# Condo insurance: Coverage guide

14 min read

By Gina Pogol | Posted : August 13, 2020

Condo insurance is one of the most complicated home policies to purchase, so you could be forgiven for avoiding the topic. You might not even think you need it. After all, your homeowners association carries insurance for the entire community, right?

Not really. The HOA coverage, or "master policy," leaves a lot of gaps -- which you may not be aware of, until you fall through one.

Here's what you need to know about condo insurance (click on any links to go to that section or scroll down):

- Medical payments
- Named perils (flood, earthquake, wind, sewage)
- How to buy condo insurance
- How much condo insurance do I need?
- Condo insurance cost

# What does a homeowners association master policy cover?

The condominium master policy might be considered the "Swiss cheese" of insurance -- it's full of holes! This HOA coverage must address just two basic items:

- General liability for the association
- Property damage coverage for the common areas

That's it.

In addition to the basics, HOAs can add personal liability insurance for board members, coverage for damage related to sewer and drain backups, and insurance against theft of HOA funds. None of this protects you as an individual property owner, however. If people slip and fall in the community parking lot, the HOA's liability coverage applies. But if they slip in your guest bathroom, the HOA is off the hook, and you are on it.

There are three levels of coverage an HOA can choose:

- "Bare walls" coverage is limited to the basic structure of the building, including fixtures and furnishings *collectively* used. That means items for your *exclusive* use, like counters, cabinetry, flooring, sinks, etc., are *not* covered. Neither are upgrades and improvements added by you or a previous owner. Your personal property (anything you own that's not nailed down) is also not covered.
- "Single entity" policies usually cover the building structures, common areas and fixtures in individual units, but not personal property or improvements made by you or a previous owner. Your personal stuff and renovations -- the fancy backsplash, vintage claw-foot tub and teak floors are a loss if they burn up and you're relying on a single entity policy.
- "All-in" or "all-inclusive" policies cover the structure plus fixtures in individual units and additional upgrades made by you or a previous owner. This policy includes full restoration of your unit to its condition immediately prior to a covered catastrophic loss. The only items *not* covered by an all-in master policy are your personal belongings.

Master policies don't usually provide liability coverage or insure the personal property for individual owners. In addition, master policies usually have a deductible, which is passed onto HOA members in the event of a loss.

To plug the gaps in your HOA's master policy, you'll have to purchase HO6 home and contents insurance.

## H06 insurance and your mortgage

Until recently, mortgage lenders did not require condo owners to carry insurance as long as there was an HOA master policy in place. However, that changed after the Great Recession and housing crisis.

Requiring mortgage borrowers to insure their condo units reduces the risk of financial ruin for them and mortgage default for their lenders.

Fannie Mae, which buys the majority of non-government mortgages in the US, requires HO6 insurance "covering personal property, personal liability, and the physical unit from the studs in, unless the lender can document that the association's master policy provides the same interior unit coverage." The minimum coverage allowed is 20% of the unit's appraised value, with a maximum five percent deductible. If you buy a $200,000 condo, then, you need at least $40,000 of insurance with a maximum $2,000 deductible.

HO6 coverage is also required for FHA and VA home loans when the master policy does not include interior unit coverage.

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# What does HO6 insurance cover?

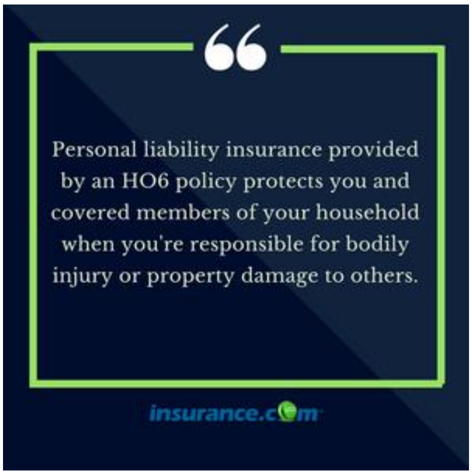
The HO6 (or HO-6) policy offers a range of coverage:

- Personal liability
- Master policy deductible
- Special assessments
- Personal property (contents)
- Loss of use
- Medical payments

Perils that are excluded under a standard condo insurance policy include damage from floods, earthquakes, sewer backups, and (in some locales) hurricanes. Owners who want protection in case of the above-listed hazards must purchase "named perils" coverage.

