

NORTH CAROLINA RATE BUREAU

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May 22, 1997

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Actual Cash Value (ACV) and
Functional Replacement Cost (FRC) Endorsements
Homeowners 91 and Dwelling 89 Policy Programs

The North Carolina Commissioner of Insurance has approved the attached ACV and FRC Endorsements for optional use in North Carolina with the 1991 Homeowners and 1989 Dwelling Policy Programs.

Also attached you will find copies of explanatory material as well as rating rules for use with the Homeowners and Dwelling Policy Programs.

The ACV Loss Settlement Option will allow an insured to select an actual cash value settlement option for all covered property. This settlement option would be utilized if, on the inception date of the policy, the Coverage A Limit of Liability selection by the insured is less than 80% of the full replacement cost of the dwelling. However, the settlement payment will not be for more than the amount required to repair or replace the damaged property.

The FRC loss settlement option modifies the replacement cost loss settlement provision to allow companies to settle a loss on a functional replacement basis if, at the time of the 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 it would cost to repair or replace the damaged building with less costly, and construction materials and methods which are functionally equivalent to obsolete, antique or custom construction materials and methods. If, at the time of the loss, Coverage A or B limit is less than 80%, the loss payment would be based on the proportional relationship that the amount of insurance on the policy bears to 80% of the functional replacement cost value.

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

These changes apply to all new and renewal policies effective on or after December 1, 1997.

Reprinted manual pages will be distributed as soon as possible. Please see to it that all interested company personnel are informed of these changes.

Very truly yours,

F. Timothy Lucas

Personal Lines Supervisor

FTL:dp

Enclosure

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