



Controlling the Exposure of Foreclosed Properties

After the recent economic downturn, the rate in which both residential and commercial properties are foreclosed accelerated. Recently, the focus has shifted from high residential foreclosures to a higher percentage of commercial retail spaces, office complexes, commercial housing and others. Foreclosed properties represent a unique challenge for financial institutions, many of which have never managed this aspect of their portfolios previously. A property that is idle—one that is not being used or has been shut down—is subject to an increased potential for vandalism, fire, water damage and break-ins.

Most Common Loss Exposures:

The most common exposures related to foreclosed properties include:

- **Fire:** Some vacant properties have had fire protection systems disconnected or compromised, or the systems are simply not being adequately maintained. These properties can become targets for arsonists or others that start fires.
- **Freeze Losses:** Failure to maintain the operation of heating systems or to properly drain and prepare automatic sprinkler systems, water piping or roof drains can lead to the systems freezing and flowing water into the structure.
- **Vandalism:** Vacant buildings can become gathering points for groups of individuals, particularly youths, looking for a place to hang out. This can result in vandalism and damage to the structure from forced entry, or intentional “ripping” of the building for fun or criminal purposes.
- **Theft:** The theft of copper piping and wire for sale on the scrap metal market has drawn thieves to vacant structures where they can remove the materials more easily. Additionally, other building components and contents can potentially be targets for theft.
- **Liability:** Individuals on the property or those attempting to enter the structure who get injured can bring a lawsuit. In some instances, criminals may use a building as a base of operations and prey on people passing by or in the local area. This can cause a liability loss because the victims can bring suit against the property holder.
- **Mold:** Buildings that are not properly maintained can be at a high risk for mold growth and subsequent damage.

This list is just a sampling of the more common exposures that exist when properties sit vacant. It is vitally important that vacant properties are well managed to reduce the potential for losses and costly litigation until the property can be removed from the portfolio. OneBeacon’s Foreclosed Property Risk Control Strategy and Foreclosed Property Survey Form provide general guidelines for managing the risks associated with idle properties.

Strategy for Foreclosed Property

One of the key elements to successfully controlling the exposures that foreclosed properties impose on a financial institution is to have an individual that accepts responsibility and is accountable. Depending on the size and complexity of the foreclosed property portfolio, the individual may oversee the program or work with others to ensure that OneBeacon is notified through the agent or broker of the addition of a foreclosed property. It is



also important that protocols are in place for maintaining the property and periodic inspections are made.

Inspections

Designated personnel or a guard service should be utilized to inspect idle facilities and document the visit:

- Weekly for lower-value, lower-hazard facilities
- Daily or every other day for higher-value, higher-hazard facilities

Fire Prevention

- The local fire department should be notified when a property comes under the control of the financial institution.
- All flammable liquids and combustible materials should be removed from the building.
- Automatic sprinkler systems should continue to be maintained in accordance with NFPA 25, Standard for the Inspection, Testing and Maintenance of Water-Based Fire Protection Systems.
- The facility's temperature should be maintained to prevent automatic sprinkler system freeze-ups and low temperature alarms installed to monitor the facility between visits.

Security

- The locally responding police department should be notified when a property comes under the control of the financial institution, including contact information.
- A survey should be completed for the property by a qualified individual to determine any security issues that might need to be addressed referencing *NFPA 730, Guide for Premises Security*.
- Alarms should ring to a UL Central Station listed alarm company and the alarm

company should be notified when possession is taken of the property.

- Locksets and deadbolts should be changed when possession is taken.

Recordkeeping

Individual files should be created for each foreclosed property documenting initial property condition, inspections and all maintenance performed.

Maintenance

Qualified contractors should be identified and contracted to provide on-going building maintenance functions including the automatic sprinkler system, and heating system.

About OneBeacon Financial Services

OneBeacon Financial Services offers property and casualty coverages for commercial banks, savings banks and savings and loan institutions, security broker-dealers, investment advisors, insurance companies and credit unions. Specialty coverage, including management liability, professional liability, cyber liability and financial institution bond, are additionally available for institutions with less than \$3 billion in assets.

Contact Us

To learn more about how OneBeacon Financial Services can help you manage your unique risks, please contact Craig Collins, President, at ccollins@onebeacon.com or 952.852.2434.

Learn more about OneBeacon Financial Services at onebeaconfs.com.