

HOA Homeowner's Insurance and how to mitigate financial trauma from HOA
insurance special assessments and community disasters
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Overview: HOAs are different from non-HOA communities when it comes to insurance. If you live in a non-HOA community in a single-family home you insure your home and personal property. You have a deductible on your policy. The financial responsibility for loss in the event of a disaster is all your responsibility and your homeowner's insurance will protect/mitigate against catastrophic loss and out of pocket expenses. Of course there are exceptions and other factors involved in insurance claims but that you should discuss with your insurance agent. In HOAs, regardless of the type of housing (condominium, townhome or single-family unit) the insurance coverage issue is more complex. The HOA's governing documents should define what the HOA community insurance policy covers and what the homeowner needs to insure. Generally, the HOA policy will cover losses to community property. The HOA policy will carry a deductible: an amount the HOA is responsible to pay on each claim towards the loss. If an HOA requires funds to pay for the deductible it can assess homeowners a special assessment. An HOA that provides insurance coverage to homeowner's dwellings can save homeowners with the cost of HOA premiums. This can qualify the homeowner for HO-6 insurance whereby the homeowner will be responsible for insuring the contents and personal property of their home and the HOA insurance will cover the cost to rebuild/repair/replace the home's structure or segments of the unit (such as the roof). This is often described as the homeowner being liable for damages inside the walls of their home and the HOA responsible for losses outside the walls and the home's shell. This is a very brief overview and each HOA policy that covers losses to units. Each HOA community insurance policy is different and must be confirmed by reading the HOA governing documents, understanding the HOA community policy and discussing insurance needs with their insurance agent. In the event of an HOA disaster or unplanned damage to community property or individual units for which the HOA has insurance coverage (such as happens with hail damage) the HOA will be involved in an insurance claim and paying a deductible. If the HOA doesn't have available funds to pay the deductible it can assess homeowners via a special assessment to raise funds to pay for the deductible. To mitigate the financial shock and impact on a homeowner for an unexpected assessment the homeowner should consider "loss assessment" coverage in their insurance planning. In brief, if you are assessed \$15,000 as share in paying the HOA's deductible this type of insurance could pay for most of this billing. **Ask your insurance agent about "loss assessment" HOA insurance and updating your overall homeowner's insurance coverage.**

The basics:

1. Read your HOA governing documents for details on what the HOA insurance policy covers and your financial responsibility in the event of a disaster or other event in the HOA causing damage to community proper and/or structures.
2. Get a copy of the HOA community insurance policy and Declaration and discuss them with your insurance agent to update your policy to mitigate loss in the event of an HOA insurance special assessment that pays for the HOA's deductible. In particular, ask about "loss assessment" insurance that can reduce your financial outlay with an HOA insurance special assessment. Update your homeowner's insurance policy to reflect the updated value of insurables.
3. Pay any insurance deductible HOA assessment to avoid HOA collection and fines assessment, liens and even foreclosure

Insurance Considerations:

First and foremost, consult with your insurance agent for the proper level and adequacy of insurance to meet your personal needs. Read the HOA's and your insurance policy and specifically identify if your policy has a "loss assessment" provision and what and how much does it cover.

HOAs obtain community insurance to cover all types of losses including many disasters such as fire, wind, hail or flood. The HOAs insurance policy has a deductible that is paid on each claim. The deductible is the amount paid by the HOA not covered by the insurance. For example, if the HOA has an event covered under insurance that will cost \$10,000,000 and the deductible is \$1,500,000, the \$1,500,000 will be paid for by the homeowners. If there are 150 homes then each homeowner will be responsible for/pay \$10,000. Generally a special assessment is approved by the Board and assessed to the homeowner. To mitigate paying the full \$10,000, a home owner can add to their homeowner's insurance policy "loss assessment" coverage. This feature can set the amount that the homeowner is responsible to pay "out of pocket" related to the special assessment. It is basically the homeowner's deductible on any HOA deductible passed along to the homeowner. If the "loss assessment" requires the homeowner to pay the first \$1,000, then the insurance policy will pay the remaining \$9,000 in this example. Discuss the specifics and exclusions with this insurance with your insurance agent.

