THE ASSOCIATION TIMES

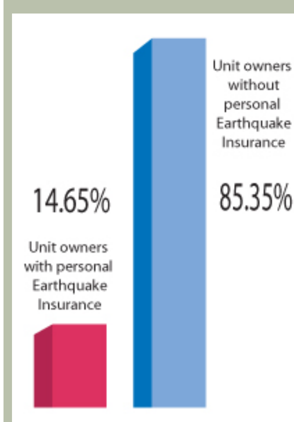
By Timothy Cline, CIRMS, Timothy Cline Insurance Agency, Inc.

Consider this...

Individual Unit Owners may or may not have purchased their own coverage. According to the California Department of Insurance's "Summary of 2013 Residential & Commercial Market" only **14.64%** of unit owners living in California condominium associations purchase individual earthquake coverage. In the average 100-unit condominium association, that means that only 15 owners likely have individual earthquake protection. That means 85 of the owners have their heads buried in the sand and are planning on white-knuckling it through the next major seismic event. It's often said that misery loves company, but when the board has failed to purchase master earthquake coverage and 85% of owners are also uninsured, misery equates to only one potential outcome: mass exodus (and loss of equity).

Consider this...

Even well-meaning, responsible Individual Unit Owners may be stuck. Individual owners are very limited in terms of how much earthquake protection they can purchase. For example, the maximum "Building Property" coverage available to residents (coverage designed to address, to repair or replace interior structural components and fixtures such as cabinets, built-in appliances, wall-to-wall carpeting, and some heating and plumbing equipment) from the California



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- Department of Insurance

Earthquake Authority (CEA) is limited to **$25,000.** Not only is that level of coverage insufficient to affect interior repairs, owners won't be able to make such repairs unless the shell of the building has been restored. Without a master earthquake policy, the essential repairs to the common area and infrastructure are less likely to occur.

Consider this...

No damage to your unit? You'll still be special assessed for your share of damage elsewhere. One of the most overlooked considerations when living in any common interest development is the concept of "shared liability" by virtue of the board's ability to levy a special assessment after a catastrophic earthquake. If you are an owner in a 100-unit association, you might be called upon to pay a special assessment equal to 1/100th of the resulting damage - even if your unit has NO damage whatsoever. Maintaining a master earthquake policy will assure the special assessment levied against your unit (your share of the deductible) is smaller and more manageable. Fortunately condominium residents have the opportunity to purchase Earthquake Loss Assessment Coverage to protect against such a special assessment. While such coverage is available from the CEA, the limits offered ($50,000 or $75,000 subject to a 15% deductible) are woefully inadequate if there is no master policy coverage.

Consider this...

Some individual owners have EVERYTHING to lose. Almost 21 million Americans, or 29.3 percent of homeowners, own their homes outright, unencumbered by a mortgage, according to a 2013 analysis of mortgage data by the real estate data website www.zillow.com. That's right. Nearly 30% of owners own their home free and clear. If there is catastrophic earthquake damage to the community and there is no master earthquake policy, the association likely won't have the financial wherewithal to rebuild. The outcome? **100% loss of equity** for those owners who had spent an entire lifetime working to pay off their mortgage.

Consider this...

The Government won't be offering any bailouts. If history is any indication, condominium associations can expect no help from the Federal Government. In the aftermath of the Northridge Earthquake (1994), Hurricane Katrina (2005), and Hurricane Sandy (2012), boards of directors who approached FEMA were turned away empty handed and referred, instead, to the Small Business Administration (SBA). If the association qualified, after an eight or nine month long loan process, the SBA offered a low interest loan (capped at $1.5 million) amortized for 20 or, in some cases, 30 years. There are still HOAs impacted by the Northridge earthquake who are still paying off these loans.

Consider this...

Master Earthquake policies have never been more affordable. Thanks to Mother Nature (and a lack of major earthquakes and hurricanes in the last four years) there is an abundance of capacity, which has driven rates lower. In fact, in many cases commercial earthquake rates are the lowest they have been since 2005. An association can likely obtain more coverage at lower rates and, in some circumstances, even a lower deductible.

Now is an excellent time to contact your insurance agent or broker and revisit your board's decision regarding earthquake coverage. The terms carriers may offer to your association could surprise you. If you're unsure your agent or broker has the expertise to obtain your association the best pricing/terms, feel free to contact our office.

By Timothy Cline, CIRMS

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This letter contains only a general description of coverage and is not a statement of contract. For a more detailed description of the policy conditions and exclusions, please consult the policy itself.

For more information please visit us at: www.timothycline.com

or call us today at: (800) 966.9566