

# RENT DEFAULT INSURANCE POLICY

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the Company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section **F., Definitions**.

## A. COVERAGE

Coverage is provided as described and limited below for the actual loss of "rental income" you sustain for a "rental unit" that begins during the policy period:

### 1. Rent Default

We will pay, subject to the deductible described in Section **D.** below, for the actual loss of "rental income" during the "period of indemnity", up to a maximum of six (6) times the "monthly rent" due to a "rent default".

### 2. Other Benefits

We will pay, subject to the deductible described in Section **D.** below, for the actual loss of "rental income" during the "period of indemnity", up to a maximum of three (3) times the "monthly rent" when:

- a. The tenant has obtained a court order cancelling the "lease" for reasons other than your failure to comply with the terms of the "lease";
- b. The sole lessee of the "rental unit" is an inactive member of the military reserves or national guard has been put on active status and required to report for duty more than 50 miles from the "rental unit"; or
- c. The unit has been permanently vacated due to the death of the sole lessee of the "rental unit".

### 3. Legal Expenses

We will reimburse you for up to \$1000 of "legal expenses" you pay as a result of all covered incidences of "rent default" that begin during the policy period for a specific "rental unit". This limit is in addition to the amounts that we pay for loss of "rental income" and is the most that we will pay regardless of the number of incidences of "rent default".

## B. LIMITS OF INSURANCE

1. The Limits of Insurance shown in the Declarations and the rules below fix the most we will pay regardless of the number of:
  - a. Insureds;
  - b. Claims made; or
  - c. Persons or organizations making claims.
2. The Rental Income Annual Aggregate Limit is the most we will pay for the sum of:
  - a. All Rent Defaults under Coverage A.;
  - b. Other Benefits under Coverage A; and
  - c. Legal Expenses under Coverage A.
3. Subject to Paragraph 2. Above, the Rental Income Per Rent Default Limit is the most we will pay for the sum of:
  - a. Loss under Coverage **A**; or
  - b. Six (6) times the "monthly rent"
 whichever is less.

The Limits of Insurance of this Coverage Part apply separately to each consecutive annual period and to any remaining period of less than 12 months, starting with the beginning of the policy period shown in the Declarations, unless the policy period is extended after issuance for an additional period of less than 12 months. In that case, the additional period will be deemed part of the last preceding period for purposes of determining the Limits of Insurance.

## C. EXCLUSIONS

We will not pay for loss of "rental income" if:

1. During the "period of indemnity", the "rental unit" is uninhabitable for any reason or if the "rent default" is directly or indirectly due to any one or more of the following:
  - a. Any direct physical damage to the "rental unit" or the "related property" making it or any part of the "related property" uninhabitable;
  - b. Your failure or the failure of your "property manager" to comply with the terms of the lease pertaining to the "rental unit";
  - c. Any non-compliance with building codes, or with any local, state or federal statutes or regulations relating to the rental or occupancy of the "rental unit" or "related property" including but not limited to any Landlord and Tenant Act or Law;
  - d. Lack of ingress or egress to the "rental unit" or "related property" due to any cause, including but not limited to flood, earthquake, fire, hurricane, actions of civil authority or road construction;
  - e. Terrorism;
  - f. Nuclear, biological, chemical or radioactive contamination from any source;
  - g. Mold;
  - h. War, insurrection, riot or civil commotion; or
  - i. Pollution of any type from any source.
  - j. Governmental Action including seizure or destruction of property by order of a governmental authority.
2. The rent for the "rental unit" is in arrears at the inception date of this policy term.

## D. DEDUCTIBLE

Subject to the **COVERAGE AND LIMITS OF INSURANCE** stated above, our obligation to pay for the actual loss of "rental income" applies only to the amount of loss in excess of the "monthly rent".

## E. CONDITIONS

### 1. Warranty of Tenant Screening

As a condition precedent to coverage under this policy, you warrant and covenant that:

- a. For any lessee who occupies the "rental unit" and for any new lessee with whom you enter into a lease during the policy term, you or your "property manager" screened or purchased a tenant screening report regarding that lessee prior to entering into the "lease". The tenant screening included, at a minimum, a check on employment, prior bankruptcies, and tenant evictions within the last five years. Upon review of the results from either of the screenings, you or your "property manager" determined that the tenant was "suitable for tenancy". You must maintain records confirming the results of the tenant screening and will make them available to us in the event of a claim under this coverage.
- b. For all lessees, you warrant that rent payments are neither currently in arrears nor have been in arrears for thirty (30) or more consecutive days during any part of the 12 months prior to the inception date of the policy.

### 2. Policy Period and Coverage Territory

Under this Policy:

- a. We cover loss commencing:
  - (i) During the policy period shown in the Declarations; and
  - (ii) Within the coverage territory.
- b. The coverage territory is The United States of America (including its territories and possessions).

### 3. Concealment, Misrepresentation or Fraud

This Policy is void in any case of fraud by you as it relates to this Policy at any time. It is also void if you or any other insured, at any time, intentionally conceal or misrepresent a material fact concerning:

- a. This Policy;
- b. The subject of this insurance;
- c. Your interest in the subject of this insurance; or

- d. A claim under this Coverage.

