

EDGEWATER ISLE SOUTH OA

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November 16, 2007

Fellow Members:

We have all received further communications questioning the Board's decision to continue to maintain earthquake coverage. We think an optimum way of explaining the importance of this decision to all of us is to describe some of the factors the Board considered in determining to maintain earthquake insurance at the present price and coverage levels:

1. Makeup of Our Community: Edgewater Isle South is located on soft soil, and the buildings are comprised of 3 story buildings. The Board has information that the soft soil type that Edgewater is located on could amplify shaking in the event of an earthquake. The Board is concerned that these two factors contribute significantly to the likelihood of loss.
2. The Potential of an Earthquake: We all know that California is earthquake country. Published U.S. Geological Survey reports predict a 62% probability there will be a 6.7 or greater major earthquake in the Bay Area between 2003 and 2032. (<http://pubs.usgs.gov/fs/2003/fs039-03>).
3. Handling Reconstruction Costs: In the event of a major loss, our CC&Rs provide a mechanism to obtain the funds to rebuild. They start with insurance but, beyond that, largely rely on special assessments of the membership. (CC&R Article IX, Section 5.9)

As you can see, in the event of a major earthquake loss, our homes and individual financial picture could be dramatically affected if we do not have insurance coverage.

For these reasons, the Board continues to believe that obtaining earthquake insurance for Edgewater Isle South while it is available at the price and coverage we have is important to the financial well being of our membership.

One owner has questioned the quality of our current earthquake insurance and whether the Association ought to use the services of one of the Association's members to advise the Association about insurance products. The Board is aware that one of our members has experience in procuring insurance products and did consider alternative suggestions. One suggested insurance product, however, would only cover a residential building of up to four units, and only one building. If it obtained such insurance, the Association could either end up significantly under-insured or might need to under-represent the size or insurable value of Edgewater Isle South. Another suggested product – private insurance for multi-residential housing – is untested. A third suggestion was that all of our

owners insure their own units against earthquake loss, but whether all owners would obtain such insurance would not be something the Association could enforce or guarantee. With a master policy of earthquake insurance, we know we have that layer of coverage for everyone.

The Board looked at each of these ideas but did not conclude that any of them was desirable or without risk to the Association. After considering all perspectives, and in the exercise of its business judgment, the Board did not believe that obtaining earthquake insurance through one of the Association's members best served the Association.

Through a competitive bid process, the Association chose a competent common interest development insurance specialist to broker insurance for the Association. Our earthquake insurance policy is with a company that demonstrates strong capital reserves and an AM Best Rating of "A+11." A company with strong reserves and a top quality rating is a more important qualifier than being a California-admitted carrier when it comes to having confidence that the insurer will cover losses in the event of an earthquake. The Association is insured by such a company.

The Board believes that obtaining a traditional form of earthquake insurance is prudent and in the best interests of the Association and all of its members. The Board is charged with making prudent business decisions for the Association, including the selection of insurance experts that it considers most qualified to advise the Association and the Board.

The Board of Directors wants to thank you all for your continued encouragement and support in protecting our homes and investments at Edgewater Isle South.

Sincerely,

Board of Directors
Edgewater Isle South Owners Association