

Rental Dwelling Policies – DP1, DP2, DP3

DP1 Landlord Insurance Policy

The DP1 insurance policy is the most basic insurance policy available for rental properties in the United States. This policy is often referred to as Dwelling Fire Form 1, or DP-1 insurance. It provides very basic insurance coverage for rental properties.

DP1 Policy is Very Basic

In the United States, most landlords have three standard policy types available to insure their rental properties. The DP1 is the first, followed by the DP2 and the DP3. The DP1 policy offers the most basic coverage of all the rental property policies. It contains no bells and no whistles. The most common reason for a landlord to purchase this type of insurance would be to reduce the costs of insurance.

DP1 Insurance is Named Risk Insurance

The DP1 insurance policy is a named perils insurance policy. This means that all the perils that are insured are specifically listed (or named) in the policy itself. The insurance coverage is restricted to the perils that show up in the policy. The DP2 insurance policy is also named risk, although its list of perils is much more extensive than the DP1's list. The HO1 and HO2 insurance policies are the home insurance counterparts to the DP1 and DP2, and are also named peril policies.

Policies that are more extensive in coverage are actually referred to as open perils policies. The DP3 insurance policy is open perils, as are its home insurance counterparts the HO3 and HO5. Open perils policies insure against all perils, with the exception of a few exclusions specifically listed in the policy.

Common DP1 Named Perils

As referenced above, the DP1 policy only covers the perils listed in the policy. The following perils are the most common perils that are insured against with DP1 insurance:

- Fire & Lightning
- Internal Explosion & External Explosion
- Windstorm & Hail
- Riot & Civil Commotion
- Smoke
- Aircraft
- Vehicles
- Volcanic Explosion
- Vandalism & Malicious Mischief

It is important to point out that not all DP1 insurance policies cover all of the perils listed above. For example, Vandalism & Malicious Mischief is an endorsement (add-on)

with many DP1 insurance policies, and is not always automatically included. The above list is what the most common DP1 insurance policy will cover. Check with an agent before assuming all the above perils are covered.

DP1 Insurance is Actual Cash Value Insurance

Most DP1 insurance policies are Actual Cash Value (ACV) insurance policies. This is an important distinction that needs to be understood. An Actual Cash Value dwelling insurance policy is much like a car insurance policy; the older the dwelling gets, the less it is worth. If you are a landlord and your rental property is insured with Actual Cash Value, depreciation will be deducted from any damages you are awarded after a claim.

Let's say for example that a hailstorm rips the roof off of your rental property, and you need it replaced. If the roof is 15 years old, the materials originally used on the roof are very old, and aren't worth very much. If it cost you \$10,000 to replace the roof 15 years ago, the insurance company may only give you \$5,000 to replace the roof now, because the materials have depreciated by 50% (in this example).

The alternative to ACV insurance is Replacement Cost insurance, which will not deduct depreciation from the amount you can receive for a claim. Unfortunately, most DP1 policies will not allow you to insure your rental with replacement cost insurance.

DP1 Insurance & Price

The DP1 is typically the lowest cost landlord insurance policy on the market. If a landlord is looking for the cheapest policy she can find, it will typically be the DP1 policy. Every landlord should, however, do a cost-benefit analysis of each type of dwelling insurance policy to decide which policy is the best policy for their rental. Price, perils covered, and type of insurance (ACV vs. Replacement) should all factor into the insurance purchase decision.

DP2 Insurance Policy

The DP2 insurance policy is one of three insurance policies that are most commonly used for rental properties in the United States. This policy is often referred to as the Dwelling Fire Form 2 or DP-2 insurance. It provides adequate coverage for most landlords.

DP2 Policy is Average Protection

The three most common rental insurance policies are the DP1, DP2, and DP3. The DP1 is the most basic landlord insurance policy, providing very bare bones coverage. The DP3 is the most extensive landlord insurance policy, providing the broadest and deepest coverage. The DP 2 is considered a middle-of-the-road landlord insurance

policy, providing coverage that fits somewhere between the DP 1 and the DP 3. It is not the most basic insurance, but it's not the best.

The DP-2 is Named Risk Insurance

Landlord insurance policies come in two different categories; name peril policies and open peril policies. The DP1 and DP2 are both named peril policies. This means that all the perils that are insured in the policy are specifically listed in the policy itself. If you have a named perils DP-2 policy, you can go to your policy documents and find the list of the perils that are insured.

Common DP-2 Named Perils

As mentioned above, the DP 2 only covers perils listed in the policy. The following is a list of the most common perils that are included in a DP-2 broad form policy:

- Fire
- Lightning
- Internal & External Explosion
- Windstorm & Hail
- Civil Commotion
- Smoke
- Aircraft & Vehicles
- Volcanic Eruption
- Riot
- Vandalism & Malicious Mischief
- Burglary Damage
- Weight of Ice & Snow
- Glass Breakage
- Accidental Discharge or Overflow of Water or Steam
- Falling Objects
- Freezing of Pipes
- Electrical Damage
- Collapse
- Tearing Apart, Cracking, Burning, Bulging

Under the DP-2 policy, if anything happens to the property that is not included on this list, the policy will not insure the damage, and it will not receive coverage.

DP2 Insurance is Replacement Cost

One of the most important distinctions between the DP1 and the DP2 is the distinction between Actual Cash Value (ACV) and Replacement Cost insurance. ACV insurance only insures the policy holder for the damage done to the home, less depreciation. Depending on the age of the construction materials, deducting depreciation from the amount received for a claim can be a serious burden on the insured.

