Appendix A

UNDERWRITING GUIDELINES

March 16th, 2016

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Section 1
General

1.00 Purpose

1.01 The mission of the FAIR Plan as set forth in MN Statute 65A.32 is to (1) encourage stability in the property and liability insurance market for property located in this state; (2) to encourage maximum use of the normal insurance market for placement of insurance; (3) to encourage the improvement of the condition of properties located in this state, and to further community development in general; (4) to ensure that no property will be refused property coverage due to condition, without first receiving an inspection. To that end, the following underwriting guidelines will be followed whenever an application for coverage is under consideration.

1.02 The FAIR Plan uses standard insurance forms approved by the Commissioner of Commerce. All policies underwritten by the FAIR Plan are non-replacement policies.

1.03 The FAIR Plan uses market survey data to determine rates. A survey of the prices charged by private companies for coverage similar to that offered by the FAIR Plan is performed. This market survey data is used to establish the 'market average' premium charged by private companies. The Department of Commerce uses this information to determine what rates should be charged by the FAIR Plan. All rates charged by the FAIR Plan must be pre-approved by the Department of Commerce. Because the FAIR Plan seeks to encourage maximum use of the normal insurance market, FAIR Plan rates may be more than those charged by private insurers. The rates used by the FAIR Plan are not set with operating profit as a goal.

1.04 Nothing in these guidelines shall be interpreted to conflict with Minnesota law or the administrative rulings of the Department of Commerce. These guidelines are intended in all respects to be consistent with Minnesota law. Any portion of these guidelines inconsistent with Minnesota law is to be construed as in agreement with the law.

1.10 Inspections

1.11 No application for property insurance will be denied on the basis of the condition of the property to be insured, without first receiving an inspection by a competent inspector.

1.12 An inspection report shall be made for each property inspected. The report will cover pertinent structural and occupancy features as well as the general condition of the building and surrounding structures.

1.13 Photographs will be taken of all properties inspected. Property conditions requiring the assessment of additional condition charges will be documented with photographs.

1.14 During the inspection, the FAIR Plan inspector will point out features of structure and occupancy to the applicant or their representative that may result in a condition charge if the risk is accepted. The inspector has no authority to advise whether the FAIR Plan will provide coverage. If the inspection is performed by an outside vendor, a FAIR Plan employee will discuss the assessment of condition charges with the applicant.

1.15 Inspection reports must be received in the FAIR Plan office within 10 days of the inspection. This report will include the pertinent characteristics of the property, and photos of any hazards present or conditions that could require the assessment of a condition charge. The report will also include documentation of all correspondence, conversations, or phone calls related to the inspection. A copy of this report will be made available to the applicant upon request.

1.16 Property in foreclosure does not qualify for coverage with the FAIR Plan until an interior and exterior inspection is performed. An evaluator approved by the Plan must perform the inspection.

1.17 Failure to cooperate with the FAIR Plan's effort to inspect an applicant property will disqualify that property from coverage with the FAIR Plan.

1.18 Re-inspection of insured properties will be performed at the discretion of the FAIR Plan Underwriting Department. Failure to cooperate with the FAIR Plan's effort to re-inspect insured property will result in the cancellation or non-renewal of coverage.

1.19 All inspections performed by the FAIR Plan will be done at no expense to the Applicant or Insured.

1.20 Applicant Characteristics

1.21 All applicants for insurance must have an insurable interest in the property. Only owners of the property can be named insureds. When there is more than one owner of a property, all owners must be listed on the application for insurance.

1.22 Contract for Deed holders can apply for Dwelling Fire or Mobile Home Fire policy coverage in their name, but only if the Contract Purchaser is also named as an insured on the policy.

1.23 All applicants for insurance must have been cancelled, non-renewed, or otherwise unable to obtain coverage from an insurer in the private market prior to applying for coverage with the FAIR Plan. Applicants must provide the reason for their cancellation, rejection, or non-renewal on their Application. Applicants that have received an offer of coverage by a private insurer do not qualify for coverage with the FAIR Plan.