#### **4. Arbitration**

All disputes and controversies of every kind and nature between the parties hereto arising out of or in connection with this Policy and the Policy application, the subject matter thereof, the negotiation thereof, the existence, construction, validity, interpretation, or meaning, performance, non-performance, enforcement, operation, breach of contract, continuation or termination thereof or any claim alleging fraud in fact, fraud in the inducement, deceit, or suppression of any material fact, or bad faith shall be submitted to binding arbitration pursuant to the provisions of the Federal Arbitration Act and according to the Commercial Rules of the American Arbitration Association. Each party shall bear its own arbitration costs and expenses. The parties stipulate that the provisions hereof shall be a complete defense to any suit, action, or proceeding instituted in any federal, state, or local court or before an administrative tribunal with respect to any controversy or dispute arising hereunder. You agree not to participate in a class, representative or private Attorney General action against us in court or arbitration. The parties agree to waive the right to seek any award of punitive damages, consequential damages, exemplary damages or treble damages in connection with any arbitration proceeding undertaken pursuant to this Section 4.

#### **5. Other Insurance**

- a. You may have other insurance subject to the same plan, terms, conditions and provisions as the insurance under this Policy. If you do, we will pay our share of the covered loss or damage. Our share is the proportion that the applicable Limit of Insurance under this Policy bears to the Limits of Insurance of all insurance covering on the same basis.
- b. If there is other insurance covering the same loss or damage, other than that described in A. 1. above, we will pay only for the amount of covered loss or damage in excess of the amount due from that other insurance, whether you can collect on it or not. But we will not pay more than the applicable Limit of Insurance.

#### **6. Cancellation/Nonrenewal**

##### **CANCELLATION**

- a. The first Named Insured shown in the Declarations may cancel this policy by mailing or delivering to us advance written notice of cancellation.
- b. We may cancel this policy by mailing or delivering to the first Named Insured written notice of cancellation at least:
  - (i) 10 days before the effective date of cancellation if we cancel for nonpayment of premium; or
  - (ii) 30 days before the effective date of cancellation if we cancel for any other reason.
- c. We will mail or deliver our notice to the first Named Insured's last mailing address known to us.
- d. Notice of cancellation will state the effective date of cancellation. The policy period will end on that date.
- e. If this policy is cancelled, we will send the first Named Insured any premium refund due. If we cancel, the refund will be pro rata. If the first Named Insured cancels, the refund will be pro rata less the minimum retained premium shown in the declarations. The cancellation will be effective even if we have not made or offered a refund.
- f. If notice is mailed, proof of mailing will be sufficient proof of notice.

##### **NONRENEWAL**

- a. If we decide not to renew this policy, we will mail or deliver to you a written notice of nonrenewal, stating the specific reason for nonrenewal, at least 60 days before the expiration date of this policy. The notice will be mailed or delivered to the first Named Insured at the mailing address last known to us.
- b. If notice is mailed, proof of mailing is sufficient proof of notice.
- c. However, we are not required to send this notice if nonrenewal is due to your failure to pay any advance premium required for renewal.

#### **7. Changes**

This policy contains all the agreements between you and us concerning the insurance afforded. The first Named Insured shown in the Declarations is authorized to make changes in the terms of this policy with our consent. This policy's terms can be amended or waived only by endorsement issued by us and made a part of this policy.

## 8. Examination of Your Books and Records

We may examine and audit your books and records as they relate to this policy at any time during the policy period and up to three years afterward.

## 9. Premiums

The first Named Insured shown in the Declarations:

- a. Is responsible for the payment of all premiums; and
- b. Will be the payee for any return premiums we pay.

## 10. Transfer of Your Rights and Duties Under This Policy

Your rights and duties under this policy may not be transferred without our written consent except in the case of death of an individual named insured.

If you die, your rights and duties will be transferred to your legal representative but only while acting within the scope of duties as your legal representative. Until your legal representative is appointed, anyone having proper temporary custody of your property will have your rights and duties but only with respect to that property.

## 11. Duties in the Event of a Loss

You must see that the following are done in the event of a loss:

- a. You or your "property manager" will take all steps legally available to you to remedy the non-payment of rent and to re-lease the "rental unit" in a timely manner.
- b. Upon our request, send us a signed, sworn proof of loss containing the information we request to investigate the claim. We will supply you with the necessary forms. This proof of loss may include:
  - (i) A copy of the "lease" for the "rental unit" in force at the time of the "rent default";
  - (ii) Evidence of the prelease screening checks on the tenant of the "rental unit" substantiating that the tenant met the screening criteria outlined in **Condition 1. Warranty of Tenant Screening** above;
  - (iii) Copies of notices sent to the tenant of the "rental unit" regarding rent payments;
  - (iv) Copies of any legal documents relating to eviction proceedings; and,
  - (v) Receipts or invoices to substantiate any "legal expenses".
- c. You and your "property manager" will cooperate with us in the investigation or settlement of the claim.

