

# Hazard Insurance Policy

# Hazard Insurance Policy

Mortgage Lending Division

Version 3.6 – 03/07/19



## DOCUMENT OVERVIEW

**Purpose** This document provides the Hazard Insurance requirements for the Mortgage Lending Division of Carrington Mortgage Services, LLC (CMS).

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**Related Documents** None

**Revision Summary**

Date	Version	Description of Change
03/07/19	3.6	Revised <b>Minimum Policy/Binder Requirements</b> to update item #9 <b>Mortgagee Clause</b> to add Correspondent requirement for the Mortgagee Loss Payee Clause to be completed with the name and address of the originating lender. Also updated Mortgagee Clause to reflect ISAOA/ATIMA.
02/20/19	3.5	Revised <b>Rating Requirements (Conventional Loans)</b> to add Kroll Bond Rating Agency. Revised <b>Minimum Policy/Binder Requirements</b> to add a Cost Estimator from the insurance agent may be used when the appraiser notes their Cost Estimator may not be used for insurance purposes.
11/21/18	3.4	The CMS Credit Committee approved policy to apply existing CMS Hazard Insurance requirements to Carrington Flexible Advantage Programs. Therefore, the revised <b>Minimum Policy/Binder Requirements</b> for determining the amount of coverage for the Carrington Flexible Advantage Programs have been removed.
11/08/18	3.3	Revised <b>Minimum Policy/Binder Requirements #1</b> to add requirements for determining the amount of coverage for the Carrington Flexible Advantage Programs. Revised <b>Minimum Policy/Binder Requirements #4</b> frequency of installment from annual to monthly basis.

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## Document Overview (continued)

### Revision Summary (continued)

Date	Version	Description of Change
03/23/18	3.2	Revised <b>Minimum Policy/Binder Requirements</b> Insurer rating requirements. Added new <b>Rating Requirements (Conventional Loans)</b> section and moved requirements for conventional loans.
12/20/17	3.1	Revised <b>Minimum Policy/Binder Requirements</b> section to clarify use of the Cost Estimator from the insurance agent.
12/04/17	3.0	Revised <b>Minimum Policy/Binder Requirements</b> section to permit name variations on the policy.
10/10/17	2.9	Revised <b>Hazard Insurance</b> to include EDI requirements. <b>Revised Flood Insurance</b> to add properties that are not zoned do not require flood insurance. Revised <b>Minimum Policy/Binder Requirements</b> section to add insurance binder seasoning requirements. Revised <b>Minimum Policy/Binder Requirements</b> section to update the <b>CMS Portfolio Manufactured Homes</b> requirements.
05/23/17	2.8	Revised <b>Minimum Policy/Binder Requirements</b> section to remove requirements for the loan number to appear on the policy.
04/17/17	2.7	Updated <b>Minimum Policy/Binder Requirements</b> section to add USDA maximum deductible requirements and update Loss Payee requirements.
03/02/17	2.6	Updated <b>Windstorm/Hurricane Insurance</b> section to add Hawaii.
02/02/17	2.5	Updated <b>Minimum Policy/Binder Requirements</b> section to clarify that there must be proof the premium is paid in full or through the closing.
09/07/16	2.4	Revised to clarify “evidence” of insurance is required. Added HO8 Hazard Insurance requirements for Portfolio Loans
06/07/16	2.2	Revised <b>Minimum Policy/Binder Requirements</b> section to clarify that “Only a non-borrowing spouse or domestic partner of the borrower may also be on the insurance policy. No other non-borrower entity may be named as an insured party.”
05/02/16	2.1	Revised <b>Minimum Policy/Binder Requirements</b> section to add calculation for determining Total Dwelling Coverage and clarified rating requirement for refinancing a CMS Portfolio loan.
02/16/16	2.0	Revised <b>Minimum Policy/Binder Requirements</b> section to clarify CMS permits a non-borrowing spouse to remain on the insurance policy for refi transactions currently serviced by CMS.
12/30/15	1.9	<ul style="list-style-type: none"> <li>Revised the <b>Impound Requirements</b> section to state the life of loan escrow is required for Flood Insurance.</li> <li>Revised the <b>Waiver Eligibility</b> section</li> </ul>
09/09/15	1.8	Revised the <b>Flood Insurance</b> section to add requirement that Flood Insurance must be in “effect” at the time of closing.
06/26/15	1.7	In the <b>Requirements</b> section, modified the following: <ul style="list-style-type: none"> <li>Updated the <b>Minimum Policy/Binder Requirements</b> sub-section.</li> <li>Added the following sub-sections:               <ul style="list-style-type: none"> <li><b>Impound Requirements</b></li> <li><b>Waiver Eligibility</b></li> </ul> </li> </ul>

