

HOUSE BILL 1496

N1

8lr2227

By: **Delegate Bohanan**

Introduced and read first time: February 19, 2008

Assigned to: Rules and Executive Nominations

A BILL ENTITLED

1 AN ACT concerning

2 **Condominiums – Property Insurance Coverage and Repair of Units**

3 FOR the purpose of authorizing the council of unit owners of a condominium with less
4 than a certain number of units to choose not to maintain property insurance on
5 the units of the condominium under certain circumstances; providing that
6 certain provisions regarding the repair or replacement of damaged
7 condominium property do not apply to the repair or replacement of a unit in a
8 condominium with less than a certain number of units under certain
9 circumstances; and generally relating to property insurance coverage and repair
10 of units in a condominium.

11 BY repealing and reenacting, with amendments,
12 Article – Real Property
13 Section 11–114
14 Annotated Code of Maryland
15 (2003 Replacement Volume and 2007 Supplement)

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
17 MARYLAND, That the Laws of Maryland read as follows:

18 **Article – Real Property**

19 11–114.

20 (a) **(1)** Commencing not later than the time of the first conveyance of a
21 unit to a person other than the developer, the council of unit owners shall maintain, to
22 the extent reasonably available:

23 **[(1)] (I) [Property] EXCEPT AS PROVIDED IN PARAGRAPH (2) OF**
24 **THIS SUBSECTION, PROPERTY** insurance on the common elements and units,
25 exclusive of improvements and betterments installed in units by unit owners, insuring

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 against those risks of direct physical loss commonly insured against, in amounts
2 determined by the council of unit owners but not less than any amounts specified in
3 the declaration or bylaws; and

4 [(2)] (II) Comprehensive general liability insurance, including
5 medical payments insurance, in an amount determined by the council of unit owners,
6 but not less than any amount specified in the declaration or bylaws, covering
7 occurrences commonly insured against for death, bodily injury, and property damage
8 arising out of or in connection with the use, ownership, or maintenance of the common
9 elements.

10 (2) IN ACCORDANCE WITH THE DECLARATIONS AND BYLAWS OF A
11 CONDOMINIUM, THE COUNCIL OF UNIT OWNERS OF A CONDOMINIUM WITH LESS
12 THAN 100 UNITS MAY CHOOSE NOT TO MAINTAIN PROPERTY INSURANCE ON THE
13 UNITS IN THE CONDOMINIUM.

14 (b) The council of unit owners shall give notice to all unit owners of the
15 termination of any insurance policy within 10 days of termination. The declaration or
16 bylaws may require the council of unit owners to carry any other insurance, and the
17 council of unit owners in any event may carry any other insurance it deems
18 appropriate to protect the council of unit owners or the unit owners.

19 (c) Insurance policies carried pursuant to subsection (a) of this section shall
20 provide that:

21 (1) Each unit owner is an insured person under the policy with respect
22 to liability arising out of his ownership of an undivided interest in the common
23 elements or membership in the council of unit owners;

24 (2) The insurer waives its right to subrogation under the policy
25 against any unit owner of the condominium or members of his household;

26 (3) An act or omission by any unit owner, unless acting within the
27 scope of his authority on behalf of the council of unit owners, does not void the policy
28 and is not a condition to recovery under the policy; and

29 (4) If, at the time of a loss under the policy, there is other insurance in
30 the name of a unit owner covering the same property covered by the policy, the policy
31 is primary insurance not contributing with the other insurance.

32 (d) Any loss covered by the property policy under subsection (a)(1) of this
33 section shall be adjusted with the council of unit owners, but the insurance proceeds
34 for that loss shall be payable to any insurance trustee designated for that purpose, or
35 otherwise to the council of unit owners, and not to any mortgagee. The insurance
36 trustee or the council of unit owners shall hold any insurance proceeds in trust for unit
37 owners and lien holders as their interests may appear. Subject to the provisions of
38 subsection (g) of this section, the proceeds shall be disbursed first for the repair or

1 restoration of the damaged common elements and units, and unit owners and lien
2 holders are not entitled to receive payment of any portion of the proceeds unless there
3 is a surplus of proceeds after the common elements and units have been completely
4 repaired or restored, or the condominium is terminated.

