Motus Insurance Services
116 West 23rd Street, Suite 500
New York, NY 10011

"California Shakin' – What Does Earthquake Resiliency look like for my HOA?"

Q&A

1) Can individual members buy Loss Assessment coverage, if so, what is the maximum coverage amount?

   A: Yes, that is essential what the Motus program provides. A more comprehensive loss assessment coverage for unit owners living within common interest developments like condo, townhomes, co-ops, etc. The loss assessment product through the Motus program is custom-built for each association. We have offered up to $5,000,000 per unit owner but again it depends on each association and what each unit owners needs.

2) Why do you feel individuals cannot get Quake insurance if the Association doesn't have a quake policy? CEA doesn't ask.

   A: Please see the separate document "How do we know Unit Owners are not Eligible for Earthquake Insurance"

3) What does the amount of the Motus Program enrollment fee ($850 - $2K) depend upon?

   A: Each carrier that has a different enrollment fee based on their minimum premium & inspection fee. For example, Palomar Specialty can offer their product for $850 since their minimum premium is $500 and their inspection fee is $350.

4) How can I obtain the coverages, deductible options, fee estimate regarding the "opt-In" earthquake Insurance program?

   A: Please email info@motusin.com and a team member will assist you, or visit our website and get a quick quote at www.motusins.com . You can also call the Motus office, (833)668-8746

5) Dr. Jones, how is the Richter scale calculated? I understand that it is a logarithmic scale. so, for example, is 3.5 magnitude 10 times stronger than 3.4 or 10 times stronger than 2.5 magnitude? By how much stronger is 3.5 from 3.4? Thank you.

   A: https://www.iris.edu/hq/inclass/animation/magnitudes_moment_magnitude_explained
   or…
   https://www.iris.edu/hq/inclass/lesson/modeling_eq_magnitude_with_a_pasta_quake

6) What is the contact info of Motus Insurance Services?

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INSURANCE SERVICES

A: Please email info@motusins.com or call (833) 668-8746

7) Please provide a link to locate the resource / report entitled "Mitigation Saves" referenced by Dr. Lucy Jones. Thank you.

   A: https://www.nibs.org/page/mitigationsaves

8) Would it be possible to provide a written summary of the speakers credentials.

   A: See the separate document "Participant Bios"

9) Can you provide resources for obtaining a quote for a retrofit soft story building in the San Francisco Bay Area. What are these type of professionals called?

   A: These are engineers that are often referred to as retrofitters. Below are yelp reviews for some retrofitters in the SF Bay Area. You will certainly want to make sure they have experience with soft story retrofits. Any of these listed companies will happily bid on your building. https://www.yelp.com/search?find_desc=earthquake+retrofit&find_loc=San+Francisco%2C+CA

10) Is there an estimate of costs for the individual condo owner once the HOA enrolls at $2k per year? Based on a $2.5m condo/3,200 square feet, what would some of the options be?

   A: The market value of $2.5mm is comprised of land value plus reconstruction value. Our recommendation will be based on the reconstruction value. Land value is not insurable. In this case, if the unit was in a wood-frame garden style HOA, we would recommend on a ~ $250 price per square foot basis. Giving this unit owner roughly a $800,000 earthquake loss assessment exposure including unit interior coverage (250 x 3,200 SF = $800,000). If this unit was in a concrete or fire resistive construction high-rise, we would recommend a price per square foot of between $300 -$600 (potential more). Thus the insurable recommendation would be between $960,000 - $1,920,000.

