WHY MORTGAGE PROTECTION INSURANCE IS IMPORTANT TO FINANCIAL INSTITUTIONS

BY TERRENCE TRACY, RICHARD TREMBICKI AND TAYLER LINDEMAN

Mortgage protection insurance is a coverage area not often discussed, but it's a tried and true coverage provided to financial institutions and any companies that originate, sell or service mortgages.

This coverage is widely available, highly customizable and has the ability to protect against unforeseen and sometimes hidden liabilities. If a bank employee mishandles escrowed premiums and the client's homeowners insurance lapses, who is responsible for any damages that occur? How can financial institutions protect their interest in a property if the homeowner fails to acquire adequate insurance? Who pays for flood loss for properties that were not deemed to be in a flood zone?

Considering the complexity of mortgages and the various parties and coverages involved, it is important that the coverage be tailored to your needs.

For example, there are coverages available that are not automatically provided by insurance carriers, such as balance of perils coverage. This coverage expands coverage to include perils not required by the mortgage agreement, including damages caused by flood loss for properties not located in a flood zone, weight of rain, ice or snow, theft and/or vandalism and collapse.

Typically, mortgage protection insurance is broken up into two key coverage areas. Here are a few key considerations to keep in mind about both:

MORTGAGE IMPAIRMENT FILLS IN COVERAGE GAPS

Typically, the homeowners insurance policy held by the borrower will cover any damages to the property. However, coverage gaps may arise which can leave financial institutions responsible for these sometimes expensive repairs.

Mortgage impairment insurance protects financial institutions for their interest in property resulting from lack or inadequacy of coverage and insures against perils where required in the mortgage agreement.

Mortgage impairment insurance is important for protecting financial institutions. For example, if a borrower fails to pay their premium and their homeowners insurance lapses, financial institutions can find themselves liable for damages caused during this window. Similarly, if the insurance company becomes insolvent and the house is destroyed, the financial institution may find itself without adequate coverage.

If a borrower fails to purchase earthquake coverage as required by the mortgage agreement and the house is damaged or destroyed by one of these unexpected natural disasters, the financial institution can also see the value of its interest in the property vanish. Issues can also arise with government entities if the homeowner fails to pay real estate taxes on the house and the government seizes the property.

DOTTING I'S & CROSSING T'S WITH MORTGAGEE'S E&O

The other side of mortgage protection insurance is Mortgagee's errors & omissions (E&O). These policies cover claims resulting from the financial institution's mishandling of the borrower's insurance. For instance, if the mishandling of escrowed premiums results in a lapse of homeowners coverage, the financial institution would be covered for any damages that result during this break in the policy.

Depending on the specifics of the mortgage agreement, financial institutions are also sometimes responsible for certain tasks like paying the borrower's real estate taxes or identifying if the property is located in a flood zone.

E&Os made during this process and those arising out of the financial institution's recordation, maintenance or safeguarding of loans are also covered by mortgagee's E&O insurance.

CLOSING COVERAGE GAPS

Mortgage protection insurance is a must have for all financial institutions that work with mortgages. However, there is no standard form and different carriers offer different coverages. It is important for financial institutions to work with a broker that has expertise in these risks and the corresponding policy language. These professionals can carefully review the policy and consider the coverages and expansions available to ensure the organization is fully protected.

To discuss mortgage protection insurance:

Please contact a Conner Strong & Buckelew representative

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