Insurance & Governing Document Amendment

Frequently Asked Questions

If the amendment is passed, I will have to pay for the property insurance (fire, casualty, etc.) on my unit & structure. When would this start?

- *Once the amendment is passed, you will receive at least 30 days notice of when you will need to obtain your own property insurance. The exact date will depend on if/when the amendment gets passed, but no sooner than October 2022.*

If the amendment passes, and if other homeowners do not obtain their own insurance, what will happen?

- *If the amendment is passed, the Association will enact very strict rules regarding obtaining and keeping owner insurance in place at all times. The Association will require that the HOA be listed on each policy as an Additional Interest, so that we are notified each year when the policy is renewed or if the policy is cancelled or nonrenewed. There will be significant fines if insurance is not maintained. Additionally, it is advised that all individual insurance include "loss assessment" coverage as further protection against the failure of other owners to adequately insure.*

What kind of insurance do I need to obtain if the amendment passes?

- *Depending on your insurance carrier, they will either write an HO3 policy, **with shared walls**, or an HO6, a townhouse policy, also with shared walls. You may contact the Association insurance agent, Michael Berg for additional information or clarification.*

Who will be responsible for insuring the carports and garages?

- *Those items would be insured by the HOA, as they are detached structures.*

If I have to insure the structure, will I have to pay for the maintenance/replacement of the roof, paint, etc.?

- *No. Maintenance and insurance are not the same thing. Just because the homeowners are providing the insurance for the building doesn't mean that they have to maintain or repair the exterior components. The HOA will still repair/replace all of the exterior components that we currently maintain.*

In the case of total devastation, or significant damage, to the exterior of the building, what happens if one or more units in the building is uninsured or underinsured.   Will the HOA cover the cost of rebuilding underinsured units and then recover from the owner(s)?

- *Yes, new rules will be put into place, if the amendment is passed. The Association would rebuild the structure, using a special assessment to all owners, and then attempt to recover the costs from the uninsured owner.*

- *All owners should obtain Loss Assessment coverage on your insurance policy, to cover any potential special assessment that may stem from an owner having no insurance or being underinsured. Coverage is generally available for a minimal cost.*

I called around and I already got a new HO-3 policy with higher coverage, and no one asked me about our CC&R's so I'm good, right?

- *Unfortunately not, we still need to amend the CC&R's to state the insurance responsibility. If you do not have the appropriate policy as dictated by the CC&R's you risk the insurance company denying any claim that you might file should there be a loss. But, it is still good to have an HO-3 type policy in place right now regardless as it serves as possible protection against the Association only having $5m total fire and casualty coverage at present.*
- *Whenever you file a claim against your homeowners policy, the first thing the claims adjuster will do is look at the CC&R's to see what they are required and not required to cover under the policy. The current CC&Rs do not expressly support owners having their own individual fire and casualty coverage and that is the purpose of the proposed CC&R amendment to sync all of this up and permit individual coverage.*

I still have my HO-6 policy and was told I could also get an HO-3 policy for extra protection.

- See the answer above, you are paying for two policies and only one would apply based on the CC&R language.

Is the Association converting from a condo to a PUD (Planned Unit Development)?

- *No, the Association will remain condos, it is just the insurance responsibility that will be changing.*

Why are homeowners required to pay the full cost of the new policy? Why can't we use reserves?

- *Legally, the Association cannot use reserves for operating expenses, without a plan to pay the reserves back within one year. This would still mean a special assessment to pay back those funds. Additionally, if the reserves were used for insurance, the funds would be gone in a matter of a few years, and then there would be no funds for roofing, painting, asphalt, pool resurfacing, and all other items that the reserve funds are used to pay for.*

Will Pepper Townehomes continue to pay for any type of insurance?

- *Pepper Townehomes will still pay for the Liability, Fidelity Bond, Directors & Officers insurance, and common area property (including the carports and garages), but no property or hazard insurance for the inhabited buildings.*

Will the HOA dues go down?

- *Unfortunately they will not go down. The HOA budgeted (before the renewal, and before we knew anything about the increases), based on previous years premiums, just under $40,000 for insurance. The coverages noted previously came to approximately $57,000. So there will be no decrease in dues.*

It was noted that if the amendment doesn't pass, and the HOA maintained the $5 million insurance coverage, that it would possibly be difficult to refinance or sell our homes. What does that mean?

- *We have been informed that* ***some*** *lenders may not want to provide loans for buildings that do not have full coverage insurance on them.*

  As part of the loan approval process, underwriters gather all of the HOA information including a copy of the HOA's master insurance policy coverage.

  If they see that our coverage is insufficient, it could impact the ability to get approval on VA and FHA, and possibly conventional loans for buying, selling, and refinancing purposes.

How does my insurance kick in? Is it a pro-rated share of the cost of the entire building? For example, if my building has 8 units, my insurance kicks in 1/8?

- *Per the Association insurance agent: An individual owner's insurance policy will provide property insurance at the level their carrier believes is necessary to replace their portion of the structure. Each carrier will likely value the portion of the building differently. But, conceptually, with each carrier's contribution, the entire building is covered.*

If the amendment passes, how much insurance do I need for my unit?

- *Each owner needs to communicate the exposure to their insurance provider. Each owner's carrier will estimate the replacement cost of the owner's portion of the property. For example, Farmers Insurance estimates the replacement cost of an interior unit to be $342,000, and that of an end unit to be $347,000. However other carriers value may vary.*

If my house is now worth $550,000 - $600,000, why do I only need $340,000+ for insurance?

- *Your home value is not the same at the cost to rebuild the home. The insurance value is the actual cost to rebuild, not what the home can be sold for.*

Is anything different if I rent my unit?

- *If the CC&R's are amended and you switch to an HO-3 policy and you rent out your unit, check with your insurance agent as there could be a variation of an HO-3 for homes that are not owner-occupied.*

What happens if the amendments don't pass?

- *The Association would have to continue to provide insurance, but the Association will be underinsured, with a $5 million policy, as that is the only current option for the Association and the homeowners. In order for the Association to be fully insured (at approximately $30 million), the premium would be about $650,000 per year!*

  The policies (including the $5 million for property; liability, etc.) for the current 2022-2023 year have a premium of more than $200,000, and could possibly be higher for the following year. The budget for insurance for this year was $40,000, based on previous years polices, which is the reason for the current and proposed special assessment. ***That means for next year, that $200,000 (or more) will have to be budgeted for HOA insurance, which will mean a dues increase of 20% ($78) for 2023, and up to another 20% for 2024 if this trend of higher premiums continues.***