   Estimate based on above assumptions. Estimates using a 5-10% deductible. *Homes in East Bay, near the Hayward fault or with bad soil would likely only be offered a 20% deductible

   Garden style association, wood frame construction – premium estimates by geography:

   a) LA - $800,000 would cost roughly $1,600 - $2,000 per year
   b) SF/Bay Area- $800,000 would cost roughly $1,800 – 3,200 per year
   c) The Desert/Coachella Valley - $2,400 - $3,500
   d) San Diego - $600 - $1,200

High-rise Association with concrete / fire resistive construction – premium estimates by geography:

e) LA - $800,000 would cost roughly $1,400 - $2,200 per year
f) SF/Bay Area- $800,000 would cost roughly $1,200 – 2,800 per year
g) The Desert/Coachella Valley - $2,400 - $3,500
h) San Diego - $500 - $1,000

**This is a very high loss assessment exposure for a larger than normal unit. Please note, 90-95% of common interest units have a loss assessment exposure of between $200,000 - $500,000. Pricing would be lowered than the given example in proportion to the actual exposure.

11) For Adams: Any legal issues if Association has master coverage and we want to not renew next year because of cost of the insurance?

A: In theory, no. However, if a board were to cancel earthquake insurance and the association then suffers serious damage from an earthquake, one or more owners would like sue the board. The Board should ultimately prevail in the action but would have to go through painful litigation and an uncertain outcome. As a result, I advise boards not to cancel insurance once it's in hand but, instead, to put the cancellation issue to a vote of the membership. It insulates the board.

12) How can you 'sell' EQ policy to the members? Our HOA tries every 3 to 4 years and has failed to even get people come to the meeting.

A: Motus could be a nice alternative for this association. This is why Motus was created. When the HOA is unable or not willing to purchase HOA (or master) earthquake coverage, unit owners must buy earthquake coverage or loss assessment coverage on their own. An HOA like this, could enroll in Motus and pay the enrollment fee. An enrollment fee that will not strain the budget like an HOA earthquake policy (often referred to as a master policy). Then the board or community manager simply need to email and mail all the unit owners that there is a custom-made earthquake policy available to each unit which is optional. Motus will handle all the ensuing unit owner questions through educational webinars or phone calls with interested unit owners. Word spreads pretty quickly through the community since earthquake insurance is such is such a sensitive topic for many members within each community.

13) If the homeowner walks away, the property will transfer to the bank and they will pay for the special assessments?

A: Adrian Adams: A bank is not liable for the debts of the prior owner. To avoid the problem, the assessment can be levied over time rather than in one lump sum. If not due up front but instead is levied monthly, a person (or bank) taking it in a foreclosure will be responsible for future monthly assessments but not ones already levied.

A: Cat Carmichael: Yes, if the mortgage holder bank takes over the property before the special assessment is voted upon, then it is responsible to pay the special assessment. However, banks are generally very slow about this and Association Boards have a difficult time locating the person within the bank who they should notify of the special assessment, keeping in mind that the mortgage holder usually uses outside servicers. Insurance protects the homeowners equity, credit rating, and lifestyle.

14) Should (can) associations create a catastrophic savings account funded through ongoing periodic member contributions?

    A: Adrian Adam: Yes, an account could be set up but the board would need to coordinate with their CPA to make sure there are no tax consequences carrying over funds from year to year.

    A: Cat Carmichael: Check with your attorney about this because it may be governing documents specific if your docs limit or specifically name the account an association can have. Most associations, though, can create special operating reserves for a purpose it deems association business and many communities have capital funds that are funded from real estate transfers for example. However, rather than stockpiling cash, the contributions could be used to purchase insurance so the open ended risk of earthquake loss is transferred to the carrier.

15) Do you think banks will change their interpretation of owner/tenant ratio to determine borrowing power, now that new law requires Associations to void renter-restrictions higher than 25%?

    A: Banks' lending policies are based on creditworthiness among all borrowers. Those associations whose owner/tenant ratios exceed bank's underwriting guidelines will have a very difficult time borrowing money from a private lender. They may have slightly better chances through the SBA.

16) Adrian - aren't all CD funds accessible, albeit with forfeiture of a few months interest?

    A: Yes, CDs can be accessed early with the payment of penalties. As a rule, CDs should be laddered so one always matures (becomes available) within a relatively short period of time.

17) Is money from FEMA borrowed? Must it be repaid?

