March 14, 2005

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Homeowners 2000 Policy Program
   Rule 505. Earthquake Coverage (Correction)

The Commissioner of Insurance has recently approved a correction to the base premium development of Rule 505. Earthquake Coverage designed for use in North Carolina with the Homeowners 2000 Policy Program.

It has been noted that there was an error in Rule 505. D.2. Base Premium computation.

For your convenience, attached is a copy of the revised Rule 505. D.2. Base Premium.

This change becomes effective in accordance with the following Rule of Application:

   This change becomes effective with respect to all new and renewal policies written on or after April 1, 2005.

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

Attachment

P-05-10
RULE 505.
EARTHQUAKE COVERAGE

Rule 505. is replaced by the following:

A. Earthquake Coverage
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. Use Earthquake Endorsement HO 04 54.

B. Deductible
The base deductible is 5% of the limit of liability for either Coverage A or C, whichever is greater and is subject to a $250 minimum. This deductible may be increased for a premium credit.

In the event of an Earthquake loss to covered property, the dollar amount is deducted from the total of the loss for Coverages A, B and C.

C. Loss Assessment Coverage
The policy may also be endorsed to cover loss assessment resulting from loss by this peril. The limit of liability shall be based on the insured's proportionate interest in the total value of all collectively owned buildings and structures of the corporation or association of property owners. Refer to company for rates.

Use Loss Assessment Coverage For Earthquake Endorsement HO 04 36 for all forms.

D. Base Premium
Develop the base premium as follows:
1. From the state rate pages:
   a. Determine if Rate Table A, B, and/or C applies.
   b. Determine the Earthquake Zone.
   c. Select the rate according to construction from the Rate Table; and
2. Multiply the rate determined above by the:
   a. Coverage A limit for Forms HO 00 02 and HO 00 03 and HO 00 05.
   b. Coverage C limit for Form HO 00 04.
   c. Coverage A and C limits for Form HO 00 06 without HO 32 35.
   d. Coverage A limit only for Form HO 00 05 and HO 00 06 with Unit-Owners Coverage C Special Coverage Endorsement HO 32 35.
   e. Coverage C and D increased limits.
   f. Ordinance or Law total amount of insurance (includes basic and, if applicable, increased amounts).
   g. Other Building or Structure options (e.g. Other Structures – Structures Rented To Others Residence Premises Endorsement HO 04 40, Other Structures On The Residence Premises – Increased Limits Endorsement HO 04 48 and Specific Structures Away From The Residence Premises Endorsement HO 04 92; Building Additions And Alterations – Other Residence Endorsement HO 04 49 and Building Additions And Alterations HO 04 51).

E. Premium For Higher Deductibles
Multiply the base premium determined in Paragraph D, by the appropriate factor from the following table:

<table>
<thead>
<tr>
<th>Deductible Percentage</th>
<th>Frame &amp; Superior</th>
<th>Masonry</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>.89</td>
<td>.95</td>
</tr>
<tr>
<td>15%</td>
<td>.78</td>
<td>.89</td>
</tr>
<tr>
<td>20%</td>
<td>.67</td>
<td>.84</td>
</tr>
<tr>
<td>25%</td>
<td>.56</td>
<td>.79</td>
</tr>
</tbody>
</table>

Table 505.E. Premium For Higher Deductibles