# Condo liability insurance

Your HOA's liability insurance only applies if a visitor or resident is injured in the project's *common areas* - like elevators, pathways, swimming pools and clubhouses. Personal liability insurance provided by an HO6 policy protects you and covered members of your household when you're responsible for bodily injury or property damage to others. If your tween "accidentally" pushes his buddy down the stairs and breaks his friend's arm, you'll be very happy you have HO6 coverage.




In addition to paying settlements to injured parties, HO6 insurance covers the cost of defending you from lawsuits. It works both in your home and off the condo premises -- your kid can push his friend down stairs at summer camp, and your liability insurance will still protect you.

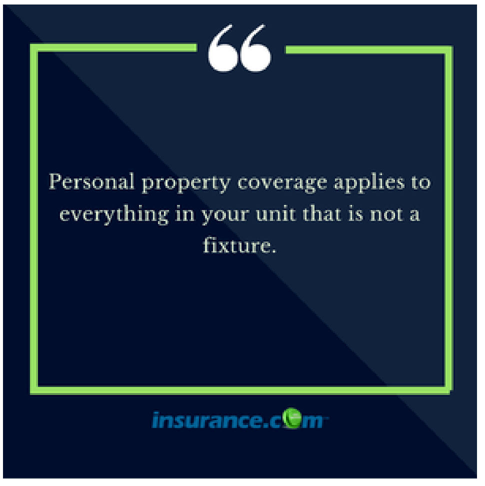
Condo liability coverage limits typically run between $100,000 and $500,000. How much do you need? Experts offer many rules.

One is taking the value of your assets plus five times your annual income -- you're protecting everything you own plus your future income. For more protection, you can purchase a personal umbrella (aka excess liability) policy.

The Insurance Information Institute says that you must usually purchase at least $300,000 in liability coverage before insurers will sell you an umbrella policy. That level of liability coverage costs about $20 a year.

Depending on your insurer, buying an umbrella policy may get you a discount on your other insurance, offsetting part of its cost.

# Personal property (contents) coverage




Personal property coverage applies to everything in your unit that is not a fixture. This means electronics, toys, furniture, décor, clothing, books, kitchen equipment, etc. Like homeowners insurance, HO6 personal property coverage applies to your goods while they are at home, and also when you've taken them away. However, off-premises coverage for damaged or stolen items is limited to a percentage of your total personal property coverage -- often 10 or 20 percent of your total coverage.

Unlike homeowners insurance policies, standard HO6 coverage for personal property is not based on the home's insured value -- it's usually a flat amount, and that amount isn't much -- Farmer's throws in $4,000, which might be enough if you live in a dorm, not a condo. Assuming that you're not a starving student, you'll need more. Condo insurance cost for personal property is very cheap, so there's little reason to skimp.

You can choose to be reimbursed for the actual cash value of your possessions, or you can opt for replacement coverage. When you have replacement coverage and make a claim, your insurer typically cuts you a check for the cash value of the damaged or stolen property. Then, you have a year to go shopping for your new stuff. Present the receipt to your insurer and you get a check for the difference.

Note that insurance maxes out or doesn't apply for certain higher-risk, higher-value items like jewelry, art and firearms. You can purchase a "floater," a "rider," or additional coverage for "scheduled" or "listed" property. Each item is appraised, and you'd be reimbursed for its appraised value if it's lost, stolen or destroyed.

## Master policy deductible coverage

HOAs are increasingly choosing higher deductibles for their master policies, reducing their premiums while upping the risk to individual owners. In fact, industry insiders have noted that deductibles over $10,000 are not rate, and for some complexes have climbed as high as $50,000.

Ugly surprises like this are good reasons to read your condo documents. And buy master policy deductible coverage.

