

ASSOCIATION OF UNIT OWNERS OF ALLURE WAIKIKI

January 31, 2012

Re: New Requirement for Each Owner to Obtain Insurance for His/Her Unit

Dear Unit Owners,

The condominium law allows the board, with the approval of the majority of the association members, to require every owner to obtain his (or her) own insurance policy -- often known as an "HO-6" policy (but owners should check with their own insurance agents). Recently, more than a majority of the association members gave their written consent in favor of having every owner obtain his own insurance. This letter is to inform you that the board has now decided to implement that decision. Therefore, **not later than February 29, 2012**, every owner will be **required** to have his/her own insurance policy. The minimum coverages the board will require are:

\$20,000.00 Personal Property
\$10,000.00 dwelling
\$300,000.00 liability and
\$5,000 loss assessment

(Dwelling coverage should include all improvements to the unit at today's replacement cost. Loss assessment coverage should include the amount of the association's deductible, which is currently \$5,000.00.)

Note that owners can receive many benefits from having their own insurance policies:

- The association's policy only pays to restore individual units to their as-built condition, i.e., with carpet, appliances, cabinets, etc., comparable in quality to those found in the unit when it was first sold. Upgrades to a unit, such as better quality flooring, cabinets, or wall-coverings may **not** be covered by the association's policy but should be covered under an owner's policy.
- The association's policy will **not** pay for damage to an owner's personal property -- e.g., the clothing and furniture of occupants of a unit. By obtaining their own insurance policies, owners can usually obtain coverage for those items.
- An owner's insurance policy may cover the owner for liability claims that will **not** be covered by the association's policy -- for example, if someone slips and falls within the owner's unit that will not be covered by the association's policy. (In addition, an owner's claims against a neighbor for damage caused by the neighbor may be covered under the neighbor's liability policy.)
- Owner policies may also cover the cost of finding alternative accommodations if the owner's unit is damaged by fire or otherwise made uninhabitable.
- The association's policy deductible is currently \$5,000.00 and the unit in which a claim originates will be responsible for this deductible if the claim is

submitted to the master policy. A unit owner can make up the difference of the deductible by filing a claim under loss assessment coverage of the owner's policy for the damage. This would be subject to the owner's own policy deductible.

Check with your own insurance agent on coverage issues. In addition, owners who rent their units should: (i) check with their insurance agents to ensure they obtain comparable coverage under a landlord's policy and (ii) encourage their tenants to obtain a renter's policy.

Since the cost of an owner's policy is usually only \$200 - \$300 a year -- sometimes less -- every owner receives significant benefits from obtaining his (or her) own insurance. Therefore, the board hopes that every owner will recognize those benefits and comply with the decision of the board (and the association members) that every owner should obtain insurance.

If an owner fails to purchase that insurance, the law gives the board the authority to purchase the insurance for the owner and bill the owner for the cost of the insurance. The board has decided, however, to operate on the "honor" system. In other words, the board will not check to determine whether every owner has purchased his own insurance. Instead, the board will assume that every owner will comply with the decision of the owners and the board on that issue. If, however, you fail to obtain your own insurance, neither the association nor the board will be liable for your failure to comply with the decision of the board and the association members. The law specifically states that neither the association nor the board shall be "*liable to any person ... with regard to the failure of a unit owner to purchase insurance....*"

The board may decide to purchase insurance for you if you fail to purchase your own insurance, and if the board decides to take that drastic step, you will be notified in writing. In addition, if you fail to purchase insurance or allow your insurance to lapse, the board's policy will be:

An owner will be barred from making a claim against: (i) the association, (ii) any other association member, or (iii) any resident of the project, for damages the owner may suffer if the owner has failed to purchase his/her own insurance but the claim would have been covered under a standard HO-6 policy or its equivalent.

Again, the board hopes that every owner will comply with the law and the decision of the owners to require owners to purchase their own insurance. Otherwise, owners who fail to purchase their own insurance will be subject to the policies stated in the preceding paragraphs.

Please contact the managing agent or Marc Udoff at (808) 593-6819 if you have any questions on this issue.

THE BOARD OF DIRECTORS OF
ASSOCIATION OF UNIT OWNERS
OF ALLURE WAIKIKI

**RESOLUTION OF THE ASSOCIATION OF UNIT OWNERS OF ALLURE WAIKIKI
AUTHORIZING THE BOARD TO REQUIRE MEMBERS OF THE ASSOCIATION TO
PURCHASE THEIR OWN INSURANCE**

WHEREAS, the ASSOCIATION OF UNIT OWNERS OF ALLURE WAIKIKI (“Association”) was established pursuant to Chapter 514B, Hawai‘i Revised Statutes, by Declaration of Condominium Property Regime of Allure Waikiki dated April 25, 2007 (the “Declaration”) recorded in the Bureau of Conveyances of the State of Hawai‘i as Document No. 2007-074084, as amended; and

WHEREAS, consistent with HRS §514B-143(g), if at least a majority of the Unit Owners give their vote or written consent, the Board may require owners to obtain their own insurance; and

WHEREAS, the members of the Association considered the following proposal (the “proposal”):

Notwithstanding anything in the Project documents (including, but not limited to the Declaration and Bylaws) to the contrary, the Board may require each unit owner to obtain insurance, such as an “HO-6” policy or its equivalent, for the unit owner’s apartment.