1.24 Applicants who have been convicted of fraud or arson, or have been cancelled, rejected, or denied coverage due to misrepresentation, fraud, or arson, qualify for coverage at the sole discretion of the FAIR Plan.

1.25 Applicant property must lie within the boundaries of the state of Minnesota to qualify for coverage from the MN FAIR Plan.

1.30 Unacceptable Risks

1.31 Property that has been condemned, is unfit for human habitation, is open to the elements or is structurally unsafe does not qualify for coverage with the FAIR Plan.

1.32 Property being used for illegal purposes, or other characteristics of ownership, condition, occupancy, or maintenance in violation of public policy, or that results in increased exposure to loss, does not qualify for coverage with the FAIR Plan.

1.33 Property that has unsafe heating or wiring systems does not qualify for coverage with the FAIR Plan, unless the system is in the process of repair. A copy of the building permit may be required to verify ongoing repairs. At the discretion of the FAIR Plan, properties falling into this category may be insured with the addition of a condition charge.

1.34 Vacant property does not qualify for coverage unless it is in the process of rehabilitation, or listed on the market for sale. A copy of the building permit or other documentation may be required to verify ongoing rehabilitation work. A copy of the real estate listing may be required to verify the property is for sale. This requirement will be waived if the applicant is the executor of the property owner's estate.

1.35 Property that has accumulations of personal property, rubbish, debris, flammable or explosive materials or any other condition that increases the risk of loss by fire does not qualify for coverage with the FAIR Plan.

1.36 Property for which taxes are delinquent does not qualify for coverage with the FAIR Plan.

1.40 Valuation

1.41 The limit of coverage provided by the FAIR Plan will not exceed the market value of the structures to be insured plus a reasonable addition for debris and demolition expense. The FAIR Plan will use the estimated market value determined by the County Assessor to establish the limit of insurance coverage.

1.42 For properties purchased within the past two years, the sale price of the property exclusive of land value will be considered the market value of the structures to be insured. If the sale process does not set forth the value of the land, the value of the land stated on the most recent property tax statement will be used to determine the correct amount of building coverage, given the sale price paid.

1.43 The FAIR Plan considers the determination of market value by the County Assessor or recent sale price to be the most accurate and equitable measurement of the market value of property to be insured. The FAIR Plan will however consider all information an applicant wishes to present that may have a bearing on the market value of the structures to be insured.

1.44 Structures for which coverage is requested must have a property identification number and an estimated market value on file with the County Assessor's office to qualify for coverage from the FAIR Plan. This provision does not apply to applicants for Builder's Risk coverage or structures located on reservation property.

1.45 The coverage limit for property insured under the Builder's Risk endorsement will equal the completed value of the structure until the estimated market value of the structure is determined by the County Assessor.

Section 2
Dwelling Fire Policy Guidelines

2.00 Dwelling Fire Policy

2.01 Applicants and risks that meet the requirements outlined in sections 1.20 and 1.30 qualify for Dwelling Fire coverage, provided that the occupancy of the dwelling structure is 4 families or less.

2.02 Contract for Deed holders who apply for coverage in their own name qualify for Dwelling Fire coverage, but only if the contract purchaser is also listed as an insured.

2.03 Coverage is available for stand-alone outbuildings, provided that the provisions of sections 1.20 and 1.30 are met. Contents coverage is not available for freestanding outbuilding risks.

2.04 Property with farming structures on premises do not qualify for Dwelling Fire coverage; whether or not there are active farming activities on premises. Structures designed or used for farming, do not qualify for Dwelling Fire coverage.

2.05 Property with livestock on premises does not qualify for Dwelling Fire coverage. Livestock includes but is not limited to: cattle, bison, llamas, horses, mules, donkeys, goats, pigs, ostriches, or sheep. Livestock does not include poultry.

2.06 Structures designed or used for business other than residential rental business, do not qualify for Dwelling Fire coverage.

2.07 Property owned by a Corporation, Limited Partnership, Limited Liability Corporation, S Corporation or other business entity does not qualify for Dwelling Fire Coverage, unless the entity is listed as an additional insured on the policy.

