DANA M. STEIN
Legislative District 11
Baltimore County

Vice Chair
Environment and Transportation
Committee

Subcommittees

Chair, Environment

Natural Resources,
Agriculture and Open Space

The Maryland House of Delegates
6 Bladen Street, Room 251
Annapolis, Maryland 21401
410-841-3527 · 301-858-3527
800-492-7122 *Ext.* 3527
Fax 410-841-3509 · 301-858-3509
Dana.Stein@house.state.md.us

The Maryland House of Delegates
ANNAPOLIS, MARYLAND 21401

Testimony of Delegate Dana Stein in Support of
HB 108 Condominiums - Responsibility for Property Insurance Deductible

This bill makes two changes with respect to condominium insurance. First, it increases the unit owner responsibility for the Master Policy's property damage deductible from $5,000 to $10,000 when a loss originates in the unit. Second, it clarifies that if an insurable event originates outside of the condominium units and common elements, the Master Policy deductible is a common expense.

I. Reasons for the increase shifting the unit owner responsibility for the Master Policy's property damage deductible from $5,000 to $10,000:

The legislature passed a law in 2009 making unit owners responsible for a condominium's Master Policy's property damage deductible, up to $5,000.

That means that *if a loss originates in the unit*, the first $5,000 of damage to a unit (outside of improvements and betterments), or to other units and common areas is the owner's responsibility.

An owner's deductible can be covered by the owner's HO-6/condominium unit owners' policy, subject that policy's deductible.

The problem is a fair number of condominium associations have Master Policies with a deductible higher than $5,000. In those cases, the association must absorb the expense for the balance of the higher deductible. Policies may have deductibles much higher than $5,000 because of troubled loss histories in part due to owner neglect, failure to maintain, and carelessness. It is not uncommon for condominium associations whose units have frequent and severe losses to have property damage deductibles of $10,000, $25,000, or even $50,000. Many of these losses originate within the units where owners have direct responsibility for their own components.

Associations with these higher deductibles are forced to spend down reserves and/or increase condominium fees, which can result in foregone maintenance.

By providing for an increased deductible responsibility for owners, this bill can help to alleviate some of the financial strain on condominium associations, can help re-focus reserves for better uses, can help reduce or stabilize condominium fees, and will help encourage owners to maintain their units. If owners know that the first $10,000 of a loss that originates from aging components within the unit will be their responsibility, perhaps they will proactively maintain, repair, and replace those components prior to failure.

II. Reasons to clarify insurable events that originate outside of the condominium units and common elements:

The intention of the 2009 law assigning deductible responsibility for events that originate from within the unit or from a component that services only that unit was to make owners responsible for occurrences within their control, either from their actions or their inaction. It was not the law's intention to require owners to pay a Master Policy's deductible for occurrences that originate outside of the unit (weather, vehicles that may hit a building, trees that may fall on a building, etc.).

Some attorneys are interpreting the absence of language defining the deductible for events that occur outside of the unit to mean that owners have deductible responsibility for those events if they have unit component maintenance responsibility. House Bill 108 will close the gap making clear that associations will bear as a common, shared expense the deductible for losses that originate outside the unit.

This will re-clarify that an owner will only be responsible for losses that originate within their units or from a component that services only that unit.