Master policy deductible coverage reimburses unit owners for these deductibles. You should make sure this coverage equals your master policy deductible to avoid unexpected losses. This provision can be tricky, according to insurance blogger Timothy Cline, because insurers don't necessarily reimburse the same way.

For example, if the master policy deductible is $10,000, and a loss is only $9,000, he writes, some insurers cover the $9,000 and others don't. You have to read your documents.

## Special or loss assessment coverage

"Special" assessments are the stuff of nightmares for condo owners -- usually unexpected, and almost impossible to get out of paying. Special or loss assessment coverage kicks in when an assessment is caused by a covered peril -- for example, a huge storm rips the roof off the entire project, exceeding the HOA's insurance limits and sticking your community with a giant repair bill. Every condo owner will have to cough up a share of the cost, and if you can't just whip out your checkbook and pay it, you'd better have an insurance company that will.

Experts recommend at least $50,000 of coverage, while the standard HO6 comes with much less -- often just $1,000. Note that this coverage only applies to *covered perils.* If the assessment is the result of an earthquake, and there is no earthquake insurance in force, you won't be protected.

# Loss of use coverage

Loss of use coverage kicks in when your unit becomes uninhabitable due to a covered event. If your bed-smoking neighbor causes a fire, and the firefighters flood your place putting out his conflagration, you get money to stay elsewhere until your place can be cleaned up and restored.

# Medical payments

Medical payments is exactly that. If a friend slips on your rug and breaks an ankle, your HO6 takes care of her ER visit. She does not have to use her own medical insurance, and she doesn't have to sue you to have her hospital bill paid. Medical payments coverage protects you both, and probably increases the chance that you'll remain friends.

# Named perils (flood, earthquake, wind, sewage)

One insurance issue that's unique to condominiums and co-ops is that property owners don't get to decide if they want coverage for earthquakes, floods and hurricanes for their building structures. The HOA decides if it wants to purchase additional insurance for *named perils*, which are not covered by standard HOA master policies. This is one reason you should attend your HOA meetings and not let the neighborhood tightwad become its president.

## Earthquake

If you want to buy earthquake insurance for your unit, and your HOA has not bought earthquake coverage for the buildings, many insurers won't issue you an individual policy.

In states like California, however, if a company sells condo insurance to unit owners, it must offer quake coverage. The downside is that if you have earthquake insurance, but your HOA does not, your interior is covered but the building is not.

## Flood

If your condo is in a Special Flood Hazard Area (SFHA), and you have a mortgage, you'll be required to have flood insurance on your unit. Even if you're not required to have flood insurance, however, you might want the extra protection. The National Flood Insurance Program says that homeowners outside high-risk areas file over 20% of NFIP claims and receive one-third of disaster assistance for flooding.

## Wind and hurricane

Coverage for wind and hurricane damage is included in most HO6 policies, but it can differ depending on the area in which you live. You may be able to pay less for a policy by excluding this coverage, if you're willing to take the risk.

In Alabama, Connecticut, Delaware, Florida, Georgia, Hawaii, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia and Washington DC., insurers have begun reducing their exposure to catastrophic losses from storms and hurricanes by selling homeowners insurance policies with special deductibles for storm damage.

How do they work? They carry percentage deductibles instead of flat dollar amounts -- based on the home's insured value. If your condo is insured for $200,000, and your policy has a 5 percent deductible for hurricane or storm damage, you're responsible for the first $10,000 of damage. For an additional premium, you may be able to choose a traditional flat deductible.

## Sewer backups

One peril not covered by standard policies is damage from sewer system backups. Water and effluent can destroy your fixtures, finishes and finances, and the standard HO6 won't pay. To get reimbursed, you can try suing your local government or just add sewer backup coverage before your home is buried in sludge. Even if your HOA does not have this coverage, you can add it to your own policy.

# How to buy condo insurance

Purchasing condo insurance is a little different from buying standard homeowners insurance, says Peyton. When you buy homeowners insurance policy, you insure the cost of the dwelling -- either its cash value or replacement cost -- and your personal property (contents) coverage is calculated at some percentage of the home's insured value. You can then add special "floaters," endorsements or riders to increase protection, and include coverage for excluded perils like flooding and earthquakes if you choose.

