

Practical Guide for Residents of Homeowners Associations

Aegean Heights Homeowners Association (HOA) assumes responsibility for insuring certain types of damage to the dwelling or structure. When the HOA insures the structure, a unit owner policy is written to cover the unit owner.

As the owner of a home in a HOA...

...you have chosen a popular alternative to owning a single-family home. With ownership comes the need to protect your investment through insurance. Buying coverage, however, is different for an association owner than for owners of conventional homes or renters. That's why a special unit owners policy (HO-6) was developed.

This page explains how the policy provides coverage. Remember though, it's important to work with your insurance agent to have the right kinds and amounts of coverage.

A unit owners policy (HO-6) is usually appropriate when the association insures the physical structure. It is somewhat like a standard home insurance policy, with some differences.

Why it's similar?

- Protects you from loss of personal property from fire, theft, or other specified causes.
- Protects your assets in case you are legally responsible for injury to others, while at home or elsewhere.

How it's Different?

- Helps you meet many of the obligations that arise from your shared responsibility with the condominium / association.

The Association Master Policy

Because it is more efficient or economical, your association insures the buildings and common elements under a single package policy, commonly called an association master policy. The three typical ways to provide coverage, all through an association policy are:

1. **Bare Walls-** Coverage excludes property within the units and just covers the structures up to the interior drywall. No coverage for fixtures, cabinets, floor or wall coverings, etc. With this coverage, a unit owner will need to insure all interior items (standard items or improvements) with a unit owner's policy.
2. **Standard-** Property included in the units which was initially installed in accordance with the association's original plans and specifications or a replacement of like kind and quality. *Does not include improvements or betterments.* Unit owners can insure improvements and betterments separately on a unit owner's policy.
3. **All-Inclusive-** Property included in units which was initially installed in accordance with the associations original plans and specifications, or a replacement of like kind and quality, but also *includes improvements and betterments made at the expense of/or acquired by the unit owner.* This can include such a items as; completed additions, fixtures, permanently installed machinery & equipment, fire extinguishing equipment, outdoor furniture, appliances used for refrigerating, ventilating, cooking, dishwashing, laundering, floor coverings, wall coverings, cabinets, etc. With this type of coverage, the unit owner only needs to insure his personal property.

Aegean Heights carries the Standard Association Master Policy with a value of \$63,500,000. This Master Policy covers all Townhomes and Patio Homes.

Building Coverage

When an association master policy insures some of the buildings, a condominium unit owners policy (HO-6) provides coverage for:

- Items not covered by the association master policy that may be your insurance responsibility.
- The value of building additions or alterations made by you at your own expense.
- Value added (If you've put in a better quality carpet than was originally there, for example, this coverage would make up the difference in case of a loss).
- Damage to your unit not compensated because of the master policy deductible.

If this sounds a bit complicated, it is. Building coverage is one of the more complex parts of insuring an association. You should discuss your needs fully with your insurance agent.

Personal Property Coverage

Because you have a large investment in your personal property, you need enough coverage to compensate you if you suffer a major loss.

One study has found that many condominium / association unit owners are underinsured in terms of their personal property.

Whatever type of association you live in, a good way to be certain you have adequate coverage is to complete an inventory of your possessions and their purchase date and price. Some insurers have inventory forms available to assist you.

Put your inventory listings in a safe place **outside your home**. Photographs or videotape of your possessions will supplement your inventory. To speed up your claim settlement if you have a loss, save receipts for major purchases.

Check to make sure your policy has an inflation-guard feature-one that automatically increases coverage for belongings.

What's Covered, What Isn't?

Your condominium unit owners policy (HO-6) will protect your personal property against loss or damage from a number of specified causes, such as:

- Fire or lightning
- Weight of ice, snow, or sleet
- Windstorm or hail
- Theft
- Accidental discharge or overflow of water
- Explosion
- Riot or civil commotion
- Accidental eruption of hot water heating system
- Aircraft
- Vehicle damage
- Freezing
- Smoke damage
- Artificially generated electrical current
- Vandalism or malicious mischief
- Falling objects

Your personal property is covered against these kinds of losses both at your residence and at any other location worldwide, subject to some restrictions. For example, theft from another residence you own, if you are not occupying it at the time, is **not** covered.

Guests' property would be covered within your unit. Most basic coverage for property **does not include flood or earthquake insurance coverage**. To protect your condominium unit against these and possibly other unspecified losses, you need special coverage.

Deductibles

The HOA policy carries a \$10,000 deductible for property loss.

Replacement Cost Coverage vs. Actual Cash Value

Historically, most homeowners have elected policies that covered personal property on an actual cash value basis: current replacement cost less depreciation. For example, your five-year old sofa is destroyed by fire and would cost \$1,000 to replace. You might expect to receive about \$500, based upon 50% depreciation. (The condition of your sofa would affect the insurance payment.)

Now, however, most insurers offer a replacement cost provision on condominium and other forms of homeowners protection. This allows your destroyed property to be replaced without deduction for depreciation (your deductible would still apply to the loss). Of course, this may cost more.

Personal Liability Coverage

Personal Liability coverage protects you if others make a claim or bring suit against you for bodily injury or property damage for which you or members of your family are responsible, either in your home or elsewhere.

In addition to settlement costs, this coverage pays defense costs and court costs-even if a suit brought against you is groundless.

It is essential that you select liability limits high enough to protect your assets.

If you need more protection than your regular policy limits, consider a personal liability umbrella policy. It adds an extra layer of personal liability protection to your car policy, boat policy (if you have one), and your condominium unit owners policy (HO-6).

Medical payments coverage, typically \$1,000-\$5,000 per person injured, is usually provided along with personal liability coverage. This pays medical bills of others injured in your home even though you may not be responsible for the injury.

Loss Assessment Coverage

This valuable coverage is uniquely designed for owners in condominiums / associations. It recognizes the potential for owners to be assessed for certain kinds of loss. Here are examples of circumstances that might require the condominium / association board to assess all unit owners:

- Someone is seriously injured on common property (perhaps at a swimming pool) and the courts award a judgement that's higher than the amount of liability coverage provided by the condominium / association policy.
- Major damage occurs to commonly owned buildings and it is not fully covered by insurance.

In either case (and other similar cases), loss assessment coverage would pay your share (up to a stated amount). You should review the need for this coverage with your agent and buy an appropriate amount of coverage.

Absentee Ownership

If you own a home in an association but rent it to others all or most of the time, special insurance arrangements can be made. For example, you could:

- Reduce your personal property limits so they cover only your items in the unit you are renting out.
- Make sure you have coverage to reimburse you for the loss of rent payments if the unit becomes uninhabitable due to a fire or other covered loss.

Loss of Use

Should a major fire, explosion, tornado, or other insured catastrophe severely damage your unit, you could need a substitute place to stay. Your loss of use provides funds for this purpose. The amount of coverage is either a dollar value or may be limited to your actual costs for up to a specified time.

Putting It All Together

Condominium / association living has grown in popularity and the insurance industry has responded by providing a broad selection of coverage and policies. Remember, however, that conditions in condominium / association bylaws and other governing regulations (CC&R's) may vary widely. Be certain that your policy covers any potential gaps in the condominium /association master policy.

Agean Heights Board of Directors encourages you to discuss these needs with our personal lines agent, Tina Terrell, please call (949) 215-9803 or email Terrell@hoa-insurance.com.