5 (e) An insurance policy issued to the council of unit owners does not prevent
6 a unit owner from obtaining insurance for his own benefit.

7 (f) An insurer that has issued an insurance policy under this section shall
8 issue certificates or memoranda of insurance to the council of unit owners and, upon
9 request, to any unit owner, mortgagee, or beneficiary under a deed of trust. The
10 insurance may not be canceled until 30 days after the notice of the proposed
11 cancellation has been mailed to the council of unit owners, each unit owner and each
12 mortgagee to whom certificates of insurance have been issued.

13 (g) (1) Any portion of the condominium damaged or destroyed shall be
14 repaired or replaced promptly by the council of unit owners unless:

15 (i) The condominium is terminated;

16 (ii) Repair or replacement would be illegal under any State or
17 local health or safety statute or ordinance; or

18 (iii) 80 percent of the unit owners, including every owner of a
19 unit or assigned limited common element which will not be rebuilt, vote not to rebuild.

20 (2) (i) 1. The cost of repair or replacement in excess of
21 insurance proceeds and reserves is a common expense.

22 2. A property insurance deductible is not a cost of repair
23 or replacement in excess of insurance proceeds.

24 (ii) If the cause of any damage to or destruction of any portion of
25 the condominium originates from the common elements, the council of unit owners'
26 property insurance deductible is a common expense.

27 (iii) 1. Except as otherwise provided in the council of unit
28 owners' bylaws, if the cause of any damage to or destruction of any portion of the
29 condominium originates from a unit, the council of unit owners' property insurance
30 deductible is a common expense.

31 2. If the council of unit owners' bylaws provides that the
32 owner of the unit where the cause of the damage or destruction originated is
33 responsible for the council of unit owners' property insurance deductible, the unit
34 owner's responsibility may not exceed \$1,000.

1 3. The council of unit owners' property insurance
2 deductible amount exceeding the \$1,000 responsibility of the unit owner is a common
3 expense.

4 (iv) In the same manner as provided under § 11-110 of this
5 subtitle, the council of unit owners may make an annual assessment against the unit
6 owner responsible under subparagraph (iii) of this paragraph.

7 (3) If the damaged or destroyed portion of the condominium is not
8 repaired or replaced:

9 (i) The insurance proceeds attributable to the damaged
10 common elements shall be used to restore the damaged area to a condition compatible
11 with the remainder of the condominium;

12 (ii) The insurance proceeds attributable to units and limited
13 common elements which are not rebuilt shall be distributed to the owners of those
14 units and the owners of the units to which those limited common elements were
15 assigned; and

16 (iii) The remainder of the proceeds shall be distributed to all the
17 unit owners in proportion to their percentage interest in the common elements.

18 (4) If the unit owners vote not to rebuild any unit, that unit's entire
19 common element interest, votes in the council of unit owners, and common expense
20 liability are automatically reallocated upon the vote as if the unit had been condemned
21 under § 11-112 of this title, and the council of unit owners promptly shall prepare,
22 execute, and record an amendment to the declaration reflecting the reallocations.
23 Notwithstanding the provisions of this subsection, § 11-123 of this title governs the
24 distribution of insurance proceeds if the condominium is terminated.

25 **(5) THE PROVISIONS OF THIS SUBSECTION DO NOT APPLY TO THE**
26 **REPAIR OR REPLACEMENT OF A UNIT IN A CONDOMINIUM WITH LESS THAN 100**
27 **UNITS FOR WHICH THE COUNCIL OF UNIT OWNERS CHOOSES NOT TO MAINTAIN**
28 **PROPERTY INSURANCE ON THE UNITS IN ACCORDANCE WITH THE**
29 **DECLARATIONS AND BYLAWS OF THE CONDOMINIUM.**

30 (h) The council of unit owners shall maintain and make available for
31 inspection a copy of all insurance policies maintained by the council of unit owners.

32 (i) The provisions of this section do not apply to a condominium all of whose
33 units are intended for nonresidential use.

34 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
35 October 1, 2008.