

Is Your Condominium Unit Properly Insured?



Many condominium owners are under the impression that the condominium association's master insurance policy will cover their personal losses when fire, flood or other disaster occurs. This is not usually the case; most of the time, additional insurance should be purchased by both condominium owners and tenants to bridge the gap between the association's insurance coverage and the actual loss.

The association's insurance is based upon the requirements of the bylaws and typically includes property damage to the association's buildings and personal property, general liability insurance for the common areas, theft and dishonesty insurance, and directors' and officers' liability insurance. The property damage coverage under the master insurance policy is typically limited to replacing the structure of the building and those items that were conveyed to the original owner at the time the condominium unit was transferred from the developer (original floor coverings, bathroom fixtures, kitchen cabinets and appliances). It is important to note that most developers install contractor grade appliances, fixtures and floor coverings and that that is what will be replaced. If you upgraded your major appliances or cabinets to a better quality or replaced your carpet or wood flooring with better materials, you need additional insurance to cover the difference in cost. If you have placed carpet over your wood flooring, either the wood or the carpet will be replaced but the cost of replacing the other floor covering will probably end up being paid from your own pocket. In most cases - none of your personal items (furniture, artwork, computers, television, etc.) are covered under the association's master insurance policy.

Some condominium declarations require the association to insure only "bare walls", which usually is defined as the sheetrock. That means that the owner should have insurance that covers wall and floor coverings, including wallpaper and paint. Other declarations specify that the association is responsible for insuring the structure, which usually is defined as the studs and framing of the walls. In that case, the owner's insurance would need to cover the sheetrock.

In the case of a major flood or fire where you are unable to live in your unit while it is under reconstruction, you are almost always responsible for the additional lodging costs as well as continuing to pay your condominium fee and mortgage. Reconstruction could take several months and the additional living expenses can be a significant financial burden. You need additional insurance to cover these costs.

The association's liability insurance generally provides coverage for injuries sustained in the common areas. If an injury occurs in your unit, the association's insurance will typically not provide coverage. You need to have additional insurance to cover yourself if you are sued due to injury or damage to someone else's property.

Finally, what happens if a contractor you employ, or you yourself, while making a repair in your unit, cause fire, flood or other damage? In these circumstances, you may find yourself responsible for picking up the cost of the association's deductible (\$5,000 to \$10,000). You may also find yourself paying for repairs to your unit if the association's insurance denies coverage on a claim because the cause of loss is not a part of the policy (water in a unit from ground flooding is a good example). In these cases, you need additional insurance to help you over the financial hurdle. Loss assessment insurance will take care of both the

association's deductible and non-covered claim issues, less your own policy's deductible.

Having the appropriate personal insurance policies and an adequate amount of coverage is critical to your ability to recover after a disaster. Since insurance coverage varies from state to state and association to association, you should discuss your insurance needs with your agent to insure that you are fully covered, which usually means an "HO-6" policy. Make sure the insurance agent is aware that you live in a condominium. It is a good idea to take a copy of the section of the bylaws that relates to insurance with you when you talk to your agent so he/she can determine the coverage you need. For those who are renting a condominium unit, your agent can assist you with a tenant's policy that provides the appropriate coverage.

Finally, the FHA recently issued new requirements for condominium lenders mandating that if an association does not have comprehensive unit coverage, including finished surfaces of walls, floors and cabinetry, the owner MUST obtain an HO-6 policy if the lender wants to have FHA mortgage insurance.

While everyone hopes they never have to face a large loss, it really doesn't take much of a fire, flood or water leak to do a lot of damage. Make sure you have what you need in place to protect you in case the worst should happen.

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