



Ohio Department of Natural Resources  
**Division of Soil & Water Resources**  
Fact Sheet

## Federal Flood Insurance Pitfalls for Condo Owners

**A**fter incurring flood damages, a condo owner was informed the claim on her federal flood insurance individual Dwelling Policy would not be honored because her Condo Board had purchased a lesser policy intended to cover common areas. In responding to her request for help, we found the following critical information of which every condo owner and Board member should be aware.

To date, if a Condominium Association purchases a Residential Condominium Building Association Policy (RCBAP) issued under the rules of the National Flood Insurance Program, certain limitations may likely disable Dwelling Policy claims.

An RCBAP provides specified coverage for all units, their improvements, and all common elements in the association building;

### III. PROPERTY COVERED

#### A. COVERAGE A - BUILDING PROPERTY

We insure against direct physical loss by or from flood to:

1. The residential condominium building described on the Declarations Page at the described location, including all units within the building and the improvements within the units

A unit-owner Dwelling Form Policy is used for a single family dwelling unit in a condominium building and the unit-owner coverage is considered as excess over the RCBAP policy. The Dwelling policy states:

### VII. GENERAL CONDITIONS . . .

C. *Other Insurance . . .*

2. *If there is other insurance in the name of your condominium association covering the same property*

covered by this policy, then this policy will be in excess over the other insurance. . . .

If after the Association files a claim for flood damage under their RCBAP, the RCBAP still has coverage remaining, any unit-owner Dwelling policy claim will not be honored, because the RCBAP has not been exhausted. Compounding the problem, if the condominium building is not insured-to-value at the time of the loss, under the requirements of the RCBAP a co-insurance penalty is assessed. The policy describes the calculation below:

### VII. COINSURANCE

**B.** *We will impose a penalty on loss payment unless the amount of insurance applicable to the damaged **building** is:*

1. *At least 80 percent of its replacement cost; or*
2. *The maximum amount of insurance available for that **building** under the **NFIP**, whichever is less.*

**C.** *If the actual amount of insurance on the **building** is less than the required amount in accordance with the terms of **VII.B.** above, then loss payment is determined as follows (subject to all other relevant conditions in this **policy**, including those pertaining to valuation, adjustment, settlement, and payment of loss):*

1. *Divide the actual amount of insurance carried on the **building** by the required amount of insurance.*
2. *Multiply the amount of loss, before application of the deductible, by the figure determined in **C.1.** above.*
3. *Subtract the deductible from the figure determined in **C.2.** above.*

### An example of a loss calculation

Replacement cost of building - \$1,110,550.02  
Required coverage  
 $\$1,110,550.02 \times 80\% = \$888,440.00$   
Actual Coverage \$135,300.00 /  
Needed Coverage  $\$888,400.00 = .1522894$   
RCV Loss  $\$516,191.14 \times .1522894 = \$78,610.43$   
Less Deductible \$1,000.00  
Net Claim \$77,610.43

Also, the NFIP Dwelling policy does not allow payment of an association assessment that is the result of a coinsurance penalty applied to a covered flood loss under a RCBAP. Please refer to the Dwelling policy where it states:

### III. PROPERTY COVERED . . .

#### C. COVERAGE C - OTHER COVERAGES . . .

##### 3. Condominium Loss Assessments . . .

b. We will not pay any loss assessment charged against you: . . .

(4) That results from a loss sustained by the condominium association that was not reimbursed under a flood insurance policy written in the name of the association under the Act because the building was not, at the time of loss, insured for an amount equal to the lesser of:

(a) 80 percent or more of its full replacement cost;

(b) The maximum amount of insurance available for that building under the NFIP.

Questions can be directed to Hal Peterson General Adjuster NFIP Direct Servicing Agent **(800) 767-4341**.

### Comment

Coinsurance appears to be the crux of the problem. When both types of policies are present, to have a claim honored under a unit-owner Dwelling Form Policy for a single family dwelling unit in a condo building (for buildings whose replacement values do not exceed the coverage limits) the claim would have to exceed 80% of the replacement cost of the building. If coverage was 80% and loss was 75% there would still be coverage remaining, and RCBAP would not be exhausted. If coverage was less than 80%, it would take an 80% or greater loss to overcome the coinsurance penalty before RCBAP would be exhausted. Apparently, unless the condos sustain damage exceeding 80% of the replacement cost, the unit-owner Dwelling Form Policy for a single family dwelling unit is not accessible.

This could penalize the individual unit owners who, in good faith, seek to insure their condo residence against flood risk, since the individual unit owner

has no direct say in how much coverage the Board of the condo association purchases.

Individuals are usually notified by their lender of a requirement to obtain flood insurance to secure a mortgage, line of credit, etc. However, since lenders often are not involved when Condo Boards purchase flood insurance, critical information may not be shared about the effects of coinsurance.

One response is to actively avoid the coinsurance scenario, either by having the Condo Board purchase a single, consoli-dated policy for all owners or by having only the individual property owners purchase their own Dwelling Policy. Regardless of which option is agreed upon, it is critical to keep everyone well informed of their options to better avoid the pitfalls.



Other materials, may be obtained at:  
The Ohio Department of Natural Resources  
Division of Soil & Water Resources  
Floodplain Management Program  
2045 Morse Road, B-2  
Columbus, Ohio 43229-6693  
(614) 265-6750  
E-mail: [water@dnr.state.oh.us](mailto:water@dnr.state.oh.us)  
Website: [ohiodnr.gov](http://ohiodnr.gov)

John Kasich, *Governor* James Zehringer, *Director* Theodore Lozier, *Chief*