

- Do you remember that large pile of documents and papers you read and reviewed when you closed on the purchase of your condominium or home? You were told you could read through each page if you wanted, but you just quickly initialed the bottom of each page wanting to expedite the closing.
- Do you remember how clearly you understood what insurance responsibilities the association would assume, and which you as an individual home/unit owner would assume?
- Do you recall thanking all those professionals around you for clarifying all these issues so you could truly sleep well at night?
- Has the association conducted a proper property appraisal to determine the necessary property values to insure?
- Has the association determined whether the liability insurance limits comply with statutory requirements, and whether that compliance obviates individual member exposure?
- Has the association determined whether the limits of liability required by the governing documents are sufficient, or whether the community should obtain umbrella liability coverage?
- Has the association purchased the state of the art Directors & Officers liability insurance?
- Is the association covered if a board member, employee or property manager steals from the association?
- Has the association complied with the insurance requirements set forth in the governing documents?
- If the association has made a decision not to comply with the insurance requirements, has it been done with the proper authority and has the association membership been properly notified?

If your answer to all these questions is yes, we congratulate you as one of the fortunate few who truly understand what they are required to have and what they clearly need when they move into a condominium or other community association where certain homeownership rights may have various restrictions or conditions.



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Risk Management Series



THE CONDOMINIUM HOMEOWNER INSURANCE MYSTERY

Where does the association's
responsibility end and the
unit owner's begin?

Community Association Homeowner Insurance

Why Care About Insurance?

A condominium or other community association home is in most cases the largest investment one makes in life. You are investing financially in a home, which is probably one of the biggest, if not the biggest financial purchase you make. In addition, and probably more important, you are investing in your lifestyle. Knowing those two factors should help you understand why it is so shocking to learn that prospective purchasers enter into a condominium or other community association home without truly understanding their rights, duties and obligations as set forth in the governing documents.

This lapse in due diligence could easily be the basis of a psychological study. People are excited and want to move in, people do not want to ask questions fearing the answers will kill the deal.

Where Do We Start?

The basic proposition regarding who is responsible to insure what is that the association is responsible for the “common elements” and the individual home owners are responsible for their “individual interests.” At first blush, this seems simple. However, do not get lulled into a false sense of security by this deceptive simplicity.

Although the association may be responsible for obtaining certain Insurance, that decision will still have an impact on your financial well-being.

Why Should I Ask an Expert?

Ignorance of insurance issues is bliss, until you discover that the damage to your unit is not covered by the association insurance policy and you did not know you needed to make sure that the coverage you have filled the gap. The most successful community association experiences are those which do not involve surprises. The first solution to the mystery is to use professionals who specialize in community associations. If you do nothing else, using the right professionals is worth its weight in gold—it costs you nothing to obtain insurance from an agent who specializes in community associations. It is your responsibility, however, to ask the professional if this is his or her specialty:

- How long have they been specializing in Community Associations?
- How many community associations do they represent?
- Are they certified by the Community Association Institute or any other similar organization advocating common interest living?

Not All Insurance is Created Equal

Caveat—It is equally critical that you understand the insurance the association is required to obtain! Do you want to pay an amount certain now or risk the unknown? If the association buys inexpensive insurance to keep fees down, you risk an uninsured loss, which you and your association neighbors will become the ones paying out of pocket by way of assessment.

Dilemma—Do you pay less now in association fees and risk weak insurance, or do you recommend that the association pay more now for better coverage to avoid unexpected costs in the future for uninsured losses?

Questions About Your Individual Insurance

- Do you understand where the association’s responsibility ends and yours begins?
- Before purchasing your individual home insurance (or HO6), did you have your personal insurance agent review the association requirements so he or she could properly advise you as to the coverage you need?
- Does your homeowner’s policy (or HO6) cover all improvements and betterments in your home, whether you put them in or they are already there at time of purchase? Are the limits adequate?
- Does your HO6 have the maximum available “loss assessment” coverage?
- Does your Homeowner’s Policy (or HO6) cover the following exposures:
 - The cost to restore and rebuild your home?
 - The cost to replace your personal property?
 - The extra expenses incurred by you and your family during the restoration to live elsewhere?

Questions About the Association’s Insurance

- Have you determined what insurance requirements are set forth in the governing documents?
- Have the insurance requirements been audited by a community association insurance specialist to make sure they are appropriate for this association?