FREQENTLY ASKED QUESTIONS REGARDING CONDOMINIUM INSURANCE CALLED HO6

Q. WHY DO YOU NEED TO CARRY INSURANCE YOUR OWN INSURANCE IF THE CONDOMINUM ALREADY HAS INSURANCE?

The condominium association master policy only covers what is described as 'common elements' which includes the building exteriors, fences, pool, sidewalks etc.

The master policy **does not cover**:

1) Rebuilding the interior of a condo in the event of fire, tornado, earthquake etc. (walls, doors, floor coverings, light fixtures, interior electrical wiring, kitchen equipment, bathroom fixtures etc.)
2) Replacing personal belongings (furniture, clothing, appliances, computers, jewelry, etc)
3) Personal liability coverage. If significant damage to the building or to others is a result of your actions (or inaction) you could be held liable. Hiring a lawyer to defend yourself against a personal liability claim
4) Loss of use – payment to cover the cost of living somewhere else while your unit is not livable (tornado, fire, etc)

The above 4 items are covered by an HO6 basic policy. There are many options that can be added to a basic policy. We would recommend adding:

Earthquake coverage

Loss Assessment - learn more about this below)

LOSS ASSESSMENT EXPLAINED

There are three important things individual unit owners should know about Loss Assessment coverage:

(1) not all special assessments will be covered;

(2) unless endorsed or amended, regular Loss Assessment coverage will not protect a unit owner who is special assessed as a result of an earthquake.

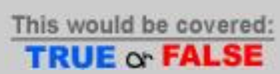
(3) the $1,000 of Loss Assessment coverage that comes with most basic HO-6 policies is truly inadequate.

What does Loss Assessment protect against? Loss Assessment coverage is typically provided as a provision or endorsement to an "HO-6" – the policy form specifically tailored for the individual condominium unit owner. While policy language will vary from carrier to carrier, it's pretty safe to say that even the broadest individual Loss Assessment coverage won't protect against all special assessments. Instead, Loss Assessment coverage protects against a special assessment that results from a specified peril. The list of "covered

Will "Loss Assessment" coverage on your condominium unit owner policy protect you against:

QUESTION 1:

A special assessment when a young motorcyclist was permanently disabled after hitting a large pothole at high speeds on Association-maintained private streets. The resulting settlement exceeded liability limits maintained by the Association. The Board had to special assess for the shortfall. (This would be covered under Loss Assesment.)



QUESTION 2:

A special assessment which resulted from a catastrophic fire to the association. Repair estimates from the contractor were 40% higher than the existing master policy's limits. This would be covered under Loss Assesment.

perils" for Loss Assessment coverage are often the identical perils reflected in other parts of the individual unit owner policy (fire, wind, hail, aircraft, riot, vehicles, explosion, smoke, vandalism and malicious mischief). Broader Loss Assessment forms will also protect against special assessments which might arise from bodily injury or property damage. A select few policies will even protect a unit owner against a special assessment which might result because of an "act, error or omission" committed by the board – but this latter coverage is very rare.

If you really think about this, you've probably concluded, "Hey, wait a minute, wouldn't the association's master insurance coverage probably respond first for these same causes of loss?" That answer is, of course, yes. In general, Loss Assessment coverage is really a sort of "safety net" to protect the unit owner against a special assessment that might result in circumstances where there's inadequate coverage on the Master Policy. The Board could have purchased insufficient coverage, the master policy coverage could have lapsed or been cancelled for non-payment of premium, the policy rescinded because of a misstatement on the application, or the master policy insurance carrier could have gone insolvent. Any of these circumstances could result in a claim not being paid under the master policy (or not being fully paid) resulting in a special assessment.

As condominiums get older and

This would be covered:
TRUE or FALSE

QUESTION 3:

A large special assessment in a small condominium association was necessary because of necessary upgrades made to aging association pool and recreation room facilities.

This would be covered:
TRUE or FALSE

QUESTION 4:

A special assessment for cost to repair damages caused by an earthquake to the common area. The Association had no earthquake protection.

This would be covered:
TRUE or FALSE

QUESTION 5:

A special assessment for a settlement made to a person injured from a slip and fall within the association's common exercise area. The jury awards $3 million more than the Association maintains.

This would be covered:
TRUE or FALSE

reserves fail to keep pace with needs, special assessments tend to occur more frequently. What Loss Assessment will NOT protect against is a special assessment because of deferred maintenance, normal wear and tear, latent building defect – or even a special assessment that might be necessary to hire an attorney to pursue a deadbeat owner. Even proactive steps the association might be taking such as litigating against the project's developer wouldn't typically be covered. These are all legitimate reasons for a special assessment, they just didn't occur as a result of a covered peril.

What about earthquake losses? Once again, special assessments must be as a result of a <u>covered peril</u> in order to be covered by the Loss Assessment provision within the HO-6 policy. Since the majority of HO-6 policies issued in California commonly exclude coverage for the peril of earthquake, individual owners would have to pursue earthquake coverage (either as an endorsement or as a standalone policy) in order to potentially gain protection for a special assessment which is levied as a result of an earthquake. Many California residents will be offered earthquake coverage from their own insurance carrier – who, in turn, places

QUESTION 6:

A special assessment to make up for a large financial shortfall when 20% of the owners walk away from their condominium units and quit paying their dues.

This would be covered:
TRUE or **FALSE**

QUESTION 7:

A child was seriously injured while using the association's pool. The court-ordered multi-million dollar settlement exceeded the liability limits the association had in place. A special assessment for a proportionate share of this settlement.

This would be covered:
TRUE or **FALSE**

Answers:

1.T, 2.T, 3.F, 4.F, 5.T, 6.F, 7.T,

the coverage via the state-run earthquake program: the California Earthquake Authority (CEA). The CEA offers individual unit owners either $50,000 or $75,000 of Earthquake Loss Assessment Coverage (typically subject to a 15% deductible). A special assessment from an earthquake might be necessary to help the board cover the deductible, to cover a shortfall, or, if the association has no coverage, to partially protect the owner against a much larger special assessment necessary to cover the entire amount of damage to the HOA's common area.

How much regular Loss Assessment coverage is enough? As mentioned above, most policies are issued with only $1,000 of Loss Assessment coverage and that's clearly not enough. If a resident or guest dies while using a common area amenity (swimming pool, spa, gym, riding trail, tennis court), the surviving family members may well sue the association claiming the association negligently managed the premises. If it goes to trial and a sympathetic jury provides the family with a multi-million dollar award, it could easily exceed the liability limits the association maintains. Once the association's liability coverage is exhausted, the board would have no alternative but to special assess the owners within the project for their pro-rata share of the shortfall. Loss Assessment coverage is inexpensive – many carriers can endorse the Loss Assessment coverage from $1,000 to $50,000 for an annual premium of only $12 to $18 per year. Some insurance carriers offer up to $100,000 in Loss Assessment protection.

Living in smaller HOA's may result in larger "per unit" special assessments. It's an old axiom, but it's true: there's safety in numbers. For example, let's say you live in a 100-unit condominium association and your association has purchased only $3,000,000 in liability coverage. If there is a wrongful death on the premises that results in a $5,000,000 judgment against the association, where would the $2,000,000 come from? It's likely your board would be splitting the $2,000,000 shortfall 100 ways ($20,000 special assessment per owner). If the same thing happened in a twenty-unit condominium association, the special assessment would be five times larger (or $100,000 per unit).