2.10 Maximum Limit of Coverage

2.11 Owner occupied dwelling fire risks valued in excess of the Surplus and Excess Lines threshold set forth in MN Statute 60A.201 Subd. 2(c) do not qualify for coverage through the FAIR Plan.

2.12 Non-owner occupied dwelling fire risks valued in excess of 80% of the Surplus and Excess Lines threshold set forth in MN Statute 60A.201 Subd. 2(c) do not qualify for coverage through the FAIR Plan.

Section 3
Mobile Home Fire Policy Guidelines

3.00 Mobile Home Fire Policy

3.01 Applicants and Mobile Home risks that meet the requirements outlined in sections 1.20 and 1.30 qualify for Mobile Home Fire coverage.

3.02 Contract for Deed holders who apply for coverage in their own name qualify for Mobile Home Fire coverage, but only if the contract purchaser is also listed as an insured.

3.03 Mobile homes must either be attached to a permanent foundation, or permanently tied down to qualify for coverage.

3.04 Property with farming structures on premises do not qualify for Mobile Home Fire coverage; whether or not active farming activities are present on premises. Structures designed or used for farming, do not qualify for Mobile Home Fire coverage.

3.05 Property with livestock on premises does not qualify for Mobile Home Fire coverage. Livestock includes but is not limited to: cattle, bison, llamas, horses, mules, donkeys, goats, pigs, ostriches, or sheep. Livestock does not include poultry.

3.06 Structures designed or used for business other than residential rental business, do not qualify for Mobile Home Fire coverage.

3.07 Property owned by a Corporation, Limited Partnership, Limited Liability Corporation, S Corporation or other business entity does not qualify for Mobile Home Fire Coverage, unless the entity is listed as an additional insured on the policy.

Section 4
Homeowners Policy Guidelines

4.00 Homeowners Policy Forms

Applicants and risks that meet the requirements outlined in sections 1.20 and 1.30 qualify for Homeowners coverage provided that the provisions of this section are met. Contract for Deed holders do not qualify for Homeowners coverage as named insureds, but can be named as a financial interest on the policy.

4.01 Property owned by a Corporation, Limited Partnership, Limited Liability Corporation, S Corporation or other business entity does not qualify for Homeowners Coverage.

4.10 Maximum Limit of Coverage

4.11 Homeowner risks valued in excess of the Surplus and Excess Lines threshold set forth in MN Statute 60A.201 Subd. 2(c) do not qualify for coverage through the FAIR Plan.

4.20 Residency/Occupancy

4.21 The subject property must be owner occupied to qualify for Homeowners coverage. A copy of a driver's license, utility bill, or other documents may be required to prove residency. The property must also be the primary residence of the applicant. Seasonal property does not qualify for Homeowners coverage.

4.22 Newly acquired property will qualify for Homeowners coverage provided that the applicant moves into the property within three days of the inception of the policy.

4.23 The subject property must have occupancy of two families or less to qualify for Homeowners coverage.

4.24 The subject property can have no more than 4 unrelated named insureds to qualify for Homeowners coverage.

4.25 The subject property can have no more than 2 roomers or boarders to qualify for Homeowners coverage.

4.26 Structures designed or used for business other than residential rental business, do not qualify for Homeowners coverage.

4.30 Condition of Risk

4.31 Property that shows a lack of maintenance or housekeeping; deterioration of sidewalks, steps, floors; exposed nails or other hazards to the safety of visitors or residents, does not qualify for Homeowners coverage. Examples include but are not limited to: accumulations of rubbish or trash, unlicensed or derelict vehicles, discarded appliances on the premises. In the case of discarded appliances, this provision will not apply if the appliance doors have been removed, and the items are in the process of disposal.

4.32 Property with unfenced swimming pools does not qualify for Homeowners coverage. Fences must meet the requirements of local ordinance for height and construction. In the absence of local ordinance, fences must be a minimum of 48" tall. Above ground swimming pools do not need to be fenced provided that the walls of the pool extend a minimum of 48” above the surrounding ground, and other methods of access are restricted.

4.33 Property that has a deck in excess of three feet above grade must have a railing or other barrier around the deck to qualify for Homeowners coverage

4.34 Property with conditions that pose a hazard to the safety of visitors or residents, does not qualify for Homeowners coverage.

