

Below is a letter from Chris Manougian, John Manougian Insurance Agency, Inc. summarizing his insurance presentation at the November Palladian Board of Directors meeting.

Karen, for the most part, this will serve as a coordination of benefits letter - reiterating much of what was discussed at our board meeting at the Palladian in November.

As you know, on April 15, 2008, the Maryland Court of Appeals, in the Anderson vs. The Gables on Tuckerman Condominium case, overturned 26 years of reasonable [Condominium Act](#) interpretation, and indicated that the Act does not require condominium master property insurance to cover the units. While this will probably be fixed in the current legislative session of the Maryland General Assembly, for now, condominium associations that want to purchase or maintain traditional insurance covering the units are verifying the coverage with their agents and companies, or are specifically asking for the coverage at time of renewal.

For Palladian's current coverage term, this has never been an issue since coverage was written prior to the decision on 02/26/08. We wrote insurance covering the units (and will continue to do so). Additionally, the Philadelphia Insurance Companies, the Association's master Property coverage provider, addressed this issue with a [blanket statement on 08/12/08](#).

The Master Policy Property insurance that we write for the Palladian is provided on a Single Entity basis. This means that we are covering the units, as deeded by the developer, minus improvements and betterments made by the unit owners. Simple (like-kind and quality) replacement of property deeded by the developer will be covered. In other words, if a unit came with a \$1,000 GE refrigerator, we would replace that at time of loss even if it was replaced by the unit owner with another refrigerator of like-kind and quality. If the unit owner decided to replace the GE with a \$2,000 Sub-Zero, the unit owner would be responsible for covering the \$1,000 betterment. This concept would hold true for such things as fixtures, cabinets, other appliances, etc.

The unit owners should purchase individual condominium unit owner policies. These are called HO-6 policies. In the HO-6 policy, the unit owner can purchase:

1. Dwelling Coverage that will cover unit improvements and betterments
2. Personal Property Coverage that will cover personal belongings
3. Personal Liability Coverage - our master policy will not cover the personal liability of the individual unit owners, and ...
4. Loss of Use Coverage - to pay for additional living expenses at time of loss

Concerning the HO-6 Dwelling coverage, since the condo is new and the units are very well appointed, the need to purchase Dwelling coverage is a lesser issue. The basic/standard limits of Dwelling coverage provided by HO-6 policies are in the \$5,000 - \$10,000 range these days. If no upgrades have been done to a unit, the standard limit will be enough.

So, our master Property insurance is covering the Common Elements of the condominium without limitation (it covers common element improvements and betterments), and the units, minus improvements and betterments made by the unit owners. Our Property coverage is being provided on a Guaranteed Replacement Cost Basis. There is no set limit of coverage.

Our Master policy also provides \$1,000,000 of per occurrence General Liability insurance - covering the collective liability of the Association for Bodily Injury, Property Damage, and Personal Injury liability occurrences within the common area/elements of the Association. The Association is insured. The Board of Directors is insured. The unit owners are insured. Employees are insured. Management is insured.

We are also providing \$1,000,000 of Directors and Officers Liability insurance. It provides judgment and defense coverage for the wrongful acts and decisions carried out by the Board of Directors, Committee members, employees, volunteers, and the Association's managing agent (Zalco).

We are providing \$250,000 of Fidelity Bond/Employee Dishonesty insurance that will cover the Association's funds that are stolen by direct employees, Board members, Committee members, and funds (up to the \$250,000 limit) that are under management by Zalco Realty.

We are providing Workers' Compensation and (\$500,000 of) Employer's Liability coverage.

Sitting on top of the General Liability coverage, the Directors and Officers Liability coverage, and the Employer's Liability coverage is a \$25,000,000 Umbrella Liability policy. The Umbrella simply adds limits of Liability coverage. With the \$25,000,000 Umbrella, the Association has \$26,000,000 of General Liability coverage, \$26,000,000 of Directors and Officers Liability coverage, and \$25,500,000 of Employer's Liability coverage.

Please let me know if you have any questions or comments. Thank you. Chris Manougian

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