

Homeowners Policy - Section I: Property Coverages Practice Test (Sample)

Study Guide



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SAMPLE

Questions

SAMPLE

- 1. What limit applies for loss of business personal property while away from the premises?**
 - A. \$500
 - B. \$1,000
 - C. \$2,500
 - D. \$3,000
- 2. Which of the following losses would NOT be covered by a homeowners policy?**
 - A. A \$800 outboard motor destroyed by hail
 - B. A coin collection valued at \$500 lost in a fire
 - C. A \$550 utility trailer blown away by a tornado
 - D. A stolen silver tea set worth \$2,000
- 3. What is typically the maximum coverage for identity theft in most Homeowners Policies?**
 - A. \$5,000
 - B. \$10,000
 - C. \$15,000 or \$25,000
 - D. \$50,000
- 4. What coverage amount is provided for theft or unauthorized use of a credit card under a homeowners policy?**
 - A. \$100
 - B. \$500
 - C. \$1,000
 - D. \$5,000
- 5. What is the maximum charge for fire department services covered under a homeowners policy?**
 - A. \$500
 - B. \$1,000
 - C. \$5,000
 - D. Fire department service charges are not allowed.

6. Is damage from a personal watercraft covered under a standard Homeowners Policy?

- A. Yes, it is fully covered**
- B. Yes, but only if the watercraft is stored on the property**
- C. No, it typically requires a separate policy or endorsement**
- D. No, it is covered under personal property**

7. How is the coverage for personal property affected by depreciation?

- A. It increases the payout amount.**
- B. It decreases the payout amount.**
- C. It does not affect the payout amount.**
- D. It creates an additional payout category.**

8. What factors can influence the premiums of homeowners insurance?

- A. Location, property age, and claim history**
- B. Color of the home and number of bedrooms**
- C. Personal credit score only**
- D. Homeowner's age and income level**

9. What does Coverage A in a homeowners policy primarily protect?

- A. Personal property.**
- B. Dwelling structure.**
- C. Loss of use.**
- D. Other structures.**

10. Can natural disasters like earthquakes and floods be included in a Homeowners Policy?

- A. Yes, usually included**
- B. No, typically excluded**
- C. Only if the property is in a flood zone**
- D. Depends on the state of residence**

Answers

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- 1. A**
- 2. B**
- 3. C**
- 4. B**
- 5. A**
- 6. C**
- 7. B**
- 8. A**
- 9. B**
- 10. B**

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Explanations

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1. What limit applies for loss of business personal property while away from the premises?

- A. \$500**
- B. \$1,000**
- C. \$2,500**
- D. \$3,000**

In homeowners policies, coverage for business personal property that is temporarily away from the insured premises is subject to specific limits. The correct limit for loss of business personal property while away from the premises is indeed \$500. This limit is set to recognize that homeowners policies are primarily designed to cover personal and residential activities, rather than extensive business operations. When business property is brought away from the home, it remains a risk that is not covered to the same extent as property that is within the home. The \$500 limit reflects this reduced coverage, emphasizing that while some business-related items are covered, the protection is limited compared to what would be available on the policyholder's main premises. The other options present higher limits that do not align with the standard provided in most homeowners policies for loss of business property while away from the premises.

Understanding this limit is crucial for homeowners who operate a business from their residence, as it helps them plan accordingly for potential losses and may encourage them to seek additional coverage if their business activities extend beyond this threshold.

2. Which of the following losses would NOT be covered by a homeowners policy?

- A. A \$800 outboard motor destroyed by hail**
- B. A coin collection valued at \$500 lost in a fire**
- C. A \$550 utility trailer blown away by a tornado**
- D. A stolen silver tea set worth \$2,000**

