

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

**FUNCTIONAL REPLACEMENT COST LOSS SETTLEMENT
FORMS HO-2 AND HO-3 ONLY**

DEFINITIONS

The following definition is added when this endorsement is attached to the policy:

"Functional replacement cost" means the amount which it would cost to repair or replace the damaged building with less costly common construction materials and methods which are functionally equivalent to obsolete, antique or custom construction materials and methods used in the original construction of the building.

SECTION I – CONDITIONS

3. Loss Settlement.

Paragraph **b.** is deleted and replaced by the following:

b. Buildings covered under Coverage A or B:

(1) If, at the time of loss, the amount of insurance in this policy on the damaged building is 80% or more of the "functional replacement cost" of the building immediately before the loss and you contract for repair or replacement of the damaged building for the same use, within 180 days of the damage unless we and you otherwise agree, we will pay, after application of any deductible, the lesser of the following amounts:

- (a)** The limit of liability under this policy that applies to the building; or
- (b)** The necessary amount actually spent to repair or replace the damaged building on a "functional replacement cost" basis.

(2) If you do not make claim under **b.(1)** above, we will pay, after application of any deductible, the least of the following amounts:

- (a)** The limit of liability under this policy that applies to the building;
- (b)** The actual cash value of the damaged part of the building; or
- (c)** The amount which it would cost to repair or replace the damaged building on a "functional replacement cost" basis.

(3) If, at the time of loss, the amount of insurance in this policy on the damaged building is less than 80% of the "functional replacement cost" of the building immediately before the loss, we will pay that proportion of the cost to repair or replace that part of the building damaged:

- (a)** After application of any deductible; and
- (b)** Without deduction for depreciation;

which the total amount of insurance in this policy on the damaged building bears to 80% of the "functional replacement cost" of the building, but not more than the limit of liability under this policy that applies to the building.

(4) To determine the amount of insurance required to equal 80% of the "functional replacement cost" of the building immediately before the loss, do not include the value of:

- (a)** Excavations, footings, foundations, piers, or any other structures or devices that support all or part of the building, which are below the under-surface of the lowest basement floor;
- (b)** Those supports in **(a)** above which are below the surface of the ground inside the foundation walls, if there is no basement; and
- (c)** Underground flues, pipes, wiring and drains.

(5) If the actual cash value of the damage is less than the "functional replacement cost" then:

- (a)** We will pay no more than the actual cash value of the damage until replacement is complete. Once replacement is complete, we will settle the loss according to the provisions of **b.(1)** and **(3)** above.

However, if the cost to functionally repair the damage is both:

- (i)** Less than 5% of the amount of insurance in this policy on the building; and

(ii) Less than \$2,500;

we will settle the loss according to the provisions of **b.(1)** and **(3)** above whether or not replacement is complete.

(b) You may disregard the "functional replacement cost" loss settlement provisions and make claim under this policy for loss to buildings on an actual cash value basis.

You may then make claim for any additional liability according to the provisions of this Condition **3**. Loss Settlement, provided you notify us of your intent to do so within 180 days of the date of loss.

All other provisions of this policy apply.