

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 6: Lender-Placed Property Insurance (02/01/05)

II, Chapter 6: Lender-Placed Property Insurance (02/01/05)

Part of a servicer's responsibility for protecting Fannie Mae's interest in the security property is to ensure that hazard insurance (including flood insurance), under the terms specified in Fannie Mae's *Guides*, is in place at all times. If the servicer is unable to obtain evidence of acceptable hazard insurance for a property, the servicer should obtain alternative insurance coverage (so-called "force-placed" or "lender-placed" insurance) to protect Fannie Mae's interests. In this instance, there are several guidelines that servicers should apply, subject to the provisions of and in compliance with applicable law and the mortgage loan documents.

- Lender-placed insurance coverage should only be issued after the servicer makes attempts to contact the borrower to obtain evidence of insurance. The servicer may contact the borrower's insurance agent but must attempt to contact the borrower if it fails to obtain evidence of insurance from the agent. At least one borrower communication should be by letter. Fannie Mae expects the servicer to have (or provide for) adequate resources and facilities for receiving and processing evidence of insurance that is submitted by borrowers. Typically, the borrower should have a period of at least 60 days to provide evidence of coverage before a charge for lender placement is assessed to the borrower. It may be appropriate for this period to be extended if an apparent lapse in insurance coverage coincides with a servicing transfer. However, in all cases the servicer is responsible for ensuring that—whether through borrower-placed or lender-placed hazard insurance—there is no lapse in coverage.

The contacts with the borrower should include information explaining the ramifications of the borrower's failure to obtain coverage, including: (1) the potential that lender-placed coverage may be substantially more expensive (and that the borrower nevertheless will be required to pay for such coverage or risk being in default under the terms of the mortgage loan documents), (2) that any lender-placed coverage might not cover the borrower as an insured, the borrower's equity, or provide the same scope of coverage as the borrower's normal homeowner's insurance (for instance, no coverage for personal effects or premises liability), and (3) that the servicer or one of its affiliates may be paid a commission for its placement of the replacement insurance coverage, if applicable.

- Any lender-placed coverage must be provided in compliance with Fannie Mae's insurance requirements. Fannie Mae recognizes that lender-placed insurance premiums typically are paid on an annual basis in advance so that a borrower would be assessed a year's lump-sum premium. If the servicer becomes aware that the borrower may not be able to fulfill that lump-sum payment obligation, the servicer should advance the payments and establish a schedule for the pro rata recovery of the premium from the borrower over the succeeding 12 months, or longer if the servicer so elects. The servicer also should provide for the collection of the premium installment for the next renewal period based on the required rescission of the escrow account waiver (see *Part III, Section 103.01, Waiver of Escrow Deposits (01/01/05)*). If, however, it appears that the borrower will not be able to meet even this obligation, other loss mitigation options should be pursued to arrange for the collection of outstanding amounts owed. (see *Part VII, Chapter 5, Bankruptcy Proceedings*, for Fannie Mae's loss mitigation alternatives)
- In the event the borrower provides evidence of acceptable insurance coverage, the total amount of any premiums for lender-placed insurance attributable to the period of time after the effective date of the borrower-placed coverage (along with any late charges assessed due to the nonpayment of any lender-placed insurance premium) must be refunded or credited to the borrower within a reasonable time frame.