
The 1994 Northridge Earthquake – Still Shaking Things Up

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The 1994 Northridge earthquake caused considerable damage to property owned by the Village Northridge Homeowners Association (“Village Northridge”). Village Northridge filed a claim with its insurer, State Farm Fire and Casualty Company (“State Farm”).

State Farm made several payments to Village Northridge on the earthquake loss. In 1996, and again in 1998, Village Northridge sought additional benefits under its policy. State Farm re-inspected the property and concluded that some of the additional damage was earthquake-related, while other damage was not. State Farm then made an additional payment to Village Northridge.

In 1999, although both Village Northridge and State Farm continued to dispute the policy limits and the amount of money owed, they negotiated a settlement agreement wherein State Farm made an additional payment in exchange for a release of, amongst other things, all known and unknown claims related in any way to Village Northridge’s earthquake claim (the “Release”). This is commonly referred to as a Civil Code § 1542 Waiver.

In 2001, Village Northridge sued State Farm for additional damages. Village Northridge brought its lawsuit without first seeking to rescind the Release. The California Supreme Court held this was improper. The California Supreme Court explained that the Release expressly barred future claims. As such, Village Northridge was obligated to follow the rules governing rescission of the Release before it could bring any claim for damages.

Community associations should be made aware that if they elect to release a disputed claim with their insurance carrier (or anyone else), they cannot later elect to institute a lawsuit for damages when the release explicitly bars such an option. The community association will have to first bring suit to rescind the release. With this in mind, a community association should approach any release with caution, exercising due diligence before execution. There will be significant obstacles to overcome before the community association ever gets a second bite at the apple.

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