A replacement cost policy, on the other hand, does not deduct depreciation from the amount the insured can receive for a claim. This leads to much more comprehensive and insurance, and insures that landlords won't need to pay considerable amounts of money out-of-pocket. The DP 2 is a replacement cost insurance policy.

Loss of Rents & the DP2 Insurance Policy

One type of coverage that is available (and often included in DP 2 insurance) is Loss of Rents coverage. Loss of Rents coverage is meant to provide the insured with continuing rental income while the home is being repaired due to damage from a covered peril. Without Loss of Rents coverage, if your rental property gets damaged to the point where your renters have to move out while the home gets repaired, you will never collect the rent from those months. Loss of Rents prevents the insured from having no rental income due to home damage.

The DP2 Policy on Vacancy

It is important to note that most DP2 insurance policies will not cover a majority of the perils listed in the policy if the home has been vacant for a period of time. In a typical DP-2, the length of time the home can be vacant and still receive full insurance is either less than 30 or 60 days, depending on who is writing the policy.

Overall, the DP 2 policy is a solid landlord insurance policy and should be considered by landlords when comparing different options for insuring rental properties.

DP3 Rental Home Insurance Policy

The DP3 insurance policy is considered the best insurance policy for rentals in the United States. It is often referred to as the Dwelling Fire Form 3 or DP-3 insurance. It provides excellent coverage for Landlords who are looking to get excellent insurance for their rental properties.

DP-3 Insurance is Best Suited for Rental Properties

The DP 3 insurance is best suited for rental properties or non-owner occupied homes. In the past, many insurance companies used various DP products (like the DP-3) to insure owner-occupied homes. In more recent years, the DP3 policy and other similar insurance policies have been used primarily to insure rentals, while HO products (like the HO3 and the HO5) have been used primarily to insure owner-occupied homes.

Although most homeowners are not restricted from purchasing a DP-3 policy to insure their homes, this is generally discouraged because not only is the coverage less comprehensive with fewer endorsements than its HO counterpart, the HO-3, but also it usually not less expensive.

DP3 Insurance is All Risk Insurance

Dwelling fire insurance policies come in two different policy categories; named peril policies and open peril policies. The DP 1 and DP 2 are named peril policies, while the DP 3 is an open peril policy. Named peril insurance policies are policies that specifically list the perils that are insured under the policy. Open peril policies, on

the other hand, are insurance policies that cover all possible perils, with the exception of a small list of perils excluded from the policy.

Exclusions of the DP3 Insurance Policy

As mentioned above, the DP-3 insures all perils except for those specifically excluded from the policy. The following perils are the most common perils that are excluded from DP-3 insurance coverage:

- Ordinance or Law
- Earth Movement
- Water Damage (some may be included in the policy)
- Power Failure
- Neglect
- War
- Nuclear Hazard
- Intentional Loss
- Governmental Action
- Mold (some may be included in the policy)

Although this list contains the most common perils not insured in a standard DP3 insurance policy, make sure to check with your agent and policy for any additional exclusions.

DP3 Insurance is Replacement Cost Insurance

Insurance policies are either replacement cost insurance or actual cash value insurance. Actual cash value (ACV) policies typically don't insure dwellings in full because depreciation is deducted from the amount of money you can receive for a claim. If your home is old, then depreciation on the materials can prevent you from receiving thousands of dollars on your claim.

Fortunately, DP 3 insurance is replacement cost insurance. This means regardless how old your home is, your dwelling will be repaired in full without any costs out of pocket besides your home insurance deductible. Replacement cost is much better than ACV, and the DP3 has this type of protection.

Loss of Rents Included in the DP3 Policy

The standard DP3 policy in the United States comes with a similar package offered by home owner (HO) insurance policies. A typical home insurance company in the United States will include the following five sections of coverage:

- Dwelling
- Other Structures
- Personal Property
- Loss of Use
- Liability
- Medical Payments

The DP3 policy is very similar to the standard home insurance package, with a few exceptions. First, the similarities. Dwelling, Other Structures, Liability, and Medical Payments coverage in the DP3 insurance policy are very similar to the way this is insured in a similar HO policy. The DP3 still has to insure the entire home and out-buildings, and still provides general liability coverage, so it makes sense that these areas are similar to home insurance policies.

Personal Property is an area where the DP-3 differs from a similar home insurance policy. Due to the fact that the policy is used primarily for rental homes and non-owner occupied dwellings, the amount of personal property attached to DP policies is much less. For example, many DP 3 insurance policies only have enough personal property coverage to insure major appliances like refrigerators, washing machines, etc.

One of the biggest differences between dwelling fire insurance and home insurance is Loss of Use and Loss of Rents. Loss of Use insurance is used primarily in home insurance policies, not dwelling fire insurance policies. Loss of Use coverage is used to cover additional expenses a homeowner may pay while her home is being repaired. Due to the fact that most DP3 insurance policies are non-owner occupied, Loss of Use coverage is not relevant.

Loss of Rents, on the other hand, is an important part of many DP3 policies. Loss of Rents coverage is meant to provide the insured (owner of the policy) with continuing rental income while the home is being repaired due to damage from a covered peril. Without Loss of Rents coverage, if your rental property gets damaged and your renters have to move out while the home gets repaired, you will never collect the rent from those months. Loss of Rents prevents this from happening, by continuing to pay you, the landlord, your rental income while the home is repaired.

Overall, the DP 3 policy is an excellent dwelling fire insurance policy and is one of the best non-owner occupied insurance policies on the market today.