

# HOUSE BILL 1227

N1, C4

(4lr2869)

## ENROLLED BILL

— *Environment and Transportation/Judicial Proceedings* —

Introduced by **Delegates Holmes and Arentz**

Read and Examined by Proofreaders:

\_\_\_\_\_  
Proofreader.

\_\_\_\_\_  
Proofreader.

Sealed with the Great Seal and presented to the Governor, for his approval this

\_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_ o'clock, \_\_\_\_\_ M.

\_\_\_\_\_  
Speaker.

### CHAPTER \_\_\_\_\_

1 AN ACT concerning

#### 2 **Condominiums – Mandatory Insurance Coverage – Detached Units**

3 FOR the purpose of altering the types of elements and units for which a council of unit  
4 owners is required to maintain certain property insurance; requiring the council of  
5 unit owners to notify owners of detached units within a condominium of certain  
6 property insurance coverage obligations; limiting instances when an owner of a  
7 detached unit within a condominium is required to carry homeowners insurance on  
8 the entirety of the unit; authorizing a council of unit owners to carry homeowners  
9 insurance on the entirety of all units located within a certain condominium; and  
10 generally relating to mandatory insurance coverage for condominiums.

11 BY repealing and reenacting, with amendments,

12 Article – Real Property

13 Section 11–114

14 Annotated Code of Maryland

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#### EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.

*Italics* indicate opposite chamber/conference committee amendments.



(2023 Replacement Volume)

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

**Article – Real Property**

11–114.

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

(1) Property insurance against risks of direct physical loss commonly insured against in amounts determined by the council of unit owners, but not less than any amounts specified in the declaration or bylaws:

(i) For attached [or] UNITS, multifamily dwelling units, OR DETACHED UNITS LOCATED WITHIN A CONDOMINIUM NOT COMPOSED ENTIRELY OF SIMILAR DETACHED UNITS, on the common elements and units, exclusive of improvements and betterments installed in units by unit owners other than the developer; and

(ii) For detached units LOCATED WITHIN A CONDOMINIUM COMPOSED ENTIRELY OF SIMILAR DETACHED UNITS, on the common elements; and

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

(b) **(1) (I)** The council of unit owners shall give notice to all unit owners of the termination of any insurance policy within 10 days of termination.

**(II)** The declaration or bylaws may require the council of unit owners to carry any other insurance, and the council of unit owners in any event may carry any other insurance it deems appropriate to protect the council of unit owners or the unit owners.

**(2) (I) THE COUNCIL OF UNIT OWNERS SHALL GIVE AN ANNUAL NOTICE, IN WRITING, OF ANY OBLIGATION OF AN OWNER OF A RESIDENTIAL, DETACHED UNIT TO OBTAIN PROPERTY INSURANCE COVERAGE ON THE UNIT.**

1                                    **(II) IF THERE IS A CHANGE IN ANY OBLIGATION UNDER**  
2 **SUBPARAGRAPH (I) OF THIS PARAGRAPH, THE COUNCIL OF UNIT OWNERS SHALL**  
3 **PROMPTLY PROVIDE THE UNIT OWNER WITH AN UPDATED NOTICE.**

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

6                    (1) Subject to the applicable coverage specified under subsection (a)(1) of  
7 this section, each unit owner is an insured person under the policy with respect to liability  
8 arising out of the unit owner's ownership of an undivided interest in the common elements  
9 or membership in the council of unit owners for property and casualty losses to the common  
10 elements and the units, exclusive of improvements and betterments installed in the units  
11 by unit owners other than the developer;

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

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

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

20            (d) (1) Subject to the applicable coverage specified under subsection (a)(1) of  
21 this section, any loss covered by the property policy shall be adjusted with the council of  
22 unit owners, but the insurance proceeds for that loss shall be payable to any insurance  
23 trustee designated for that purpose, or otherwise to the council of unit owners, and not to  
24 any mortgagee.

25                    (2) The insurance trustee or the council of unit owners shall hold any  
26 insurance proceeds in trust for unit owners and lien holders as their interests may appear.

