

# Homeowners Association Loss Assessment Coverage

As PSA members, each of us as individual lot owners hold an equal 1/228<sup>th</sup> ownership interest in the incorporated Association holding title to all PSA Common Area. Our Common Area includes our two well sites, our water distribution system, the Park property including picnic hut, out-buildings, sport court, parking area, waterfront swimming area, boat marina and launch and vacated water right-of-way land. We as members also have a 1/228<sup>th</sup> interest in the liabilities associated with the ownership, management and maintenance of these Common Area elements.

Using a worst case scenario, a drowning while swimming at the Park and PSA is sued for wrongful death. If the jury awards a \$5,000,000 award, our insurance only covers \$3,000,000 in liability coverage. The PSA Board, per our Bylaws would be required to assess each member's share of this additional \$2,000,000 with a special assessment against each member of Paradise. In this example, each lot owner would be assessed approximately \$8,772.00 (\$2,000,000 divided by 228 lot owners).

Typically, it is unlikely that we as individual property owners can submit this \$8,772.00 claim under the liability coverage of our individual owner's policy. Most policies only protect against sums that we may be legally liable for as a result of bodily injury or property damage - not necessarily for sums we may be responsible for as an owner in a HOA /Corporation. The special assessment becomes a financial obligation as the Board requires each member to cover their share of the amount of the award that exceeds the liability coverage of the PSA policy.

Loss Assessment Coverage is designed to protect the individual property owner against such a special assessment. It can be purchased in amounts of up to \$50,000, but most standard policies only include the \$1,000 minimum coverage, even though higher limits are available at a minimal premium. Loss Assessment Coverage is designed to protect the owner for special assessments as a result of liability claims (such as bodily injury and property damage lawsuits) or due to a covered loss (fire, explosion, etc.) to the PSA structures that exceeds the coverage maintained by PSA. Loss Assessment Coverage will not protect against a special assessment other than those caused by a loss as a result of the perils specifically named in the policy. In most cases, Loss Assessment Coverage will not cover special assessments necessary to correct maintenance problems (the cost to replace a roof, concealed building defects, poor materials or workmanship, legal costs to litigate against a contractor, structural upgrading or enforcement of building codes, etc.)

- Make sure your insurance professional has fully explained to you what your exposure is as a member of a community association.
- Speak with your neighbors to find out whom they use for their homeowners coverage and whether they have loss assessment coverage.
- Determine your comfort level when determining how much loss assessment coverage you need.