Is there anything illegal, improper or overstepping authority by the HOA is making an insurance deductible special assessment: probably not. Will there be financial shock to homeowners with a special assessment: most certainly. HOA insurance deductibles are passed along to Colorado homeowners all the time due mainly to hail, wind and water damages. The amount assessed to homeowners is determined by the acceptable level of risk and financially responsibility the HOA takes on via their insurance policy. The lower the deductible the higher the insurance premium and higher the deductible the lower the premium. The HOA Board will weigh the risk or probably and cost of a disaster vs the insurance premium costs. This works very similar to your automobile insurance that has a deductible you pay on each claim.

The responsibility of the HOA is to educate homeowners on insurance coverage: their policy and what they recommend for homeowners. The HOA should conduct at least yearly a presentation on insurance issues including what costs and assessments to expect in the event of a disaster. They should also make a point to discuss the role of "loss assessment" insurance to mitigate the financial shock of any insurance related special assessment.

A six-step approach to ensuring proper and adequate homeowner's insurance:

1. In most cases, those owning a condominium or townhome should carry an HO-6 policy to cover personal property and interior portions of their home. Validate with your insurance agent if appropriate. HO-6 insurance can save homeowners money.
2. Confirm the amount, if any, "loss assessment" coverage in your homeowner's policy. This helps or pays for any special assessment on homeowners by the HOA to cover their insurance deductible in the event of an unplanned event or disaster such as hail, wind or fire damage

3. The HOA should communicate to homeowners the community insurance policy and related deductibles and what that means to the homeowner as far as their financial burden. The HOA should recommend a level of loss assessment insurance to cover such unplanned disasters as roof replacement or the replacement of community assets caused by hail, wind or fire. Also, the HOA should include a cost benefit analysis justifying the level of their deductible.
4. Talk to your insurance agent about the adequacy of risk assessment insurance for your particular situation.
5. Pay the special assessment related to the HOA insurance deductible as not paying it can result in debt collection procedures including liens and foreclosure.
6. HOAs should prepare for disaster and develop a formal plan.
7. HOAs should fund their reserve accounts as suggested in a Reserve Fund Study

Note: The Board will determine insurance needs for the community including the acceptable amount of HOA deductible: no homeowner vote of approval is required.

CCIOA requires insurance for the HOA community “to the extent reasonably available.” An HOA’s Declaration contains details on community insurance coverage requirements of common property and structures. Your Board will determine the specifics of what is and what is not covered as long as it doesn’t conflict with your HOA Declaration

Why this topic of insurance is particularly important

Similar to an HOA home foreclosure, special assessments related to deductibles can be financially devastating. Although HOA special assessments to pay for insurance deductibles are relatively low in frequency, when they do occur it can result in extreme financial hardship and even lead to losing one’s home in foreclosure, having to sell a home to pay the assessment and even losing the equity in one’s home (an asset in retirement planning). Fortunately there is an insurance product known as “loss assessment” coverage that homeowners can obtain to cover all or some portion of this type of special assessment. Talk to your insurance agent about loss assessment insurance. Also discuss with your agent if you qualify for HO-6 insurance and your deductible on that policy.

HOA Boards should also review their insurance requirements on an annual basis. Recommendations from the Board and/or homeowners to change the governing documents should also be considered as needed. The Board should ensure the governing documents has policies regarding the allocation of insurance deductibles to homeowners, payment options and discuss what happens in the event a homeowner can’t pay the special assessment. Boards should review the adequacy of their reserve funds to help in addressing disasters and paying deductibles. The Board should annually conduct an educational seminar for homeowners on insurance coverage and options.

Suggested solution to mitigate financial shock to homeowners with HOA deductible special assessments:

1. **The HOA Registration process should include verification/certification by the HOA that an annual HOA insurance educational presentation was conducted.**

- 2. Included in the home closing process, the homeowner must certify that they read the HOA governing documents, had all questions resolved and that they understood the issues of insurance coverage and HOA deductible special assessment.**
- 3. HOA required to develop a disaster plan.**