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## Document Overview (continued)

### Revision Summary (continued)

Date	Version	Description of Change
03/09/15	1.6	Updated the insurance coverage amounts and added CMS Portfolio Manufactured Homes requirements to the <b>Minimum Policy/Binder Requirements</b> section.
07/28/14	1.5	<ul style="list-style-type: none"><li>Added Florida Insurance Requirements to the <b>Minimum Policy/Binder Requirements</b> section.</li><li>Updated the <b>Hazard Insurance</b> section.</li></ul>
01/14/14	1.4	<ul style="list-style-type: none"><li>Updated <b>Flood Insurance</b> section including NFIP Maximum table.</li><li>Added <b>Inadequate Condo Project Flood Insurance</b> section.</li><li>Changed "policy" to "binder" throughout.</li><li>Updated verbiage in items 12, 13 (deleted), 14 (now, items 13), and 20 (now, item 19) of the <b>Minimum Requirements</b> section.</li></ul>
09/30/13	1.3	<ul style="list-style-type: none"><li>Added items #13 and #14 to Minimum Requirements section.</li></ul>
08/12/13	1.2	<ul style="list-style-type: none"><li>Added items #3 and #4 to Minimum Requirements section.</li><li>Changed title page and logos to reflect new logo/company colors.</li></ul>
03/22/13	1.1	<ul style="list-style-type: none"><li>Updated item 2 under <b>Minimum Requirements</b> section.</li><li>Added <b>Confirm Minimum Requirements</b> section.</li></ul>
11/02/10	1.0	New document

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## INSURANCE

### Hazard Insurance

CMS requires evidence of a 12-month HO3 Hazard Insurance policy on all loans.

EDI or “Electronic Data Information” is not acceptable evidence of Hazard, Flood, Wind or Hail coverage.

#### CMS Portfolio Loans

Evidence of a 12-month HO8 Hazard Insurance policy is acceptable with existing coverage limit for loans currently serviced by CMS. All efforts to meet the coverage limits per the CMS Hazard Insurance Policy should be made; however, having an older home may preclude obtaining a replacement policy and the existing coverage limit may be accepted for CMS Portfolio loans only.

### Flood Insurance

CMS requires evidence of Flood Insurance if the subject property dwelling and improvements are located in a Special Flood Hazard Area (SFHA), zones A, A1-30, AE, AO, A99, V, V1-30, and VE.

Properties that are not zoned do not require flood insurance.

The Flood Insurance must be in “effect” at the time of closing. If the policy is new, the premium must be paid-in-full on a purchase or refinance transaction and must be paid prior to closing the loan transaction. Exceptions to pay the premium through the closing are permitted on a new policy for “Binder” or a policy with current effective dates that bind the insurer. CMS will make an exception to this when there is a Flood Insurance policy currently in “effect” pending payment of the premium. Handwritten receipts from the flood provider are not acceptable as evidence of payment.