## 12. No Duty to Defend or Provide Legal Services

We have no duty to defend or to represent you or your "property manager" in any legal proceedings or actions or to arrange for or to provide any legal services to you or your "property manager".

## 13. Transfer of Rights of Recovery

You must transfer to us all of your rights of recovery against the tenant for any loss you sustained and for which we have paid or settled. You must also do everything necessary to secure those rights and do nothing after loss to impair them.

## 14. Loss Payment

- a. In the event of loss covered by this Policy, we will
  - (i) Pay for covered loss within 30 days after we receive the sworn proof of loss, if you have complied with all the terms and conditions of this policy, and
  - (ii) We have reached agreement with you on the amount of loss;
- b. We will not pay you more than your financial interest in the "Rental Unit".

## 15. Recoveries

Any recoveries, whether effected before or after any payment is made under this policy, whether made by us or you, shall be applied net of the expense of such recovery:

- a. First, to you in satisfaction of your covered loss in excess of the amount paid under this policy;
- b. Second, to us in satisfaction of amounts paid in settlement of your claim;
- c. Third, to you in satisfaction of any deductible described in Section **C.** above; and
- d. Fourth, to you in satisfaction of any loss not covered under this policy.

## **F. DEFINITIONS**

1. "Lease" means a written agreement in which you allow the use of the "rental unit" for a specified period of time in consideration of specific periodic rent payments and other terms and conditions.
2. "Legal expenses" means the following expenses that you incur to lawfully remove a tenant from a "rental unit" as the result of a "rent default":
  - a. Court costs or fees;
  - b. Service of process fees; or
  - c. Reasonable attorney's fees.
3. "Monthly rent" is the lesser of the amount specified in the declarations as the "Monthly Rent" for the "rental unit" or the amount specified in the "lease" as rent for the period of one month.
4. "Period of indemnity" means the period of time that begins on the date that "rental income" becomes in arrears for a particular "rental unit" or in the case of the death of the sole lessee of the "rental unit" the date that the first payment would have been due after the death of the lessee, and ends at the earlier of the following:
  - a. The date that the "rental unit" becomes subject to a new "lease" regardless of the amount specified in the new "lease"
  - b. The expiration of the "lease" or any duly executed extension of the "lease" applying to that "rental unit" at the time of the "rent default"; or
  - c. The limits of insurance for "rental income" payable under this policy for the "rental unit" have been exhausted.
5. "Property manager" means the person or entity engaged by you to screen and approve tenants, administer the "lease" and manage and maintain the "rental unit" and "related property".
6. "Related property" means all real property or "rental units" that you own within any one building.
7. "Rent default" means the failure of the tenant of the "rental unit" to pay the rent due according to a written "lease" agreement with you when one or more of the following conditions exists:
  - a. You or your "property manager" have provided all required notices of default to the tenant and have taken all legally required steps to initiate eviction of the tenant from the "rental unit";
  - b. The tenant has been legally evicted from the rental unit; or
  - c. The tenant has permanently vacated or abandoned the "rental unit".
8. "Rental income" means the revenue that you are entitled to receive as rent in consideration of a written and properly executed "lease" pertaining to a "rental unit" but does not include any other operating expenses, taxes, late fees or penalties.
9. "Rental unit" means the portion of a property described in the schedule attached to this policy, owned by you and occupied by a tenant as an individual residence including assigned parking spaces or storage facilities and subject to a "lease".
10. "Suitable for tenancy" means:
  - a. The tenant has the capacity to fulfill the obligations imposed upon the tenant by the "lease"; and
  - b. The tenant screening revealed no bankruptcies or prior evictions during the last five years prior to the lease agreement.

## **SERVICE OF SUIT CLAUSE**

### **Countrywide**

This Service of Suit Clause will not be read to conflict with or override the obligations of the parties to arbitrate their disputes as provided for in any arbitration provision within this Policy. This Clause is intended as an aid to compelling arbitration or enforcing such arbitration or arbitral award, not as an alternative to such Arbitration provision for resolving disputes arising out of this contract of insurance.

It is agreed that in the event of the failure of the Company hereon to pay any amount claimed to be due hereunder, the Company hereon, at the request of the Insured, will submit to the jurisdiction of a Court of competent jurisdiction within the United States. Nothing in this Clause constitutes or should be understood to constitute a waiver of the Company's rights to commence an action in any Court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another Court as permitted by the laws of the United States or of any State in the United States.

It is further agreed that service of process in such suit may be unless otherwise agreed made upon:

Thomas M. Dawson  
Drinker Biddle & Reath LLP  
1177 Avenue of the Americas  
New York, NY 10036

and that in any suit instituted against any one of them upon this contract, the Company will abide by the final decision of such Court or of any Appellate Court in the event of an appeal.

The above-named are authorized and directed to accept service of process on behalf of the Company in any such suit and/or upon the request of the Insured (or Reinsured) to give a written undertaking to the Insured that they will enter a general appearance upon the Company's behalf in the event such a suit shall be instituted.

Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Company hereon hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Insured or any beneficiary hereunder arising out of this contract of insurance, and hereby designate the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.