

# **Insurance Basics in Challenging Times**

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Insurance is the one word that continues to work better than the strongest of sleeping pills. Insurance job responsibilities often get put to the side as there are always going to be more important things to do....Until there is a claim! The intent of this article is to provide information in a bullet point fashion so that it can be utilized as a general reference.

1. Loss payee endorsement: Regarding the borrower's policy, at times you might have to push an agent to get the 438BFU endorsement or Lender's Loss Payable endorsement. However this endorsement extends the rights of the lender in regard to claims so make sure you get it. It protects the Lender for Acts the borrower does to the property for example "ARSON"!
2. If a property is vacant for more than thirty days and you have an awareness of this, most insurance policies have clauses that will allow them to deny any Vandalism and Malicious Mischief claims (many times even if you do not have an awareness).
3. Any material FACTS you have regarding the property, you have the duty to inform the Insurance Carrier. Examples: residential home being used as a business (day care) or illegal purposes i.e. a meth lab.
4. Any material change in ownership allows the insurance company to cancel the policy. So in the vent of an REO claim on the borrower's policy, be aware of the fact that your claim may be denied.
5. Full credit bid: In a word if there is an insurance claim made on the property going to sell, be sure to subtract the insurance damage from your bid. As an investor, I would prefer to play it safe and resolve the claim PRIOR to going to sell.
6. Commercial policies are different from residential policies. Generally speaking, most residential insurance policy coverage is described as "all risk," whereas many commercial polices are what is referred to as named perils. This means there is very specific language on the types of claims that are covered on commercial properties. Pay attention and know what you have as commercial loans are becoming more prevalent and are usually higher dollar amount loans.
7. Commercial Properties vary, so should your insurance policies. One size does not fit all. Be specific, a Hotel will have different requirements from an office building.
8. The borrower must agree to the Commercial Insurance requirements BEFORE the loan closes NOT after the fact. For example you might want to require Business Interruption or Loss of Rents. It is a good idea to have a separate insurance requirement agreement signed off by the borrower.
9. Actual Cash Value means the amount of the replacement cost of the claim less depreciation or less depreciation AND contractors overhead and profit. These policies, especially on older homes will have a dramatic impact on your claim proceeds.
10. Deductible is a fairly basic term, however, Fannie Mae has increased the acceptable limit to \$5,000 and commercial policies can be even higher. Know what you are prepared to accept. This might be something you want to discuss with your investor at the time you sell the note and with your borrower prior to signing.
11. In respect to REOs, many lenders are now buying discounted properties or have properties that are located in cold weather environments. Remember you must winterize the property by draining toilets emptying pipes, etc., or your claim will have a good chance of being denied.
12. If you are buying notes, it is wise to do a property condition report at the time of acquisition, so that in the event of a claim, it is clear on whether any damage to the property occurred before or after the date of acquisition.