

# What You Need to Know Re FLOOD INSURANCE at the ILIKAI

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(Reviewed for technical accuracy by the Ilikai's insurance agent)

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**Background:** In the fall of 2008, there was considerable controversy and debate regarding flood insurance for the Ilikai. (Why there were these “controversy” and debate is another story).

The fundamental question boils down to whether the Ilikai should be classified as a “residential property” or “commercial property,” for the considerations related to complying with FEMA and FDIC flood insurance guidelines. This is because banks require residential condominiums to carry more flood coverage than commercial condominiums, as per the lending guidelines by FEMA. If 75% or more of the total square footage is “residential,” then the building falls into the “residential property” category. The implication of that is that owners with mortgages may be required by their lenders to purchase supplemental flood insurance (depending on their loan balance). However, if more than 25% of the total square footage is “commercial,” then the building falls into the “commercial property” category. The implication of that is that owners with mortgages CANNOT be required by their lenders to purchase supplemental flood insurance.

**IMPORTANT UPDATE: It has been independently confirmed that the Ilikai falls into the “commercial property” category:**

At the 11/03/08 BOD meeting, our current insurance agent Sue Savio of Insurance Associates, Inc., reported that they had commissioned the architectural engineering firm of Allana Buick & Bers, Inc. (ABB) to independently evaluate the ratio of commercial and residential space at the Ilikai complex. According to the findings in the ABB report [[CLICK HERE FOR THE REPORT](#)], the total building square footage is 1,271,625 SF, of which 883,040 SF is residential. This calculates to 69.44% residential, i.e., below the 75% “residential property” threshold as per FEMA guidelines. Therefore, this report confirmed that the Ilikai indeed falls into the “commercial property” classification, for the purposes of complying with FEMA and FDIC flood insurance guidelines.

**What does it mean in practical terms? – The financial implications are big:**

If the Ilikai happened to fall into the “residential property” category – LUCKILY, WE ARE NOT IN THAT CATEGORY, - then those owners with mortgages exceeding ~\$64K would be required by their lenders to purchase supplemental flood insurance for the difference between the outstanding loan balance and ~\$64K (note: flood insurance is pricey and pretty much a waste of money over and above the already notably sizeable flood insurance procured by the AOAO). Alternatively, the Board was considering having the AOAO procure extra flood insurance, for as much as \$200K a year. The rationale for that would have been that this would be a considerably lower amount than the combined total of the supplemental flood insurances purchased by the owners with mortgages. However, it was confirmed that we indeed fall into the “commercial property” category. Therefore, owners with mortgages CANNOT be required by their lenders to purchase any supplemental flood insurance.

**So, to sum it up:**

**What does it mean for the homeowners with mortgages?** – It means that they CANNOT be required by their lenders to purchase any additional flood insurance over and above the insurance procured by the AOAO. **Click here for the documentation that you should print and provide to your lender** **Important:** Any owners who have been forced in the past six years or recently by their lenders to purchase supplemental flood insurance need this documentation to convince their lenders to waive individual flood insurance requirements which correspond to any loans they may have on their units. They can also use this information to request **refunds** – up to six years – from their mortgage companies or from insurance agents which had sold them individual flood insurance policies. To do so, they need to print and supply the above pdf document to their lenders. Please contact Sue Savio of Insurance Associates, Inc., if any questions how to proceed. **Note:** the “refunds” topic applies only to those owners who, in the past, had indeed purchased supplemental flood insurance. However, the homeowner writing this and many other homeowners we have spoken to have **never** been required by their lenders to buy any extra flood insurance, because their banks viewed the Ilikai as a “commercial property” all along.

**What does it mean for the Association?** – That means the AOAO provides ample insurance for our Ilikai. It also means that the AOAO does not need to even contemplate any more to procure any extra flood insurance to help accommodate owners with mortgages.

**What does it mean for the homeowners without mortgages?** – The homeowners without mortgages are not particularly affected by this. However, if it turned out that the Ilikai falls into the “residential property” category and if the AOAO then subsequently decided to procure that extra flood insurance (for as much as \$200K a year extra, as they have been contemplating), then this would have been a major added expenditure for the Association and a waste of our monies.

**CONTACT INFORMATION:**

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For more information re Ilikai insurance, please contact Sue Savio of Insurance Associates, Inc. at [sue@ia-hawaii.com](mailto:sue@ia-hawaii.com)