The loss of a coin collection valued at \$500, which is claimed to be lost in a fire, would typically be covered by a homeowners policy, as fire-related losses are generally included under such policies. However, the distinction may come into play depending on whether the value of the collection exceeds the policy's limit for unscheduled personal property or whether specific exclusions apply to collectible items. Typically, homeowners insurance provides coverage for personal property in various categories, but items such as collectibles can sometimes have limitations or require additional endorsements for full coverage. In many cases, certain types of collectibles may have a sublimit that could affect how much is reimbursed. In contrast, the outboard motor destroyed by hail would generally be covered under dwelling protection due to it being damaged by a covered peril, while the utility trailer blown away by a tornado is also straightforwardly covered as wind damage is a peril typically included. The stolen silver tea set would be part of the coverage for personal property, including theft, unless otherwise specified in an exclusion. Thus, while the fire loss may not provide the coverage level expected for collectibles or be limited by the overall policy terms, the assumption is that it should be covered. Understanding the nuances of personal property coverage limits is key to determining which

3. What is typically the maximum coverage for identity theft in most Homeowners Policies?

- A. \$5,000**
- B. \$10,000**
- C. \$15,000 or \$25,000**
- D. \$50,000**

Homeowners policies often include specific coverage for identity theft, designed to assist policyholders in managing the expenses related to restoring their identity after incidents of identity theft. The maximum coverage for this type of loss typically falls within the range of \$15,000 to \$25,000. This amount is established based on industry standards and the need to cover various expenses that may arise from identity theft, such as legal fees, lost wages, and costs associated with obtaining new identification documents. Higher limits, such as \$50,000, are not standard for most homeowners policies, and the lower amount of \$5,000 may be insufficient to cover potential financial losses that arise from more complex cases of identity theft. Thus, a maximum coverage of \$15,000 or \$25,000 reflects a balance between providing meaningful assistance while considering the common situations faced by policyholders.

4. What coverage amount is provided for theft or unauthorized use of a credit card under a homeowners policy?

- A. \$100**
- B. \$500**
- C. \$1,000**
- D. \$5,000**

Under a homeowners policy, the coverage amount provided for theft or unauthorized use of a credit card is typically \$500. This amount reflects the insurer's standard limit for such coverage under the property section of the policy. It is designed to offer financial protection to policyholders who may suffer losses due to credit card theft, including unauthorized transactions or any associated losses that arise from the fraudulent use of the credit card. Homeowners policies often include additional features aimed at safeguarding the insured against various types of losses, and credit card fraud coverage is an important aspect as it provides reassurance to consumers in the event that their financial information is compromised.

5. What is the maximum charge for fire department services covered under a homeowners policy?

- A. \$500**
- B. \$1,000**
- C. \$5,000**
- D. Fire department service charges are not allowed.**

The maximum charge for fire department services covered under a homeowners policy is typically \$500. This coverage is included to assist homeowners with unexpected expenses related to fire department responses, such as fees incurred when the fire department is called to extinguish a fire on the insured property. Most homeowners insurance policies recognize the financial burden that can arise from such incidents, and this limit provides a specific amount that the insurer will cover for those services. While some might expect higher coverage amounts, the standard limit of \$500 reflects a balance between providing support for homeowners and managing the costs associated with such services in the overall policy structure.

6. Is damage from a personal watercraft covered under a standard Homeowners Policy?

- A. Yes, it is fully covered**
- B. Yes, but only if the watercraft is stored on the property**
- C. No, it typically requires a separate policy or endorsement**
- D. No, it is covered under personal property**

A standard Homeowners Policy does not typically cover damage caused by personal watercraft. Homeowners insurance is designed primarily to protect against damage to the home and personal property within it, as well as liability for accidents that occur on the premises. However, personal watercraft, such as jet skis, are often considered a type of vehicle that is excluded from coverage under a standard policy. To cover damage or liability associated with a personal watercraft, homeowners typically need a separate insurance policy or an endorsement to their existing homeowners policy. This separate policy is specifically designed to address the risks associated with owning and operating watercraft, which includes coverage for physical damage, liability, and possible injuries related to the use of the watercraft. In contrast, the other options suggest scenarios where coverage would be applicable, which does not align with the standard provisions of homeowners insurance. Therefore, it is crucial to recognize that personal watercraft require specific coverage options outside of a typical Homeowners Policy.

