

Force-Placed Insurance

Tips for Consumers

What is force-placed coverage?

Almost all home loans require the property owner to maintain adequate and continuous insurance. These insurance requirements are disclosed in the lending documents. Typically, the property owner meets the insurance requirements by purchasing a homeowners policy.

Maintaining homeowners insurance on your property protects the lender's financial interest in the event that the property is damaged or destroyed. This is one of a property owner's primary responsibilities under a mortgage and is required for the life of the loan.

When a property owner does not maintain the required insurance coverage on his home, the loan agreement allows the lender to obtain insurance on the property. The insurance taken out by the lender is most commonly called "**force-placed**" coverage or "lender-placed" coverage.

Under what circumstances does the lender force-place coverage?

- The property owner has a homeowners policy, but the lender has not received proof of coverage with the lender shown as the mortgagee.
- The property owner does not have a homeowners policy. This could be because the property owner did not purchase a homeowners policy, the homeowners policy was cancelled or non-renewed by the insurance company, or the homeowners policy expired because the renewal premium was not paid.
- The lender has evidence of the homeowners insurance policy, but the amount of coverage, deductible, or type of coverage does not meet the requirements of the loan agreement.

What is the difference between a force-placed insurance policy and a homeowners policy?

A homeowners policy, which you can purchase on your own, provides more coverage and typically costs less than force-placed insurance. Unlike a homeowners policy, force-placed insurance policies do not provide protection for personal property, such as your clothing and furniture. Additionally, a force-placed insurance policy does not include liability coverage that pays if you are responsible for damage or injuries to others.

Some force-placed insurance policies limit the amount of the coverage to the outstanding balance of the loan. This type of force-placed policy is commonly referred to as a **single-interest policy** because it only protects the lender's interest in the property. If the house is destroyed by a fire or other covered cause of loss, the single-interest policy typically only pays enough to pay off the outstanding balance on the loan to the lender.

Many force-placed insurance policies are **dual-interest policies**. This means that the policy provides protection for both the homeowner and the lender. A dual-interest policy typically provides replacement cost coverage on the dwelling.

How will I know that the lender needs evidence of my homeowners insurance?

If a lender needs evidence of your insurance, you should receive a letter requesting this information. These letters are often computer-generated and may be sent by your lender or by someone else, such as a mortgage servicing company, who is acting on behalf of your lender.

In other words, your lender's name may not be on the letter. For that reason, it may be easy to overlook the letter when it comes in the mail. However, if the lender does not receive a response to its letter, it may force-place insurance coverage on the property.

How can I protect myself from force-placed coverage?

- **Always maintain coverage on your property** with at least the limits and coverage required by the lender.
- **Check the mortgagee information** in your homeowners policy to be sure that it shows the mortgagee's correct name and address. The insurer uses this information to provide evidence of coverage to your lender
- **Replace coverage immediately** in the event your policy is cancelled or non-renewed.
- **Always provide the lender with evidence of your new policy.** The policy must show the lender as the mortgagee to prevent the lender from obtaining a force-placed policy.
- **If your homeowners premium is escrowed**, periodically check your statement from the lender to ensure that the homeowners premium is paid out of your escrow account. When your homeowners policy renews, the renewal policy should show the name of the lender as your mortgagee. The renewal policy should also show that the premium is being billed to your lender. Contact your lender immediately if you have any questions about your escrow account.

My lender has forced-placed coverage on my home. How can I cancel this coverage?

- **If your own homeowners insurance has been continuously in effect**, immediately provide your lender with copies of your policy. Be sure your homeowners policy shows the lender as the mortgagee.
- **If you did not maintain continuous coverage**, your lender may force-place coverage for the period of time that you did not have your own insurance. The force-placed coverage will continue until you provide evidence of other coverage or until the loan is paid in full.
- **Once you provide your lender with the evidence of coverage** on the property that meets the lender's insurance requirements, the insurer will cancel your force-placed coverage. If there has been no lapse in coverage, the insurer will refund any premiums that you have paid for the force-placed coverage.

Who pays for the force-placed policy?

The lender will charge you for the cost of the force-placed insurance. Typically the cost of the force-placed insurance is added to your loan payment. Remember, this force-placed coverage is often more expensive and provides less coverage than the insurance you could have purchased on your own.

I have had continuous insurance coverage or I have obtained replacement coverage, but my lender is still carrying force-placed coverage on my home.

The Bureau can assist in resolving this issue with the insurer that issued the force-placed coverage. However, the Bureau is unable to assist you in any issues you may have with your lender. If you file a written complaint with the Bureau's Property and Casualty Consumer Services Section, please attach a copy of your homeowners policy along with the name and address of your lender, your loan number, and any other contact information you have for your lender. You may fax or mail us your complaint.

Who can I call if I have other questions or wish to file a complaint?

You can call the Bureau of Insurance at:

(804) 371-9185 if you live in Richmond or
(877) 310-6560 if you live outside of Richmond

You can fax us at:

(804) 371-9349

You can visit us at:

The Tyler Building
1300 East Main Street
(in downtown Richmond)

Or, you can write to us at:

State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

If you want to e-mail us with a general question, please contact us at:

bureauofinsurance@scc.virginia.gov

Our website is: www.scc.virginia.gov/boi