



August 2, 2011

To all twin home owners at Parkside.

Dear (owner)

Recently we reviewed the Home Owners Association Insurance Coverage. We found that those who own twin homes (duplexes) already have or can have their own policy providing coverage on their building (including exterior), contents, and liability. Most owners already have this type of coverage, as a requirement of their mortgagee.

Our Association policy will not provide any coverage for twin homes (duplexes homes). We wanted to clarify this to you, so that you know it is your responsibility to provide your own coverage on a Homeowner type policy.

Sincerely,

Parkside Home Owners Association

Randall G. Ashcraft
Parkside HOA President



July 22, 2011

Randy Ashcraft and Verl Soderquist
Rexburg, Idaho

RE: Letter to Residents

Dear Randy and Verl:

Enclosed is a draft letter that explains some of the exposures commonly not covered in a tenant homeowner policy. Please review it and make any suggestions or changes that you do not feel are clear, or are ambiguous.

If you like the information, we could print the letter on our letterhead (or you can print it on your letterhead) and then it could be distributed to each townhome owner.

Please let me know how you would like to proceed.

Regards,

A handwritten signature in blue ink that reads "Gary".

D. Gary Archibald, CIC

To: The Residents of Parkside Homeowners Association:

An owner of a townhouse is much more likely to have major insurance gaps in their property and liability insurance coverage than the purchaser of any other personal insurance policy. There are several reasons for that.

First, the basic structural coverage of the standard unit-owners policy (HO-6) is generally quite inadequate. For starters, their perils covered are the equivalent of a Homeowner's Form 2-Named Perils on Building and Contents. The Structural Coverage limits are usually grossly inadequate. Typically, the Coverage A Structural Coverage under the HO-6 policy is just \$1,000. Most unit owners are legally responsible for insuring much more than that. Additionally, coverage for loss assessments is inadequate. This can be loss assessments that are association-wide, such as those that arise when a lawsuit for serious injuries ends up in a judgment that exceeds the association's general liability coverage limit, and the excess is assessed to the unit owner.

Another shortcoming of the basic HO-6 policy is the minimal amount of coverage-usually \$1,000-for assessments made against all unit owners for uninsured or underinsured property or liability claims. Two examples assuming 100 units in the association follow:

- The complex, insured for \$5 million, is destroyed by a tornado and cost \$8 million to rebuild. The \$3 million shortfall would lead to each of the 100 unit owners being assessed \$30,000.
- Heavy rains lead to a massive sewer backup in the complex. Cleanup costs and repair costs total \$75,000. The association board did not purchase sewer backup coverage, leading to an assessment of each of the unit owners of \$750.

Under the basic HO-6 policy, with \$1000 loss assessment and named perils coverage, the unit owner will be personally out-of-pocket for \$29,000 from the tornado assessment, and \$750 from the sewer backup assessment (not a covered "named peril").

A second reason for the difficulty in setting up and HO-6 policy with adequate coverage is the difficulty of identifying and measuring the amount of structural insurance that the unit owner is responsible for. The majority of the building structure of each of the units is insured by the homeowners' association. The unit owner is responsible for insuring just the part of the structural interior not covered by the master policy, as spelled out in association documents (typically the "Declaration" rather than the "By Laws") and any pertinent state laws (see below). The most common language in a Declaration document is that the unit owner is responsible for everything inside the bare walls and bare floor of the unit. This means that the unit owner is responsible for insuring all of the items shown in Table 1.

Table 1	
Unit Owner Structural Responsibility Items	Sample Replacement Cost Installed
Carpeting, hardwood floors, ceramic tile, any other flooring	\$25,000
Wall Coverings	\$5,000
Lightning fixtures	\$2,000
Plumbing fixtures (e.g., toilets, tubs, etc.)	\$8,000
Built-in appliances	\$3,000
Kitchen cabinets	\$15,000
Unit owner installed improvements (e.g., screened-in or four-season porch)	\$20,000
Any other improvements made to the unit by all Previous owners (usually very difficult to determine, Especially for an older unit with several previous Owner)	\$98,000

Those owners who rent their units to others should carefully review their present coverage with their agent to sure liability and damage to contents is provided.