7. How is the coverage for personal property affected by depreciation?

- A. A It increases the payout amount.**
- B. B It decreases the payout amount.**
- C. C It does not affect the payout amount.**
- D. D It creates an additional payout category.**

The coverage for personal property is indeed impacted by depreciation, resulting in a decrease in the payout amount. Under many homeowners insurance policies, personal property is often covered on an actual cash value (ACV) basis, which means that the payout will reflect not just the replacement cost but also the wear and tear or depreciation of the property. For instance, if personal items are damaged or lost, the insurer will consider how much those items were worth after accounting for depreciation, leading to a lower payout than what it would have been if the items were valued at their full replacement cost. This approach reflects the real-time value of the property, which tends to decrease over time due to factors such as age, condition, and market demand. Adopting this valuation method aligns the insurance payout with the actual financial impact on the homeowner, ensuring that payments are fair and consistent with the current market value of the items. This understanding is crucial for homeowners when considering how much coverage they might need and how depreciation can affect their claims in the event of loss or damage.

8. What factors can influence the premiums of homeowners insurance?

- A. Location, property age, and claim history**
- B. Color of the home and number of bedrooms**
- C. Personal credit score only**
- D. Homeowner's age and income level**

The selection of factors that can influence the premiums of homeowners insurance is comprehensive and well-supported, particularly highlighting location, property age, and claim history. Location plays a critical role in determining insurance premiums because different areas exhibit varying levels of risk. This includes risks from natural disasters, crime rates, and the availability of fire protection services, all of which can lead to higher or lower premiums based on geographic considerations. The age of the property is another influential factor. Older homes may have outdated wiring, plumbing, or roofing that can increase the risk of claims. As a result, insurers often charge higher premiums for older homes due to the potential for more frequent repairs and claims, compared to newer properties that typically meet more recent building codes and standards. Lastly, claim history is significant when it comes to premium calculations. A homeowner with a history of multiple claims may be perceived as a higher risk, which could lead to increased premiums. Insurers assess past claims to predict future likelihoods, thereby adjusting the cost accordingly. These factors combined create a more accurate risk profile for the insurance company, which informs the premium structure.

9. What does Coverage A in a homeowners policy primarily protect?

- A. Personal property.
- B. Dwelling structure.**
- C. Loss of use.
- D. Other structures.

Coverage A in a homeowners policy primarily protects the dwelling structure itself. This includes the physical building of the home and any attached structures, such as a garage. Coverage A is designed to cover damages to the home caused by specific perils, such as fire, wind, hail, and vandalism, ensuring that the insured can repair or rebuild their home in the event of a covered loss. This protection is vital as the dwelling is typically the most significant asset a homeowner has, and Coverage A establishes the foundation for the overall protection of the homeowner's investment. It is important for policyholders to ensure they have adequate coverage limits to reflect the replacement cost of their home. The other options address different aspects of a homeowners policy: personal property refers to the belongings within the home, loss of use covers additional living expenses if the home becomes uninhabitable, and other structures protect separate structures on the property, like fences or sheds. Each of these is covered under different provisions within the homeowners policy and serves distinct purposes relevant to the homeowner's coverage needs.

10. Can natural disasters like earthquakes and floods be included in a Homeowners Policy?

- A. Yes, usually included
- B. No, typically excluded**
- C. Only if the property is in a flood zone
- D. Depends on the state of residence

Natural disasters such as earthquakes and floods are typically excluded from standard Homeowners Policies. This exclusion is based on the idea that these types of events are considered high-risk and require specialized insurance coverage. For instance, flood insurance is usually purchased through a separate policy backed by the National Flood Insurance Program (NFIP) or private insurers specifically for flood damage coverage. Similarly, earthquake coverage can often be added as an endorsement to a Homeowners Policy or purchased separately, but it is not included in the base policy. Understanding this distinction is crucial for homeowners to ensure they have adequate protection against such risks, as lack of this coverage could lead to significant financial loss in the event of a natural disaster. Thus, the standard Homeowners Policy does not cover earthquakes and floods, making the statement that these events are typically excluded accurate.