



SCHEER LANDLORD PROTECTION KEY FACTS

KEY FACTS ABOUT SCHEER LANDLORD PROTECTION INSURANCE

This document is to be read in conjunction with your Invoice/Certificate of Insurance, the Policy Benefits Certificate and your Policy Document. It is designed as a quick reference to certain facts relating to the cover you have purchased, the underwriting criteria and some of the conditions that apply. It does not replace the Policy Document and does not list every single condition, just those most frequently asked about.

Does every property qualify for cover?

Most properties do qualify provided the monthly rent is \$1000 or above and the property is fully managed by a professional property management agent. Cover is not available for a leasing only arrangement with the agent or if it's within the five boroughs of NYC. If you take the property back to self-manage, your insurance is void and you can apply for a pro rata refund.

How many properties can I cover under one policy?

The premium paid per policy purchased, provides insurance for one year on one property/unit. If you own a multi family property that has four separate units then you will need four policies as each unit is a separate risk. Each rental home, unit or condominium will have it's own individual policy just as it has individual leases. If you own properties in other states, each policy will be invoiced separately as different state taxes, fees etc. apply.

What if I decide after buying this policy that I don't want it?

We provide you with a "Cooling Off" period of 21 days from the commencement date of the policy. Provided you have not already lodged a claim we will refund the full amount that you have paid if you decide the cover doesn't meet your requirements. Cancelling cover at any other time in the year can be done by advising your property manager that you want to cancel it and a pro rata refund will apply.

Can I insure my property even if it is vacant?

If your property has been vacant for 60 days or more when you are applying for cover under this policy we will not accept the risk. If however, you purchased the cover with a tenant in place or at the beginning of a new tenancy and during that policy year the tenant moved out or you evicted them, we will cover the property unoccupied for up to 60 days. If it is still unoccupied at 60 days then you must cancel your policy and a pro-rata refund will be sent to you. The policy cover is void at 75 days unoccupied even if you have failed to notify us.

What if the lease expires and the tenant goes to a month-to-month tenancy, am I still covered?

Yes cover continues if by agreement the tenant goes to a monthly arrangement after completing a fixed term of six months or longer.

Is loss of rent between tenancies covered?

If your tenant has moved out at the end of the lease and it takes a few weeks to re-lease the property that is not considered an insurable risk but rather the risk of doing business in that market. The policy is designed to cover loss of rent as a result of the actions of the tenant, not the market.

What type of events can I claim as malicious damage?

Malicious Damage presumes intentional, spiteful or vindictive damage carried out by the tenant with the intent to damage the Landlord's Property. This may be their reaction to being evicted or perhaps they have had a domestic dispute and lost control so they lashed out against the walls and doors. In most states it is a crime or felony. Children or Pet damage is not covered under the policy the only exception is a service or companion animal as defined in the policy document. Here are some examples of what is and what isn't malicious damage. We suggest that the property managers asks themselves two questions before reporting a malicious damage claim:

Q 1. *Would I be prepared to report the tenants to the police for committing the crime of malicious damage?*

If your first response is to hesitate or to immediately say no, the chances are it is not a malicious damage claim. In some circumstances the underwriters will appoint a loss adjustor to inspect the damage and they may insist that you report it to the police.

Q 2. *If we cleaned up the mess and garbage all over the place, would the floors or cupboards underneath actually be damaged or just exceptionally dirty?*

If there was no physical damage to the landlord's property once you cleaned up the mess, then you do not have a malicious damage claim. If the tenant has left the property in that condition then the clean up costs can be deducted from the security deposit if that is allowed in your state.

Examples of what IS considered malicious damage:

A tenant removes an internal wall to enlarge a room without landlord permission,
The construction of a wall by the tenant without approval,
Tenant sets fire to the landlord's property with the intent to burn the place down,
Concrete is poured down the kitchen sink and bathroom drains,
Extensive graffiti on the walls,
Damage as a result of the tenant being attacked in the property which causes damage,
Cupboards being pulled from the walls, doors torn off their hinges.
A tenant committing suicide in the property,
Punching holes in walls or doors
Gouging of walls or use of a hammer to damage walls,
Plugging up the bath and intentionally allowing water to over flow through the property.

Examples of what IS NOT malicious damage:

A red wine spill that stains the carpet,
A scorch mark on the kitchen counter top from a frying pan,
When the tenant uses bleach to clean up their mess and it ruins the carpet or floor,
A hot iron or cigarette leaves a scorch mark on the carpet,
Holes left in walls from the tenants hanging pictures or other decorations,
Children drawing on walls or spilling their paints on the carpet,
Coals that escape an open fire and leave scorch marks on the carpet,
The tenant had a party and the carpets and curtains have had alcohol spilled on them,
Tenant's dog was locked inside all the time and had ruined the carpet and scratched the doors.

Can I wait until something goes wrong with the lease or the tenant to place insurance?

