
NEWPORT CONDOMINIUM ASSOCIATION

November 10, 2008

TO: NEWPORT CONDOMINIUM HOMEOWNERS
FROM: JULIE MCKENNA, COMMUNITY MANAGER
REF: WATER DAMAGE AND INSURANCE SUMMARY

Dear Homeowner:

Please review the new water damage policy recently adopted by the Board of Directors. It summarizes the Association and Homeowners responsibilities with regards to damages caused by water intrusion and insurance issues.

Sincerely,



Julie McKenna
Senior Community Manager

Enclosure: Water Damage and Insurance Summary

NEWPORT CONDOMINIUM ASSOCIATION

WATER DAMAGE AND INSURANCE SUMMARY

(October 28, 2008)

From time to time the Association's management company receives questions whether the Association or the homeowner is responsible for water damage occurring within a unit caused by plumbing. The Board members decided that a written explanation would benefit everyone. The following summary outlines the responsibilities of the Association and the homeowners with respect to water damage and insurance issues. This Summary replaces any policy previously adopted by a past Board of Directors. Of course, any questions not answered in this Summary should be directed in a letter to the Association through the management company.

Owners are responsible for the repair of all utilities, including plumbing systems and components located within their unit such as the pipes under the sinks, the supply lines leading to the toilets, refrigerator, and washing machine, tub drains, and the like. Owner are also responsible for the repair of all plumbing systems servicing the unit and located within or underneath the outside perimeter of the exterior bearing walls of the unit (See Section 18 of Article XIV of the CC&Rs). In the event a plumbing line or component which is the owner's responsibility to repair causes damage, through no fault of the Association, the owner of the unit is responsible to have the pipe or component and the resulting water damage repaired, and the owner of the unit is responsible for all of the repair costs, including damage to flooring, paint and wallpaper, appliances, cabinetry, fixtures, owner upgrades, mold testing and removal and personal property to the extent such costs are not covered by the owner's insurance policy or the Association's insurance policy.

In the event of a roof leak or a leak from some other area *which is the Association's responsibility to repair* causes interior damage, through no fault of the owner or tenant, the Association's vendor will repair the roof or other area as an Association expense, and the Association will retain a contractor to repair the interior building damage as an Association expense. However, if moving out of the unit becomes necessary, homeowners are responsible for their own costs of relocation pursuant to Civil Code Section 1364(c), and therefore homeowners should purchase their own condominium owner's insurance policy, as the Association's master insurance does not cover relocation expenses. All such leaks must be promptly reported to management. The failure to report a leak promptly (which means within 24 hours after evidence of the leak is first observable) may result in the owner being responsible for some or all of the cost of repairing the resulting damage.

The Association's insurance primarily covers the structural portions of the buildings. Owners are solely responsible for purchasing and maintaining their own condominium unit owner's property insurance policy to cover the finished surfaces of their interior walls and ceilings (that is, the paint, wall paper, or other decorative finish), the finished surfaces of the floors (that is, any pad or underlayment, carpet, tile, wood, sheet vinyl, etc.), appliances, cabinets, fixtures, owner upgrades, and personal property – in effect, essentially everything within the unit. Please also note that the Association's policy does not cover living expenses or loss of use.

All owners are therefore recommended to purchase a condominium unit owner's policy (commonly called an "HO-6" policy in the insurance industry) that insures the owner's personal property against loss and that includes real property or building coverage for the finished

surfaces of interior floors, walls and ceilings, window coverings, built-in cabinets or bookcases, fixtures, appliances, and owner upgrades. Each owner should consult with his or her agent

immediately to confirm that the owner's existing building coverage is sufficient.

The Association assumes no responsibility or liability for an owner's failure to maintain or repair leaking pipes, components or fixtures for which the owner is responsible, or for an owner's failure to report a leak promptly. Please note that if the Association is required to pay for repairs to common property because of a resident's negligence or because a condominium unit has not been maintained in compliance with the CC&Rs, the unit owner may be held responsible for all such repair costs, including the cost of testing for and removing mold, not covered by the Association's insurance.

There is presently a deductible of \$10,000.00 on the Association's property damage insurance with respect to water damage claims, and a deductible of \$10,000.00 with respect to all other claims. The owner will be financially responsible for the applicable deductible if the resulting property damage originates within an owner maintained item or if the damage results from the negligence or misconduct of the owner, the owner's family members, guests, contractors or tenants. For example, if a water damage claim originates within plumbing systems or components which are the owner's responsibility, or if the water damage results from the negligence or misconduct of an owner or resident, the owner will be responsible for the deductible if any claim is made against the Association's policy. Likewise, if a fire originates within electrical systems or components which are the owner's responsibility, or if a fire is otherwise caused by the negligence or misconduct of an owner, resident, guest or contractor, the owner will be responsible for the deductible if a claim is made against the Association's policy. In the event an owner is responsible for the Association's deductible, the owner's insurance policy may also cover the Association's deductible, subject to the owner's much smaller deductible of \$250.00 or \$500.00. Each owner should consult with his or her agent immediately to confirm that the owner's existing coverage is sufficient in this respect.