One challenge of condominium insurance is that owners may have to comb through the association documents and the master policy to see where the holes are. Master policies are not "one size fits all," and neither is HO6 insurance. Here are the steps you'd take to determine your coverage.

- Check your master policy to see if it's all-in, bare walls or single entity.
- Determine your liability coverage needed.
- Calculate the value of your personal property and see if you need floaters.
- Determine your dwelling coverage amount if master policy is not all-in.
- Choose replacement value or actual cash value reimbursement.
- Decide if you want flood, earthquake or sewer backup coverage.
- Check your condo documents and add extra master policy deductible and special assessment coverage if needed.
- Make a list of coverage you need and shop among competing providers. Make sure you ask about discounts.

## How much condo insurance do I need?

If your master policy, like most, is "bare walls," you'll need to cover rebuilding costs for your dwelling. If you have a recent home appraisal, the standard Form 1004 has an estimated value using the "cost approach," which can give you an idea of what it would cost to rebuild your unit "good as new." An agent familiar with local building costs can give you a per square foot figure, or you could have a contractor provide an estimate (rebuilding appraisals cost about $300).

Next, you'll choose the amount of personal liability coverage. Use whatever rule you like -- net worth, total assets, total assets plus five times income -- and add an umbrella policy if needed.

Add coverage equal to your master policy deductible if the standard HO6 doesn't cover it. Add loss assessment coverage -- experts recommend $50,000 worth.

Take an inventory of your personal property. If you're lazy, use the square footage method -- assume $40,000 of belongings for the first 1,000 square feet, and add $10 for every additional square foot. Add coverage for excluded or limited property if needed. Remember this coverage is cheap, so don't skimp.

Add earthquake, flood and/or sewer coverage if you don't want to assume the risk yourself.

## Condo insurance cost

Condo insurance cost can vary a lot, depending on where you live, how comprehensive your HOA coverage is, and how much you need to protect from liability. If your HOA policy is "all-in," you can go with personal property and liability insurance only, similar to a renter's policy. That's very cheap, around $20 a month.

If you have a bare walls master policy with a high deductible, lots of assets to protect, kids and dogs to increase your potential liability; if you live in hurricane, flood or earthquake country, and your town has a lousy sewer system, your costs could go much higher.

According to Insurance.com's 2020 rate analysis, the average premium countrywide is $625 a year, for a policy with the following limits:

- $60,000 personal property
- $1,000 deductible
- $300,000 liability

To give you an idea of what you can expect to pay, enter your state in the search box below. Insurance.com commissioned Quadrant Information Services to field rates for nearly every ZIP code in the country among six major insurers. You'll see average condo insurance rates, for common coverage levels, all with a $1,000 deductible and $300,000 in liability.

Search Table

| State | $40,000 | $60,000 | $80,000 | $100,000 |
|---|---|---|---|---|
| North Dakota | $292 | $326 | $361 | $396 |
| Vermont | $316 | $350 | $382 | $415 |
| Wyoming | $372 | $394 | $421 | $447 |
| Iowa | $364 | $412 | $455 | $499 |
| Hawaii | $358 | $413 | $464 | $517 |
| West Virginia | $355 | $413 | $471 | $531 |
| Nebraska | $375 | $432 | $482 | $539 |
| South Dakota | $383 | $442 | $498 | $553 |
| Virginia | $368 | $444 | $520 | $596 |
| Maryland | $382 | $449 | $511 | $573 |
| Washington | $429 | $485 | $537 | $591 |

*Methodology: Insurance.com commissioned Quadrant Information Systems to provide condo insurance rates for nearly every ZIP code in the country from up to six major insurers. The applicant profile is of a married, 35-year-old who has filed no claims in five years. Coverage includes dwelling coverage of $50,000, medical payments coverage of $5,000, contents replacement and loss of use.

Regardless of the amount of coverage you choose to purchase, the protection it provides makes condominium insurance a smart buy and a good investment.