    A: No. FEMA assistance does not have to be repaid and is not taxable income. It has no effect on Social Security, Medicaid or other safety net programs. But it is a limited resource, allocated by Congress after a natural disaster and the fund can run out of money. For more information, go to www.fema.gov. FEMA only offers money for health and safety though. The funds made available will not cover damages to your home.

18) Further explanation of the HO6-insurance is this only recommended for condos?

A: HO-6 policies are individual policies that unit owners can buy in common interest developments (like condos) that supplement their HOA's master fire or earthquake policy. Many unit owners chose not to purchase an HO-6 policy in California. Please see the attached document "CID owners are not eligible for earthquake insurance – Answer & Documentation" Single family homes would buy a different insurance product for fire or earthquake insurance.

19) Our legal counsel has said our documents do not require earthquake insurance. The board uses this as an answer for not insuring for earthquake. Can another legal counsel give another opinion, and give it to the board? Would the board be required to change its policy based on this additional opinion?

    A: Motus response: While the attorney gave a legal opinion that the board is not required to purchase earthquake insurance there could be CC&R / association documents ambiguity that also does not prevent the board from buying earthquake insurance. It sounds like it would be hard to force the board to buy a master earthquake policy however boards always need to be careful. They could be sued under the business judgment doctrine. This board would also want to be sure that their D&O policy includes coverage for "failure to maintain" insurance.
    We would urge this board to at least consider the new Motus "opt-in" master program if they do not change their mind on the traditional master earthquake insurance policy.

20) What are CEA's current assets?

    A: https://www.earthquakeauthority.com/About-CEA/Financials

21) Why are detached garages not covered by the HO 6 policies?

    A: See attached "Exclusions page for CEA or HO-6 policies". These are considered "commercial or HOA exposures" so they are excluded from HO-6 policies. The Motus program allows unit owners to detached garages and other important common area exposures.

22) Is a condo owner able to purchase earthquake insurance that protects against a large assessment even if the association does not have earthquake coverage?

    A: Currently, only the Motus Program can allow a unit owner to fully protect themselves against a large assessment after an earthquake when the association does not have a master earthquake insurance policy in place.

23) My special assessment coverage question....CEA is making me insure for $50000 but I need only $25000. Is coverage more flexible with Motus opt in coverage for unit owners.

    A: It sounds like your association does have a master or HOA earthquake coverage. This is a very small special assessment exposure, likely only needed to cover your share of the master policy deductible. CEA recently increased its special assessment minimum to $50,000. Yes, Motus can offer $25,000. However make sure your association does have a master earthquake policy. If there is no master policy, you would need more coverage.

24) Do insure against an assessment or other loss from the entire property, what are the options?

    A: Yes, both Motus and CEA can insure against an assessment. For Motus the assessment will coverage damages to common areas, residential structures, non-residential structures, all foundations, unit interior and common areas. CEA will offer loss assessment coverage for only residential structures and foundations under your building only. CEA loss assessment coverage is capped at $100,000 and a unit owner must have an HO-6 fire policy in force.

25) Please have CEA explain their surcharge clause

    A: See attached “CEA surcharge Provision” document from CEA’s policy

26) For Motus: What do you really mean by "walls in" coverage? Exactly what is covered?

    A: This means Motus’s insurance companies combined damages from common areas, residential structures with unit interior including unit interior improvements. Said another way, Motus’s loss assessment coverage includes unit interiors. This is particularly important since unit owners need flexibility. Each HOA will levy special assessments differently and many special assessments will cover damages to unit interiors. By offering “walls-in” coverage, or combined coverage with unit interiors, Motus guarantees that whatever a unit owner needs, they will get.

27) For anyone who may not be familiar, can you please define some terms: common interest developments (CIDs), assessments, special assessments, (HOA insurance) master policy HO-6 policy, loss assessment, mitigation, retrofit/ted?

    A: See attached document titled “Definitions: Key Terms”