The most basic principal of insurance is that of “Good Faith”. When you buy insurance and pay the premium you are assuming that if something goes wrong during that policy year, the Underwriters will pay a claim if it is covered. That expectation is your Good Faith just as the underwriter expects you to purchase insurance because it is a wise move to protect your investment. If you wait until something has gone wrong such as the tenant is 1-month delinquent in rent, then the loss has already occurred, and you cannot in Good Faith expect the insurance company to accept the loss that, in effect, began before you purchased insurance. The same principal that applies when buying car insurance, it’s too late to buy insurance after you have already written off the vehicle. To protect the underwriters, cover limitations will apply if the existing tenancy is in arrears at the commencement date of the policy. The following Conditions and Exclusions apply to all policies.

Arrears at policy commencement - For existing tenancies

If the tenant’s rent payments were in arrears of the rent due date by 6 days or more in the two months immediately prior to policy commencement date, then the following limitation applies:

- This policy will not pay a claim for loss of rent from any cause, malicious damage, fire, explosion or theft.
- Once the tenant subsequently brings their rent out of arrears by paying their rent “on time” which means within 5 days of the rent due date (excluding further grace periods) for two consecutive months, this limitation will no longer apply to a future claim.

Arrears at policy commencement - For new tenancies

If the new tenant has paid **all** of their financial obligations prior to moving into the property where a policy already exists, then the above limitation does not apply.

Arrears at policy commencement - For new tenant - new policy

When a new policy is taken out just before or at the beginning of a new lease, then provided the new tenant has paid **all** of their financial obligations prior to moving into the property then the above limitation does not apply.

If a new tenant is allowed to move into the property **before** all of their financial obligations have been met then the above limitation will apply until all obligations are fulfilled.

Now that this insurance is available, can I approve a tenant that would otherwise be denied?

Your property manager is expected to screen your tenants in line with normal criteria and industry best practice. A tenant who would not otherwise qualify for the lease, should not be approved just because you purchase this insurance to offset a potential loss. This will not only result in having to release the property, but repeated claims due to poor tenant selection could lead to insurance renewal being denied.

What happens with the security deposit now that I have Insurance?

When something goes wrong, the security deposit usually falls short in covering all of your out of pocket expenses. This is the reason why Landlord Protection Insurance was created to protect your rental income. The security deposit can be used to cover the other financial obligations your tenant has to you under the lease agreement. Your property manager will know what they can legally deduct from the security deposit during the claim process and any remaining deposit can contribute towards your rent loss.

Is my claim affected if I collected less than 1 month's rent as security deposit?

Regardless of how much of the security deposit is collected the claim will be calculated as though you have a minimum of 1 month's rent for security. Any shortfall in the deposit is at your own risk. An example of this would be a tenant that skips 3 months after signing a 12 month lease. For some reason you only have 50% of their security deposit. The property manager will do their best to quickly re-lease the property and may not charge a full re-leasing fee or any fee at all. Let's say you lose 7 weeks rent before the new tenant signs up and the previous tenant left the place clean so possibly the only deductions from the security deposit are a partial re-leasing fee and the balance of the security deposit can contribute towards outstanding rent. If you had collected a full security deposit then the underwriters would only be considering a claim for 3 weeks, but because you only collected 50% you lodge a claim for 5 weeks rent. The policy will only pay the amount that they would have paid had you collected the full security deposit, so they would pay 3 weeks rent.

Can I accept partial settlement of outstanding rent from the delinquent tenant and make a claim for the balance under the policy?

You are entitled to negotiate with the tenant at any time during the lease. However, if you agree for example, to accept 50% of their outstanding debt as full settlement of his/her legal debt, it would be considered that you are electing to self-insure that risk and a claim will not be accepted. If at the time of delinquency the tenant starts to make additional payments to catch up but then subsequently either skips or has to be evicted, then you can lodge a claim for delinquent rent. The critical issue is that the underwriters have the right to recover all claims monies from the tenant. If you have entered into an agreement with the tenant to accept a nominal payment to clear the entire debt then you prevent the underwriters from exercising their rights. If they pursued the tenant for the balance of the debt that you claimed for and received payment, the tenant could prove in court that he cleared his debt by agreement with you.

Do I still have to go through the process of applying for eviction or possession?

Yes you do. Purchasing insurance does not remove the need to follow all remedies available to you to reduce your loss and hold the tenant responsible for their lease obligations. If the tenant vacates the property and fails to pay outstanding rent, then that is a tenant skip and you can make a claim under that policy benefit without the need of an eviction order. If however, the tenant has stopped paying rent and is still in the property then you will need to file for eviction and if necessary possession. Copies of the eviction and or possession orders must be submitted with the claim along with other supporting documentation. If the tenant leaves the property before you have filed for eviction then you can only claim the benefit for tenant skip.



Who covers the cost of evicting a delinquent tenant?

