

## **INSURANCE INFORMATION FOR OWNERS AND RENTERS OF QUEEN'S LANDING COUNCIL OF UNIT OWNERS, INC.**

### **Condominium Insurance Coverage**

Queen's Landing carries a number of insurance policies as required by the Condominium's basic documents. Included among these policies are Property (including Equipment Breakdown coverage), General Liability, Umbrella Liability, Directors and Officers Liability, Crime/Employee Dishonesty, Workers Compensation, and where required, Flood policies.

The Property section covers all real property belonging to the Association (buildings, fences, pool, etc.). Coverage is written on a Replacement Basis, which means that the policy will replace with like kind and quality and without depreciation, all covered losses up to the blanket limit of the policy. All covered property losses are subject to a \$5,000 deductible. The Property section also covers the interior of each unit as it was *originally* deeded by the developer, not including improvements made by owners. In other words, whatever was originally conveyed to a unit – floors, ceilings, walls, appliances, and fixtures – is covered by the Property Policy on a Replacement Cost Basis. Whatever the owner adds or alters (and obviously personal belongings and property) is the owner's responsibility to insure. *The Master Policy will not cover additions, alterations, betterments or improvements made by current or previous owners.*

The Property section of the Master Policy is written on an "all risk" from losses of a direct nature, i.e., only exclusions are listed. Common exclusions are wear and tear, water seepage, and maintenance issues. For a complete list of exclusions, please refer to your policy.

The General Liability Policy provides liability coverage for bodily injury and/or property damage for which the Association is responsible. Coverage extends to all areas of the Association with the exception of the interior of the individual units. Unit owners should secure their own coverage to protect themselves from liability claims within their units.

Crime/Employee Dishonesty (Fidelity Bond) coverage is provided to protect Association funds in the care, custody, and control of the Board of Directors, the management firm (Legum & Norman, Inc.), and any employees or volunteers that the Association may hire.

Directors and Officers coverage protects the Board of Directors from covered claims involving "Wrongful Acts" or failure to act. This is professional liability protection for board members (past, present, newly appointed) and assigned committee member positions who are sued in their position's capacity. The policy also includes Legum & Norman, Inc., as an additional insured.

The Association also carries Umbrella Liability coverage that extends the underlying limits of the General Liability, Directors and Officers Liability, and Workers Compensation policies, thereby affording additional coverage within these policies.

Workers Compensation coverage is written to protect Association-responsible employees should they be injured on the job.

Finally, flood coverage is written for those buildings situated in a designated flood plain (A zone). Buildings situated in zones B, C, or X are not required to carry this coverage.

## Owners or Renters Insurance Coverage

Residents (whether owners or renters) should have their own unit owner or tenant policy to coordinate with the Association's policies and to protect their own property and liability. Our Agency does not provide these personal policies, but they can usually be secured from the carrier underwriting an individual's automobile liability policy (Erie, State Farm, Nationwide, Geico, and USAA are also carriers to contact; USAA is available to military/former military and their dependents/former dependents). The amount of insurance on a resident's personal property should be adequate to replace the contents of the unit, including furnishings, clothing, and all personal belongings. Thus, the policy should be written on a full-replacement basis so that in the event of a loss, these item(s) would be replaced at current values rather than the original cost less depreciation.

We strongly suggest taking inventory and itemizing what you have in your unit. Determine the cost to replace your belongings and provide your insurance agent with the total value. In subsequent years an inflation guard is built into the policy.

Personal liability limits start at \$300,000, but may be increased. Liability protection covers injuries or property damage sustained inside the unit by people other than the unit owner.

Important features of the standard unit owner policy are the provisions for (1) Additions and Alterations; (2) Loss Assessment; and (3) Additional Living Expense. Additions and Alterations and Loss Assessment are included in the basic policy at a limit of \$1,000. This limit can be increased for a small additional premium. The limit for Additional Living Expense is 20 percent of the limit for personal property. Thus, if personal property is insured for a limit of \$30,000, the Additional Living Expense limit would be \$6,000.