WHEREAS, a majority of the owners gave their written consent in favor of the proposal; and

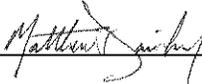
WHEREAS, adoption of the proposal by a majority of the members of the Association authorizes the Board of Directors to require Association members to obtain their own insurance;

THEREFORE, BE IT RESOLVED that the Board of Directors of the Association of Unit Owners of Allure Waikiki, pursuant to HRS §514B-143(g), is authorized to require each Association member to obtain insurance, in the form of an “HO-6” policy or its equivalent, for the member’s own apartment.

CERTIFICATE

I, Secretary of the Board of Directors of the Association of Unit Owners of Allure Waikiki, hereby certify that the foregoing is a true copy of the Resolution duly adopted by the written consent of a majority of the members of the ASSOCIATION OF UNIT OWNERS OF ALLURE WAIKIKI, and duly entered in the book of minutes of the Association, and this Resolution is in full force and effect.

DATED: Honolulu, Hawai‘i, JAN. 11, 2012.



Secretary
ASSOCIATION OF UNIT OWNERS OF
ALLURE WAIKIKI

ASSOCIATION OF UNIT OWNERS OF ALLURE WAIKIKI
BOARD RESOLUTION ON DEDUCTIBLES AND INSURANCE

The Board of Directors (the "Board") of the Association of Unit Owners of Allure Waikiki (the "Association"), under "Declaration of Condominium Property Regime of Allure Waikiki" dated April 25, 2007, recorded in the Bureau of Conveyances of the State of Hawai'i as Document No. 2007-074084, as amended (the "Declaration"), hereby adopts the following administrative resolution pursuant to the Declaration, the Bylaws of the Association of Unit Owners of Allure Waikiki ("Bylaws"), and the Hawai'i Revised Statutes ("HRS"):

WHEREAS:

Sections L and M of the Declaration and Section 5.1(m) of the Bylaws require the Board of Directors, on behalf of the Association, to obtain insurance for the project and to use all insurance proceeds for rebuilding, repairing or otherwise restoring the building to its original condition.

Section 5.1 of the Bylaws gives the Board broad powers to operate and manage the Project for the benefit of the Association and its members.

Section M.3 of the Declaration states that any deficiency in insurance proceeds must be paid: (1) for repairs to the common elements (but not the limited common elements), by all the owners; (2) for repairs to units, by the owners of the units being repaired; and (3) for repairs to the limited common elements, by the owners of the units to which the limited common elements are appurtenant.

Section 7.1 of the Bylaws states that owners are responsible for any uninsured loss or damage to the common elements caused by the owner or an occupant or other person using the project with the owner's permission.

Section 7.2 of the Bylaws states that owners are responsible for the cost of maintenance, repairs, and replacements to the common elements necessitated by the negligence, misuse or neglect of the owners.

Section 514B-143(d), Hawai'i Revised Statutes, states:

(d) The board, in the case of a claim for damage to a unit or the common elements, may:

- (1) Pay the deductible amount as a common expense;*
- (2) After notice and an opportunity for a hearing, assess the deductible amount against the owners who caused the damage or from whose units the damage or cause of loss originated; or*
- (3) Require the unit owners of the units affected to pay the deductible amount.*

The Association's insurance policy does not cover the personal property and the contents of an owner's unit, nor any additional upgrades or improvements made to the owner's unit, but Section L of the Declaration permits each unit owner to insure his unit for

his own benefit and to obtain increased coverage for his unit if the unit owner chooses. In addition, individual homeowner policies can often be obtained with loss assessment coverage in the event the homeowner is assessed for a deductible or there is a deficiency in insurance proceeds.

The Association's insurance premiums and deductible are substantial, forcing the Board to try to minimize the Association's insurance claims and to develop a means to pay the deductible for the Association's policy.

Excessive claims against the Association's policy may further increase the Association's insurance premiums or cause the Association's insurance company to refuse to renew the Association's policy.

Requiring owners to pay the deductible on the Association's policy provides an incentive for owners to properly maintain their own units, to minimize claims against the Association's policy.

The Board, in light of those and other relevant factors, and based on the Board's business judgment, has agreed to a **\$5,000** deductible for the Association's policy for the current year. This deductible may change from time to time.

The requirements outlined below on payment of deductibles are intended to encourage owners to properly insure, maintain and repair their own units in accordance with the Declaration and Bylaws, while apportioning the deductible for the Association's policy in a fair and reasonable manner.

