

Force-Placed Homeowner's Insurance And How To Avoid It

Unless you are very lucky, you probably have a mortgage on your home. Your mortgage company, also known as a lienholder, has a vested interest in the protection of your home. If you fail to carry acceptable homeowner's insurance and a loss occurs, their monetary loss will be much greater than yours. For this reason, lienholders require that you carry homeowner's insurance. You won't be able to close on a purchase without it, and if it lapses, your lienholder will step in.

What Is Force-Placed Insurance?

Force-Placed insurance is a policy that your lienholder takes out on your home when your policy has lapsed or you have not provided them with proof of a policy that is acceptable to them. In order to protect their interest in the property, your mortgage company will obtain a policy and attach the payments on this policy to your mortgage. This insurance will remain in place until you provide proof of an alternate insurance policy.

Why You Don't Want It

It doesn't sound like such a bad deal to let the mortgage company handle placing insurance on your home. The problem is that this type of policy exists only to protect the mortgage company's interests-not yours. There is no coverage for your personal property, and in the case of a claim you will get nothing-only the mortgage company will receive payment. In return for this limited coverage, force-placed insurance is very expensive-much more so than traditional homeowner's insurance.

How Can I Avoid It?

First of all, make sure your homeowner's insurance coverage doesn't lapse! Make your payments on time. If you have trouble remembering, consider rolling the insurance in with your mortgage payment, or having it automatically withdrawn. Another important consideration is to make sure that the insurance company has accurate information regarding your lienholder, including their address. This will ensure the insurance company provides proof of insurance to the correct lienholder and there is no question that you already have insurance in place.

Force-placed insurance isn't what the mortgage company wants, nor is it the best choice for your interests. Be sure your homeowner's insurance stays in force and proof is provided so that your interests, as well as those of the mortgage company, are protected.