, at least:

A. One fire extinguisher classified and labeled as 2-A (classified as A-1 prior to July 1, 1956), or

B. Two fire extinguishers classified and labeled as 1-A (classified as A-2 prior to July, 1956).

The extinguishers must be maintained in good, working order.

Use Endorsement DP 32 50 Premises Alarm or Fire Protection System.

409. ACTUAL CASH VALUE LOSS SETTLEMENT

WINDSTORM OR HAIL LOSSES TO ROOF SURFACING – DP 00 02, DP 00 03 AND DP 00 01 WITH DP 00 08

This rule does not apply.

507. FIRE DEPARTMENT SERVICE CHARGE

This rule is replaced by the following:

Does not affect coding.

The limit of $500 provided under the policy may be increased. Refer to the state rate pages.
509. EARTHQUAKE

Paragraph B. does not apply.

510. THEFT COVERAGE

This rule is deleted.

Refer to the Theft Insurance program filed by or on behalf of the company insuring the risk.

512. WINDSTORM OR HAIL COVERAGE – AWNINGS, SIGNS & OUTDOOR RADIO AND TELEVISION EQUIPMENT

This rule is replaced by the following:

512. WINDSTORM OR HAIL COVERAGE – MISCELLANEOUS PROPERTIES

Coding Note

When the policy does not include Coverage A or C, use Exception Code 7; otherwise Amount of Insurance Code should reflect the increased exposure.

A. The peril of Windstorm or Hail does not cover damage to the following properties whether attached to or separated from a dwelling or other structure on the Described Location:

1. Signs or cloth awnings, including their supports;
2. Radio or television antennas or aerials, including their lead-in wiring, masts or towers;
3. Swimming pools;
4. Screens, including their supports, around a swimming pool, patio or other areas;
5. Fences, property line and similar walls, including seawalls;
6. Bathhouses, cabanas, greenhouses, hothouses, pergolas, slathouses, trellises;
7. Outdoor equipment used to service the Described Location; or
8. Structures located over water, whether or not permanently attached to the ground, including the property in or on the structure.