The requirements outlined below are also intended to clarify the insurance needs for individual unit owners by: (1) furnishing them with guidelines to ensure that they have the appropriate coverage for their units, (2) outlining the additional insurance coverage that owners need to purchase for themselves, and (3) stating procedural guidelines for owners when there is a damage claim affecting the owners' units.

RESOLVED:

The following policy is hereby adopted by the Board of Directors on behalf of the members of the Association:

I. Deductibles

If loss or damage is covered by the Association's insurance policy, the Association's insurance policy deductible will be allocated and paid as follows:

- (i) If the loss or damage is caused by the owner or the owner's family members, tenants, or guests; or originates from the owner's unit or limited common elements. (For purposes of this policy, the definition of unit and limited common elements in the Declaration and Bylaws will apply. In addition, any water pipe or drain pipe serving only one unit will be deemed the unit owner's responsibility). After being given notice and an opportunity for a hearing, the owner shall be responsible for paying the full deductible for the claim on the

Association's insurance policy, unless the Board decides otherwise. The owner must also submit a claim to his or her own insurance carrier for the amount of the deductible.

(Example 1: As part of a risk management plan, the Board notifies all owners that the owners should replace their washing machine hoses to avoid burst hoses and flooding of units. If the owner of a unit fails to do so, and his washing machine hose bursts and floods the units below, the owner will be required to pay all of the deductible.

(Example 2: An owner's toilet tank unexpectedly cracks and floods two units below. The owner will be required to pay all the deductible, without regard to negligence or fault.)

- (ii) If the loss or damage is caused by or arises from any part of the common elements and no owner is responsible for the damage. If the Association is negligent and no owner is responsible for the damage, the Association shall be responsible for paying the full deductible of the Association's insurance policy. If the Association is not negligent and no owner is responsible for the damage, the deductible shall be paid by the unit owners to the extent covered by the insurance on the owner's unit. The uninsured portion of the deductible shall be paid by the Association.

(Example 1: The Association's roofing contractor informs the Board that the roof should be replaced as soon as possible because it will probably leak in the next big storm. The Board does nothing, and six months later a big storm hits and three units are flooded by a roof leak. The Association pays the whole deductible.

(Example 2: The Association's roofing contractor informs the Board that he has inspected the roof and it should be serviceable for at least three more years before it needs to be replaced. A "100 year" storm hits six months later and three units are flooded. The Association is not negligent. The deductible is divided between the three owners and the owners pay the portion of the deductible that is covered by their insurance. If any portion of the deductible is not covered, the Association pays that portion.)

- (iii) If more than one condominium unit is affected by an insured loss and the cause of the damage cannot be attributed to the Association or any one unit or resident. The deductible shall be paid, equally, by all unit owners who receive payment from the Association's insurer.
- (iv) If the loss or damage appears to be caused by or to arise from any part of an owner's unit or limited common elements, but the unit owner or occupant refuses to permit an Association representative to enter the unit or limited common element to investigate. The unit owner shall be responsible for paying the full deductible of the Association's property insurance policy, regardless of whether the owner or occupant is negligent.

II. Collection

If the Association intends to allocate the deductible to an owner because the owner caused the damage or because the cause of damage originated from the owner's unit, prior to allocating the insurance deductible, the Board will allow the owner notice and opportunity to be heard.

If an owner is required to pay the Association's deductible under the rules stated above, the Board will collect the deductible from the owner as a special assessment under the Bylaws.

III. Claims Procedures

Owners must file claims against the Association's insurance policy with the Association's managing agent, not directly with the Association's insurance agent. The managing agent will not refer a claim to the Association's insurance agent until the owner provides proof that the claim exceeds the deductible of the Association's insurance policy; provided that the managing agent still may submit the claim to determine if it is a covered cause of loss under the Association's policy.

Only licensed and insured contractors shall be authorized to perform reconstruction or repair work necessitated by insurance claims. All work must have the necessary permits and meet all building codes.

The Association shall disburse insurance claim proceeds directly to the licensed contractor(s) performing the repair or renovation work. Owners must submit all required permits and licenses, along with original receipts, in order for their contractors to receive payment for work performed.

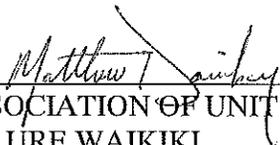
IV. General Conditions

Owners and tenants shall comply with all insurance risk management programs established by the Board.

CERTIFICATE

I hereby certify that the above resolution was adopted pursuant to the law, Sections L and M of the DECLARATION OF CONDOMINIUM PROPERTY REGIME OF ALLURE WAIKIKI, as amended, and the above sections of the BYLAWS OF THE ASSOCIATION OF UNIT OWNERS OF ALLURE WAIKIKI, by the Board of Directors of the Association, at a Board meeting on October 11, _____, 2011.

DATED: Honolulu, Hawai'i, October 11, _____, 2011.



ASSOCIATION OF UNIT OWNERS OF
ALLURE WAIKIKI
By: MATTHEW DAVISON
Its Secretary