**Flood Insurance Coverage:** The minimum amount of Flood Insurance coverage for individual insurance must be at least equal to the lesser of:

1. 100% of the insurable value of the improvements (with losses to be paid on a replacement cost basis) as determined by the amount of insurance listed on the hazard policy, **OR**
2. The National Flood Insurance Program (NFIP) maximum for the particular type of building.

Building Type	NFIP Maximum
Single Family Dwelling (1-4 units)	\$250,000
Attached Condominiums & PUDs (covered by a blanket master insurance policy)	\$250,000 multiplied by the number of units in the building
Co-ops	\$250,000 for each cooperative(co-op) building
Non-residential (pool houses, sheds, barns, etc.)	\$500,000

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## Insurance (continued)

### Inadequate Condo Project Flood Insurance

When the Condominium Association flood insurance coverage amount is insufficient (when it is less than 100% of the building's Replacement Cost Value or is not in the amount equal to \$250,000 times the number of units in the building, or if the Condominium Association does not provide any flood insurance coverage at all for the condo building), the borrower must secure an individual flood insurance Dwelling Policy for the condo unit in order to close the loan. The coverage required for the individual unit should be based on the lesser of 100% of the insurable value (replacement cost for entire project divided by the number of units in the project) as determined by the hazard insurance provider or \$250,000.

**Examples:** The following table shows just a few examples of potential required flood coverage, based on the requirement that flood insurance be the lesser of the amount of hazard dwelling coverage or the maximum available under the NFIP.

SFD	Dwelling Coverage at Full Insurable Value (as listed on Hazard policy)	Required Flood coverage
Example 1	\$115,000 (Dwelling coverage)	\$115,000
Example 2	\$667,000 (Dwelling coverage)	\$250,000
Example 3	\$200,000 (Dwelling coverage) \$ 50,000 (Extended replacement cost)	<b>Note:</b> any amount of Extended Replacement Cost Coverage listed (in this case \$50,000) is not considered when calculating the required flood coverage.

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## REQUIREMENTS

### Requirements based on Transaction Type

#### Refinances

CMS requires evidence of a valid policy for Refinance transactions.

#### Purchases

Purchase transactions require evidence of a policy with a policy number and an effective date being the date of the loan closing. For Purchases, the policy may be paid through closing.

### Minimum Policy/Binder Requirements

The minimum requirements for the Hazard Insurance is outlined in the CMS Insurance Binder/Policy, which must be provided covering the subject property to include the following:

1. Coverage must be in an amount at least equal to the lesser of the replacement cost from the property appraisal or the base loan amount, or the policy must include "Guaranteed Replacement Cost" (if the policy includes "Extended Replacement Cost" the additional amount may be applied towards the dwelling amount).

Dwelling Coverage determined by totaling the following:

Dwelling Amount +  
Dwelling Amount (other structures)\*  
Extended Replacement Cost %

Example: \$100,000 (Dwelling) + \$10,000 (Other Structures) = \$110,000  
50% (Extended Replacement Cost) = \$165,000 (Total Dwelling Coverage)

A Cost Estimator from the insurance agent may only be used to determine the replacement cost of the subject property 1) in the absence of an appraisal with a completed replacement cost or, 2) when the appraiser makes note their Cost Estimator is not to be used to determine the replacement cost for insurance purposes.

Dwelling Coverage in the amount of 80% of the new CMS Loan Amount in absence of a Cost Estimator is permitted for CMS Portfolio Streamline Refinance ONLY. All efforts to obtain a Cost Estimator from the insurance agent should be made; however if unable to be obtained, the agent must provide documentation that a Cost Estimator is unable to be produced.

#### CMS Portfolio Manufactured Homes

Existing coverage limits may be acceptable for loans currently serviced by CMS. All efforts to meet the coverage limits should be made; however, due to historical depreciation existing coverage limit may be accepted for CMS Portfolio Manufactured Homes ONLY.

