

**INDIGO VILLAGE TOWNHOMES ASSOCIATION
SOUTHPORT, NC**

INDIGO VILLAGE FLOOD INSURANCE PROGRAM

October 13, 2010

Dear Indigo Village Unit Owner:

In 2008 the Board of Directors of the Indigo Village Townhomes Association established a flood insurance coverage program to address an increasingly important issue of how to meet lender requirements for acceptable FEMA Flood Damage Insurance on Indigo Village homes. As a result of extensive analysis and research conducted by the Board and our flood insurance agency, American Harbor Insurance, the Board made arrangements for Unit Owners to obtain both dwelling and personal property flood coverage at the lowest possible rates.

WHAT UNITS NEED FLOOD INSURANCE?

We have confirmed that 10 of the 14 Village Buildings, comprising 20 of 32 Units, are in an X-500 Flood Risk Zone that should not trigger proof of insurance notices from mortgage lenders, but are still at risk of some flooding in a major storm event. The remaining 4 buildings/12 Units have been determined to be in an AE Flood Risk Zone, which will trigger notices from mortgage lenders requiring proof of flood insurance or, in the event evidence is not submitted, force placing insurance at the highest possible premium rates.

While Units in the X-500 Zone have a statistically lower risk of being damaged in a flood event the Board, after extensive deliberation and discussions with outside advisors, experts, etc., established a requirement that all residences in the Village be protected from flood damage, just as it requires property damage insurance coverage for other risks, including wind and hail.

Unfortunately, the Master Policy approach to obtaining Group flood insurance coverage was only possible for the Units in the AE Zone. The Board authorized American Harbor Insurance to obtain a Master Flood Policy for those 12 Units which was effective beginning March, 2008. This policy covers damage to the Dwelling up to a maximum limit of \$250,000 per Unit. The Master Flood Policy form does not, however, provide any protection for damage to Personal Property. It will be necessary for Unit Owners under the Master Policy to arrange for personal property damage coverage separately, should they want to (owners of Units that are rented out or vacant and unfurnished may have no need for personal property coverage).

For Units in the X-500 Zone, the Board also established arrangements through American Harbor Insurance, to obtain individual flood insurance policies for \$250,000 in Dwelling coverage, to be issued directly to Unit Owners who don't already have their own policies, at the lowest available "Preferred Risk" rates, which may include personal property coverage or not, at the Unit Owner's option.

WHAT ARE THE PREMIUMS & HOW ARE THEY PAID?

For the Master Policy covered Units, the current annual premium will be either \$ or \$ depending on whether the Unit is in a quadplex or duplex building. This premium is for \$250,000 in dwelling coverage, with no personal property coverage. It is billed to and paid by the Association at each annual renewal date and then passed on to Unit Owners in the form of a special assessment billing from our accountants, Berry, Padgett & Chandler, which may be paid to them within 30 days from the billing date.

For the X-500 Flood Risk Zone Individual Policy covered Units, the annual Preferred Risk premium for 2010-2011 is \$.00 for \$250,000 in dwelling coverage including \$100,000 in personal property coverage. This premium rate should be same for Preferred risk policies whether issued through American Harbor or other agencies, as the national flood insurance program is administered and controlled by FEMA.

WHY IS THE DWELLING INSURANCE LIMIT REQUIREMENT SO HIGH?

Like regular homeowner's casualty insurance, the insurers on flood policies consider the amount of coverage taken out by the insured party, as a percentage of the replacement cost of the dwelling, to be an important indicator of homeowner involvement in the protection of the property. If the ratio of insurance to replacement cost is less than 80%, the insurer will reduce the amount it pays out on any claim to that percentage. Accordingly, should an insured party have a \$10,000 claim under his flood policy, which was issued for \$50,000 on a \$250,000 replacement cost residence, the insurance company will pay out a maximum of \$1,000 after applying the \$1,000 deductible. Not a good idea from either the homeowner's point of view or the Association's since a large underinsured damage claim could result in the owner walking away from his mortgage and leaving the Association to rebuild the Unit to keep the Village's appearance and value from declining. A single homeowner's failure to adequately insure his residence could result in all members of the Association receiving big special assessments to pay for the resulting repairs/rebuilding.

Accordingly, your Board has determined that every Unit should be insured for the maximum amount of dwelling coverage that is provided for under the FEMA program, to

protect against the co-insurance risk. As \$250,000 is the most coverage that can be obtained under the FEMA program, the flood insurers may not apply a co-insurance provision to any accepted claims, regardless of whether the coverage ratio is less than 80% or not. It will pay 100% of any approved claims, less only the \$1,000 deductible. For information purposes only, the next lower coverage limit is \$150,000, on which the 80% coverage ratio test would be applied.

WHEN DOES FLOOD COVERAGE BECOME EFFECTIVE?

New flood policies or renewals of lapsed flood policies, do not become effective until a 30 day waiting period has passed. On-time renewals of existing Individual Flood Policies continue coverage without any lapse. The Association's Master Flood Policy is automatically renewed every February.

Copies of all new and renewal flood policies need to be submitted to the Association so that we may track their eventual renewal and/or replacement. For policies arranged through American Harbor Insurance, the agent will provide evidence of coverage to the Association.

WHAT IF A UNIT OWNER DOES NOTHING OR DOES NOT RENEW?

There is no opt-out option. If a new X-500 Zone Unit Owner does not supply acceptable evidence of dwelling flood coverage in the amount of \$250,000 within 60 days from their Unit purchase closing date, the Board may arrange for an individual dwelling policy covering the Unit Owner's and the Association's interest and bill the Owner for the premium cost as a Special Assessment, with repayment due in a maximum of three monthly installments. Failure to pay any of the installments will be treated in the same manner as delinquent maintenance fee payments and will be subject to fines after it reaches a 30 day past due level.

Similarly, if any billings from the Association for Master or Individual Policy premiums or other costs associated with the flood insurance program remain unpaid for more than 30 days past their scheduled payment date, fines will be imposed at the same level as those for delinquent maintenance fees.

If an X-500 Unit Owner fails to renew an existing flood insurance policy within 30 days of its expiry date, the Board may also arrange for coverage covering the Unit Owner's and the Association's interest, add the associated premium cost to the Unit Owner's Account and levy such additional fines and/or late payment penalty fees as may be applicable.

Your Board believes that its Flood Insurance Policy Program produces tangible benefits to all Members of the Association while further protecting Members from unforeseen events that could create great financial damage to the Association and to each Member. If you have any questions, comments, etc., please do not hesitate to contact either Frank Lai, Treasurer or Ed Jaeckel, General Business Manager.

Susan W. Taylor, President
Indigo Village Townhomes Association