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Foreclosure property: Protecting your interests

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According to the Boston Globe of January 11th, more Massachusetts borrowers lost their homes to foreclosure in 2010 than in 2009. Foreclosures in the state jumped nearly 32% in 2010 and over 12,000 families lost their homes.

We are all aware that foreclosures are up in Massachusetts. It's probable that our lending institutions are now taking possession of more vacant properties than any time in the past. These properties, often referred to as Real Estate Owned (REO) require special attention with respect to insurance coverage. We recommend closely considering the following three aspects:

1. **Insurance Coverage.** Most, if not all, primary insurance companies will terminate homeowner coverage upon discovery that the property is vacant and unoccupied. A copy of any notice of cancellation should be sent to you as lien holder / loss payee. This is your reminder that action is necessary. If you have Mortgage Hazard Insurance, coverage should be placed by you so there is no lapse in coverage. Most carriers in the lender placed insurance industry will allow coverage for your REO property to be effective either at the commencement of foreclosure proceedings, concurrent with the termination date of homeowner provided insurance, or upon completion of the foreclosure process. Do not overlook protecting your interests in these properties.
2. **Freeze Losses:** Should one of these vacant properties suffer a freeze loss, most insurance companies will deny coverage for the claim unless you have either (1) maintained heat in the property, or (2) turned off the water and drained all appliances. Action should be taken as soon as you have legal access to the property.
3. **Vacant/Unoccupied Buildings:** These properties are subject to theft and vandalism as well as damage from wind/rain if any outer structure/roof damage is not repaired. Such consequential damage is often denied by insurance carriers if the property owner did not take reasonable care of the property. Our recommendation is for lenders to ensure that regular inspections (no less than monthly) take place and that photographs (easy and no cost with a cell phone) are taken each time to verify the lack of damage and/or the efforts made to prevent future damage (property is trash free, doors/windows securely locked or boarded, etc).

Hopefully, once the economy recovers and unemployment is not a major problem, we will not have to devote as much time and attention as may be required now.

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