Topic: Lender Placed Insurance

The Need for Lender Placed Insurance

1. Borrower's insurance cancelled.
2. Borrower fails to renew insurance.

How Lender Placed Insurance Works:

1. Loan files tracked for insurance compliance.
    a. In house.
    b. Outsourced to third party vendor.
2. If no insurance, three notices must be sent per CFPB:
    a. 1st letter sent on date of renewal.
    b. 2nd letter sent 30 days thereafter.
    c. 3rd and final letter sent on 45th day. If no evidence of insurance provided, coverage goes into place effective on renewal date in the amount of the lender's mortgage interest.
        i. Coverage applies throughout the 45 day letter cycle.
3. If evidence of coverage is produced, refunds of charged premiums must be made within 15 days.

Coverage:

1. Broad form with few exclusions.
2. No co-insurance penalties.
3. Lender's interest covered.
4. Errors and Omissions optional.
5. Automatic Coverage optional.
6. Lender placed Flood generally available.
7. Properties in Course of Construction optional.

What's not covered:

1. California Earthquake.
2. Land.
3. Water.
4. Swimming pools.
5. Mold.
6. Back up of sewers or drains.

CFPB Benefit to States like California: Lower rates.

Companion Policy: Mortgage Errors and Omissions and Mortgage Impairment

1. Errors and Omissions: Protects lender in its handling of homeowners and other physical damage insurance covering the real property of borrowers.

Other Liability coverages include:

a. Errors and omissions in the procurement and maintenance of life or disability insurance.
b. Flood Disaster Act Liability. Protection for bank's duty to determine whether or not a particular property is in a flood zone.
c. Real Estate Tax Liability. Covers the bank against errors and omissions relating to non-payment of real estate tax by the bank.

2. Impairment: Covers loss to the bank's interest through the uncollectability or non-existence of insurance against perils that are required to be purchased by the borrower, including mandatory flood insurance in the bank's loan closing procedures.
3. Balance of Perils: Provides insurance should the security for the loan suffer a physical loss from a cause other than what is required to be insured by the borrower. (Typically, this coverage refers to Flood and Earthquake. California Earthquake is excluded. However, in some instances Mortgage Impairment underwriters will offer the coverage at an additional premium.)