4.35 Stairs in excess of 36” above grade must have a handrail for the property to qualify for Homeowners coverage.

4.40 Animals/Pets

4.41. Property owners that have exotic pets do not qualify for Homeowners coverage. An exotic pet would be an animal not normally considered domesticated. Unacceptable animals would be those creatures that would increase the likelihood of injury to occupants or visitors as in the case of predatory animals.

4.42 Property with livestock on premises does not qualify for Homeowners coverage. Livestock includes but is not limited to: cattle, bison, llamas, horses, mules, donkeys, goats, pigs, ostriches, or sheep. Livestock does not include poultry.

4.43 Losses caused by dog bites that occur while insured with the FAIR Plan may result in ineligibility for continued Homeowners coverage.

4.44 Property owners that own or have a dangerous dog or a potentially dangerous dog on the premises do not qualify for Homeowners coverage until an inspection of the applicant property is performed. Coverage will be provided at the discretion of the FAIR Plan.

Homeowners coverage will not be provided to an owner of a dangerous or potentially dangerous dog or for a property where a dangerous or potentially dangerous dog resides unless all provisions of Chapter 347 are met. A copy of the dog owner’s surety bond will be required for our files.

As a prerequisite for liability coverage to remain in force, the applicant promises to remain in compliance with MN Statute Chapter 347 for as long as the dangerous or potentially dangerous dog resides on the premises or is owned by the applicant. Failure to remain in compliance with MN Statute Chapter 347 will result in the immediate cancellation of Homeowners coverage, effective the date that the owner or property no longer complied with MN Statute Chapter 347.

An evaluator approved by the Plan must perform the inspection. All inspections are performed at no expense to the applicant.

4.50 Business Operations/Farming

4.51 Property with farming operations on premises does not qualify for Homeowners coverage.

4.52 Property with farming structures on premises do not qualify for Homeowners coverage; whether or not active farming activities are present on premises. Structures designed or used for farming do not qualify for Homeowners coverage.

4.53 Property with business operations on premises other than rental does not qualify for Homeowners coverage. Structures designed or used for business do not qualify for Homeowners coverage. An office in the home does not qualify as a business operation provided that members of the public do not enter the premises for the purpose of conducting business.

Section 5
Commercial Fire Policy Guidelines

5.00 Commercial Fire Policy

To qualify for Commercial Fire coverage, applicants and risks must meet the requirements outlined in sections 1.20 and 1.30 and:

5.10 Maximum Limit of Coverage

5.11 The Actual Cash Value of the risk cannot exceed 1.5 million per building for non-manufacturing risks.

5.12 The Actual Cash Value of the risk cannot exceed $400,000 for a manufacturing risk.

5.20 Fire Suppression

5.21 If the risk is a restaurant valued in excess of $200,000, the risk must have a working and properly maintained sprinkler system.

5.22 If the risk is a restaurant valued at less than $200,000, the risk must have a working and properly maintained ANSUL system.

5.30 Excess and Surplus Lines

5.31 Commercial risks that qualify for coverage through Surplus and Excess Lines do not qualify for coverage through the FAIR Plan.

Section 6
Farm Fire Policy Guidelines

6.00 Farm Fire Policy

To qualify for coverage under the Farm Fire policy, the applicant and risk must meet the requirements set forth in sections 1.20 and 1.30 and:

6.10 Coverage E and G

6.11 All machinery must be separately described with a separate limit of liability to receive coverage under Coverage E of the Farm Fire policy. Miscellaneous tools qualify for blanket coverage however their value cannot exceed $2500.00 without an itemization.

6.12 All outbuildings, except for private garages, must be separately described with a separate limit of liability to receive coverage under Coverage G of the Farm Fire policy.

6.20 Risks Not Insured

6.21 The FAIR Plan does not provide coverage for livestock, farm liability, or growing crops, trees, lawns or shrubs.

6.30 Surplus and Excess Lines

6.31 Farm fire risks that qualify for coverage through Surplus and Excess Lines carriers do not qualify for coverage from the FAIR Plan.