27                    (3) (i) Subject to the provisions of subsection (g) of this section, the  
28 proceeds shall be disbursed first for the repair or restoration of the damaged common  
29 elements and, for condominiums with attached [or] UNITS, multifamily units, OR  
30 **DETACHED UNITS LOCATED WITHIN A CONDOMINIUM NOT COMPOSED ENTIRELY OF**  
31 **SIMILAR DETACHED UNITS** that must maintain a property insurance policy on the units,  
32 the damaged units.

33                    (ii) Unit owners and lien holders are not entitled to receive payment  
34 of any portion of the proceeds unless:

35                                    1. There is a surplus of proceeds after the common elements  
36 and, for condominiums with attached [or] UNITS, multifamily units, **OR DETACHED UNITS**

1 LOCATED WITHIN A CONDOMINIUM NOT COMPOSED ENTIRELY OF SIMILAR  
 2 DETACHED UNITS that must maintain a property insurance policy on the units, the units  
 3 have been completely repaired or restored; or

4 2. The condominium is terminated.

5 (e) (1) An insurance policy issued to the council of unit owners does not  
 6 prevent a unit owner from obtaining insurance for his own benefit.

7 (2) ~~AN~~ UNLESS A COUNCIL OF UNIT OWNERS EXERCISES THE  
 8 AUTHORITY UNDER PARAGRAPH (3) OF THIS SUBSECTION, AN owner of a residential,  
 9 detached ~~unit,~~ unit LOCATED WITHIN A CONDOMINIUM COMPOSED ENTIRELY OF  
 10 SIMILAR DETACHED UNITS, shall carry homeowners insurance coverage on the entirety  
 11 of the unit.

12 (3) A COUNCIL OF UNIT OWNERS MAY CARRY HOMEOWNERS  
 13 INSURANCE ON THE ENTIRETY OF ALL DETACHED UNITS LOCATED WITHIN A  
 14 CONDOMINIUM COMPOSED ENTIRELY OF SIMILAR DETACHED UNITS.

15 (f) (1) An insurer that has issued an insurance policy under this section shall  
 16 issue certificates or memoranda of insurance to the council of unit owners and, upon  
 17 request, to any unit owner, mortgagee, or beneficiary under a deed of trust.

18 (2) An insurer may cancel an insurance policy issued under this section in  
 19 accordance with § 27-603 of the Insurance Article.

20 (g) (1) Subject to the applicable coverage specified under subsection (a)(1) of  
 21 this section, any portion of the common elements and the units, exclusive of improvements  
 22 and betterments installed in the units by unit owners other than the developer, damaged  
 23 or destroyed shall be repaired or replaced promptly by the council of unit owners unless:

24 (i) The condominium is terminated;

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

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

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

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

1 (ii) If the cause of any damage to or destruction of any portion of the  
2 condominium originates from the common elements or an event outside of the condominium  
3 units and common elements, the council of unit owners' property insurance deductible is a  
4 common expense.

5 (iii) 1. If the cause of any damage to or destruction of any portion  
6 of the condominium originates from a unit, the owner of the unit where the cause of the  
7 damage or destruction originated is responsible for the council of unit owners' property  
8 insurance deductible not to exceed \$10,000.

9 2. The council of unit owners shall inform each unit owner  
10 annually in writing of:

11 A. The unit owner's responsibility for the council of unit  
12 owners' property insurance deductible; and

13 B. The amount of the deductible.

14 3. The council of unit owners' property insurance deductible  
15 amount exceeding the \$10,000 responsibility of the unit owner is a common expense.

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

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

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

24 (ii) The insurance proceeds attributable to units and limited  
25 common elements which are not rebuilt shall be distributed to the owners of those units  
26 and the owners of the units to which those limited common elements were assigned; and

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

29 (4) (i) If the unit owners vote not to rebuild any unit, that unit's entire  
30 common element interest, votes in the council of unit owners, and common expense liability  
31 are automatically reallocated upon the vote as if the unit had been condemned under §  
32 11-112 of this title, and the council of unit owners promptly shall prepare, execute, and  
33 record an amendment to the declaration reflecting the reallocations.

34 (ii) Notwithstanding the provisions of this subsection, § 11-123 of  
35 this title governs the distribution of insurance proceeds if the condominium is terminated.

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

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

5 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
6 October 1, 2024.

Approved:

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Governor.

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Speaker of the House of Delegates.

\_\_\_\_\_  
President of the Senate.