The Additions and Alterations (also called Betterments and Improvements) provision covers the value of any improvements or alterations the unit owner makes within the unit. These improvements could include such items as wallpaper, built-ins, and upgraded appliances and/or carpeting/flooring.

Loss Assessment coverage is for instances when the condominium association suffers a large property loss or liability judgment and the association's policies do not entirely cover the loss. Under such circumstances, owners may be assessed a percentage of the repair bill. Loss Assessment coverage would pay the individual owner's assessment up to the limit of the policy.

Additional Living Expense coverage reimburses the unit owner for expenses incurred while living outside of a damaged unit during repair. Hotel costs, meals, and other forms of additional expenses are covered by this policy feature. **NONE of the policies provided for the Association will pay for a displaced owner/renter to live elsewhere during a unit's repair.** It is also possible for a unit owner to make recovery for losses not covered by the Property Policy under the HO-6/unit owner policy. The unit owner can secure, under the HO-6, coverage for claims that impact the building as well as personal property. Thus, losses not covered by the Property contract can be recovered under the unit owner building form (discuss this with your own agent). An HO-6 policy generally includes a \$250 deductible.

If owners are responsible for any portion of the Master Policy's property damage deductible, it may also be possible to seek recovery of the Master Policy deductible under the HO-6 policy,

less than that policy's deductible. Please make inquiry with your own insurance agent. (Owners should make inquiry with the Board/management as to whether owners share in the Master Policy deductible responsibility if the loss originates in their unit.)

All owner or tenant policies have specific limitations on certain valuable items such as jewelry, furs, and silver. Such valuables should be scheduled on the policy at their appraised value. Valuables would then be covered on an all-risk basis for replacement at the scheduled value.

Non-resident owners who lease their units should be aware of their special insurance needs, as well. These include not only personal liability coverage, but also coverage for any alterations or additions they may have made to the unit, as well as loss of rental income coverage. They can obtain these coverages either by an endorsement to their homeowner policy or with a separate fire policy.

Non-resident owners should also make certain (perhaps by making it a condition of the lease) that the renter carry a tenant or renters policy (includes coverage for the tenant's personal property and personal liability). The personal property coverage on the renters' policy also should be written on a full-replacement basis.

All owners should understand that if they are displaced for any period of time in the event of a loss (catastrophic or otherwise), that you are required to continue to pay your mortgage and perhaps even your condominium fee. Master Policy and/or homeowners insurance will not make these payments for you.

### **Proof of Insurance Coverage**

If your mortgage company notifies you that they need proof of insurance, please fax a copy of the letter to 301-588-5177, or you may order a certificate from our website, [www.manougianinsurance.com](http://www.manougianinsurance.com) (select the Request a Certificate of Insurance option).

Should you have any questions about the Association's coverage, or about your own coverage in relation to the Queen's Landing Master program, you may call Robin Manougian at the John Manougian Agency at (301) 588-6585, ext. 102.

## **JOHN MANOUGIAN INSURANCE AGENCY, INC.**

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### **To All Unit Owners and Boards of Directors of Condominium Associations in the State of Maryland Insured through John Manougian Insurance Agency, Inc.**

On June 10, 2008, the Maryland Court of Appeals (Maryland's highest Court), held up a Decision originally rendered on April 15, 2008, that condominium associations do not have to insure the condominium units under the Master Policy; in *Anderson v. Gables on Tuckerman*, the Court ruled that “the Maryland Condominium Act does not require the council of unit owners to repair or replace property of an owner in an individual condominium unit after a casualty loss.” The basis of the Court ruling is its conclusion that the Condominium Act requires the unit owner to make all repairs to the unit regardless of the cause of the damage.

The Court’s Decision is contrary, however, to the longstanding interpretation of the Act by managers, attorneys, and insurance professionals regarding Master Policy insurance coverage for units (and the Decision does not alter the requirement of the Act for condominiums to obtain coverage on the common elements):

#### **Section 11-114. Required insurance coverage; reconstruction.**

*(1) Property insurance on the common elements and units, exclusive of improvements and betterments installed by unit owners, insuring against those risks of direct physical loss commonly insured against, in amounts determined by the council of unit owners but not less than any amounts specified in the declaration or bylaws;...*

While the Court disagreed with the industry's interpretation resulting in this recent Decision, the Decision does NOT preclude a condominium association from purchasing more coverage, nor does it preclude them from insuring the units if they wish to or if the community’s bylaws indicate the units should be covered.

