

Las Palomitas Homeowners Association

Eleven steps to a well-designed HO-6 insurance policy

1) Request a copy of the association's "declarations" or Certificate of Insurance (COI). Make a list of residential building items not covered by the association's master policy (e.g., carpets, hardwood floors, tile floors, cabinets, counter-tops, plumbing and electrical fixtures serving the individual unit, built-in appliances, and unit owner improvements/betterments/upgrades.)

NOTE: The Association's insuring agreement (Bare-walls, Original Specifications or 'All-In'); this will determine what residential buildings items are covered by the master insurance policy.

- What is my Association's insuring agreement? **Original Specifications**

2) Estimate the replacement cost of all structural items that are your responsibility. (The easiest and most accurate way to do this is to write a list of all such items and then have the unit owner estimate the replacement cost of each.) "Coverage A" – Dwelling covers these items.

- What is the limit of insurance for 'Coverage A'? \$_____

3) Ascertain the current master policy deductible for property damage for the residential buildings.

NOTE: Master insurance deductibles can range from \$1,000 to \$10,000 per occurrence. Also, many Association's utilize a 'Per Unit' deductible in addition to offering higher deductibles for certain perils (example: 'Water Damage' or 'Sewer Back-Up')

- What is the master Association's insurance master property deductible? **\$5,000**
- Is there a separate deductible for a specified peril?
- Deductible: **N/A** for the peril of **N/A**.

4) Estimate the replacement cost of all non-attached personal items that are your personal property (The easiest and most accurate way to do this is to write a list of all such items and then have the unit owner estimate the replacement cost of each.) "Coverage C" – Personal Contents covers these items.

- What is the limit of insurance for “Coverage C” - \$ _____
- Have you scheduled your higher valued items by endorsement? (examples: Wedding Ring, Furs, Jewelry, Art Work (appraised) and other high value property) NOTE: each insurance policy will offer a limit of insurance for such personal property; however the limit of insurance may be insufficient.

5) Add "Special Perils" coverage to Coverage A, changing the perils covered from "Named Perils" to "All Risks" which cover all perils unless excluded. This is important for three reasons: The unit owner is covered for more losses (e.g., water damage to walls and ceiling from roof leaks), the unit owner has improved coverage for losses subject to the master policy deductible, and you broaden the HO-6's loss assessment and loss of use coverage to special perils from named perils.

NOTE: “Loss of Use” coverage offers coverage for hotel stays as a result of a covered loss under the HO-6 policy that make the unit uninhabitable. Also, “Loss of Rents” coverage is available to those unit owners that rent out their unit to a tenant and are unable to collect their month rents as a result of a covered loss leaving the unit uninhabitable.

- What is the limit of insurance for “Loss Assessment” - \$ _____
- What is the limit of insurance for “Loss of Use” - \$ _____

6) Add “Special Perils” contents coverage (to cover damage to personal property from roof leaks, paint spills, etc.).

7) Add “Sewer Backup” coverage. You want to do this for two reasons: first, to cover direct damage to the unit or contents from these this peril; second, to broaden the loss assessment coverage to include assessments for this peril. (Loss assessment coverage applies only to assessments for losses from perils covered by the master insurance policy that result in an assessment)

- Is “Sewer Backup” coverage included in this HO6 policy? _____

8) Determine the need for “Flood” or “Earthquake” coverage.

NOTE: Review the CC&R’s insurance section to confirm if the Association is responsible for procuring ‘Flood’ coverage if the Association is located in a flood zone.

9) Confirm that you have adequate liability coverage (e.g., \$500,000 or \$1,000,000) in limits equal to the client's other personal liability coverages – including personal injury coverage for libel, slander and defamation of character suits.

- What is the limit of insurance for “Personal Liability” - \$ _____

10) Add ‘Host Liquor Liability’ coverage. This coverage includes liability for bodily injury (BI) or property damage (PD) arising out of the serving or distribution of alcoholic beverages by a party not engaged in this activity as a business enterprise.

Example: You host a holiday party in which alcohol is served, free of charge, to all the guests. After which, one of the guests leaves the party inebriated; crashing their car into a neighbor’s home. The neighbor and the guest bring suit against the host of the party.

11) Consider purchasing a personal umbrella liability policy. Be sure it includes coverage for Association volunteer activities, including non-profit D&O, in case the unit owner decides to serve on the Board of Directors.

Remember, each insurance policy is different with specific exclusions and endorsements. Be sure that your HO-6 policy covers your unit adequately and property in conjunction with covering the Association’s master property deductible properly.

NOTES:

The Association’s master insurance policy is primary and the unit owner’s HO-6 policy is secondary. The HOA’s master insurance carrier can ONLY process a claim that a representative of the HOA submits (ex: Board of Directors or Community Manager).



Community Association Underwriters of America, Inc.

Scott F. McLaughlin, CIC, CRM, CIRMS

(800) 228-1930 Ext. 7182

Email: smclaughlin@cauinsure.com