It is expected that your property manager will do everything they can to reduce your loss of rent and it is important that you allow them to take all available steps to do so. If you interfere with or hold up the process it may reduce the amount you are able to claim. This includes the process of filing for eviction and completing all the necessary steps required in taking possession of the property. If the fees and defense costs are **NOT re-paid** to you by the tenant then you can claim those costs under the benefit in this policy for eviction filing and defense costs. If the court only demands that the tenant pay a nominal fee such as a flat court fee then you can also claim the shortfall of costs. If the lease states that the tenant has to pay late fees these are an allowable deduction from the security deposit regardless of whether they are awarded by the court or not. The policy will also pay the eviction and filing fees, but not late fees where the tenant pays to stay even though you have gone through the process to evict them. There is a stated limit on the amount of cover available for these fees and that limit applies per policy year so if you have already claimed for a pay to stay situation, your level of cover is reduced until the next policy renewal.

Can I raise the rent after making a claim for loss of rent due to delinquency or eviction?

If for example, the tenant had been in the property a long time without rent increases then your agent may consider it reasonable to increase the rent when advertising for a new tenant if the market condition at the time supports it. If you raise the rent to the extent that it sits vacant for too long, indicating that perhaps the increase is not realistic, then the underwriter has the right to adjust the claim accordingly.

Will my maintenance costs be covered along with the agents mark up/override fee on work carried out on my behalf?

Maintenance must not be confused as malicious damage and trying to claim against insurance for maintenance may be treated as fraud. It is a property owner's responsibility to not only protect the quality of your asset but also to provide a safe environment for your tenant. This insurance does not cover your maintenance responsibility and neither does it cover the mark up/override fee charged by your managing agent to arrange for the work to be done.

Can my property manager deal with you regarding a claim?

Yes we need your property manager to process the claim as they will have access to all the supporting documents that we require and they will be co-coordinating repairs or evictions on your behalf. They will be able to follow the instructions on our website.

Do deductibles apply to every claim?

The only deductibles that apply are \$1,500 for a Malicious Damage or Theft claim. There is no deductible for lock box related theft claims. This deductible cannot be covered by the tenant's security deposit. Loss of rent claims will have the balance of the security deposit after covering allowable re-leasing expenses, deducted from the rent claim.

Will the Underwriters pursue the tenant after they pay my claim?

The Underwriters have full rights to pursue debt recovery against the tenant to recover claim monies that they paid you under the policy if the tenant was liable for the costs. This is one of the reasons that only genuine claims are accepted and paid for, as there are moral and legal hazards to reporting a tenant responsible for financial loss or damage if it was not genuinely their responsibility.



What if I want to move into the property myself for a short time or sell it?

As soon as the nature of the property use changes such as you move in or you put the property on the market to sell it you must notify us via your property manager and request a cancellation of cover. At which time we will refund you a pro rata premium. You have an obligation to notify us of any change including part of the property being used to carry out business or if you are doing extensive maintenance or renovations. The policy strictly only covers residential property that is for lease and managed by an agent anything else renders the cover void.

How do the Underwriters manage the risk of insurance fraud?

The most common misconceptions that landlords and property managers make about landlord protection insurance is that it covers absolutely every imaginable event that may occur including covering standard maintenance expense, bringing the property back to a condition better than it was before a claim and paying for normal wear and tear. Paying the rent during a vacancy period between tenants which is due to market conditions is also as common an expectation as is covering rent loss that has started before insurance was purchased. Mis-understanding is not fraud and most people do not intentionally try to make false claims. Reading the documents we have sent to you will help you understand what is and what isn't covered. All insurance companies take a firm stand against fraud as insurance fraud can push up premium costs to every consumer.

The claims managers will appoint adjustors or investigators if they determine it is appropriate or simply call the property manager if they have queries about the claim submitted. It is our intention that this product remain viable for the benefit of every landlord and property management company as ultimately our goal is to increase housing availability by strengthening the confidence of Landlord Investors in the market.

Can I submit a claim for the re-keying of the locks any time?

The policy covers you for the cost of re-keying locks in the event that there is a covered claim under this Policy. The re-key of locks cover is a benefit payable in the event the tenant does the wrong thing and presents as a risk to the landlords property. This means the cost to re-key locks in between tenancies where the lease is completed and rent obligations are paid, remain an expense for the landlord as the cost of doing business and are not claimable. The re-key is standard business practice between all tenancies not just those that go wrong.



What if the rent drops below \$1000 per month during the policy term?

We have strong underwriting guidelines from our underwriters Markel Group of Companies, particularly around which risks they will take on, or not. Their regulation around only insuring properties with rent \$1000 or above is inflexible. As soon as the rent drops below \$1000 the policy must be cancelled and a pro rata refund given if appropriate. Insuring properties below \$1000 rent is a change in the risk just like if the landlord takes the property back to self manage, cover no longer applies. If they didn't cancel and lodge a claim a few months later the chances are that the claim would be denied due to the failure of the landlord or property managers to advise that the nature of the risk has changed and falls below underwriting criteria.

When this situation occurs with one of the properties you are managing, please go online and request a cancellation of cover from the date the rent dropped below \$1000.

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