Most condominium associations formed after the Maryland Condominium Act was written (1982) track the Act, and allow for coverage to extend to the individual units, as

they were originally conveyed, absent any betterments and improvements made by previous, current, or subsequent owners. Your association will need to review (with counsel) its own bylaws for specific language.

**The position of our Agency is to cover the needs of the Association, and we will continue to provide coverage on what we call a “Single Entity Basis” that covers the units as they were originally conveyed, absent any improvements and betterments made by any unit owner.**

Our basis for continuing to include what we believe to be a very important coverage component of any condominium Master Policy is the following:

1. Current bylaws do not require Condominium Unit Owners/HO-6 coverage to cover any gaps created should Master Policy coverage be rendered as “Bare Walls” coverage. Bare Walls coverage means that the Master Policy will cover the unit “shell” up to the bare walls, but anything else within the unit, even components originally installed by the developer, would be the unit owner’s responsibility to insure for loss. The lack of any HO-6 coverage to insure the original unit components can result in un- or underinsured losses.
2. Even if HO-6 coverage is carried, the possibility exists that unit owners will fail to have or maintain unit/dwelling coverage at full replacement value at time of loss.
3. Current lending requirements require the Master Policy to cover the units, and lenders may decline to close new or refinancing loan applications if adequate coverage is not in place. If the Master Policy only provides Bare Walls coverage, borrowers may be required to furnish both a Master Policy certificate of insurance as well as their own certificate showing an adequate dwelling limit under their HO-6 policy.
4. The potential exists for claims disputes between the Master Policy and the Unit Owners insurance carriers.
5. At time of loss, the potential exists for claims repair problems resulting from numerous restoration contractors being hired to repair numerous units, especially following a large loss.
6. All unit owners will incur an additional expense to insure the building/dwelling portion of their units.
7. Minimal, if any, reduction in premiums for the Master Policy will be seen by removing the units as part of the Master Policy.
8. A reduction in the overall value of the property may result if units are not repaired/replaced following a loss because of a lack of sufficient insurance proceeds.

With this background, we ask that all Boards of Directors review the insurance section of their association's bylaws, along with counsel, to determine if the association is required to continue to provide Master Policy coverage for the condominium units; if your bylaws are silent on unit coverage, and it is the wish of the community to cover the units, we would urge you to either amend your documents to allow for continued Single Entity coverage or provide us with a letter that clarifies that continued coverage for the units (including originally installed cabinets, countertops, floor coverings, fixtures and appliances) is the decision of the board of directors.

If for any reason it is the Board's decision *not* to cover the units, please note:

- 1) Do your bylaws allow for the exclusion of unit coverage? If not, an amendment to your documents by an attorney may be necessary.
- 2) If your bylaws do allow for such an exclusion, we will require a letter from the Association (on association or management company letterhead), signed by the Board president, that the Association no longer wishes to cover the units through the Master Policy, and that ALL owners will secure adequate dwelling coverage under their own HO-6 policies to fill any gaps in coverage created by the exclusion of unit coverage under the Master Policy.
- 3) For those associations who elect to move to a Bare Walls policy (no coverage to the units), the Board and/or management will need to be vigilant about making sure that owners purchase and maintain HO-6 coverage. Again, while there is currently no such statutory requirement for this coverage, failing to have adequate dwelling coverage on the units could have adverse results for the community.

While the Court's Decision has inarguably resulted in some unease on the parts of boards of directors, unit owners, and property management firms alike, it is our goal always to make certain that the welfare of the community is represented in terms of insurance. As such, we believe a conservative approach of continuing Single Entity coverage, unless a community specifically opts out of it, will reduce the chance for under- or uninsured losses that impact the community's value.

John Manougian Insurance Agency, Inc.