2. Policy shall provide at least "Broad Form" coverage on properties of one to four units, with no deviation. Homeowner's policies must provide coverage equal to "H02" form.
3. The maximum allowable deductible for all policy types must not exceed the greater of \$5,000.00 or 5% of the coverage amount.

**Exception:** The maximum allowable deductible for policy types for USDA transactions must not exceed the greater of \$1,000.00 or 1% of the coverage amount.

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## Requirements (continued)

### Minimum Policy/Binder Requirements (continued)

4. Policy must provide coverage for a term of at least one year with proof premium is paid in full or pay through the closing. Premiums may be paid on a monthly installment basis only if the policy provides that CMS will be notified in writing of cancellation 30 days prior to expiration of coverage, for any cause.

Proof of the insurance premium payment by CMS Servicing is acceptable if refinancing a CMS Portfolio loan.

5. If any existing policy is provided which will expire within 30 days from the funding of the loan, said policy must be renewed for the required term as noted in #4 above.
6. All forms and endorsements pertaining to CMS' hazard insurance requirements must appear on the "Declaration Page" of binder/policy.
7. New policies must be accompanied by a signed "Broker of Record Authorization" if borrower(s) have changed Insurance Agents.
8. Verification of renewal of insurance policies must be on file at least thirty days prior to the expiration date of the existing binder/policy. If this requirement is not met, CMS OR ITS SUCCESSORS OR ASSIGNS MAY AT ITS OPTION, BUT WITHOUT THE OBLIGATION TO DO SO, PROVIDE COVERAGE TO REPLACE ANY EXPIRING BINDERS/POLICIES WHICH HAVE NOT BEEN PROPERLY RENEWED. The premium for such coverage will be remitted promptly by the borrower, or borrower's account may be charged for the cost thereof.

### 9. Correspondent Loan Transactions

Mortgagee Loss Payee Clause to be completed with the name and address of the originating lender.

#### Retail/Wholesale Loan Transactions

Mortgagee Loss Payee Clause to be completed with the CMS standard loss payee for all states, including Texas, unless the Texas Specific Loss Payee is requested. Standard Loss Payee: Loss Payable Endorsement 438 BFU must be affixed to the binder/policy in favor of:

CARRINGTON MORTGAGE SERVICES, LLC  
ISAOA/ATIMA  
P.O. BOX 692408  
San Antonio, TX 78269-2408

#### Texas Specific Loss Payee:

CARRINGTON MORTGAGE SERVICES, LLC AND EACH SUCCESSOR IN OWNERSHIP OF THE INDEBTEDNESS SECURED BY THE INSURED MORTGAGE, EXCEPT A SUCCESSOR WHO IS AN OBLIGOR UNDER THE PROVISIONS OF SECTION 12 (C) OF THE CONDITIONS P.O. Box 692408 San Antonio, TX 78269-2508

**Note:** No words may be added to, deleted from, or substituted for the language above.

**Exception:** Abbreviation(s) are permitted only to the lender name. No other changes or modifications are allowed. Example: Carrington Mtg Srvs, LLC



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## Requirements (continued)

### Minimum Policy/Binder Requirements (continued)

10. CMS permits an insurance binder in lieu of an original policy in the state of Texas providing the following conditions are met;
  - The binder is issued by a licensed general property and casualty agent or a personal lines property and casualty agent who is appointed to represent the insurer whose name appears on the binder and who is authorized to issue binders;
  - The binder is accompanied by evidence of payment of the required premium.
11. The property address and the insured's names should be designated on the policy the same as they are shown on the ALTA or CLTA Title Policy (whichever is issued); however, borrower name variations are acceptable to omit or include a middle initial, or to use a shortened form of the first name. It is not acceptable to omit a suffix such as 'Jr. or Sr.' or to accept a policy with a misspelled name. Only a non-borrowing spouse or domestic partner of the borrower may also be on the insurance policy. No other non-borrower entity may be named as an insured party.
12. The effective date of new policies, endorsements, and/or assignments shall be as of or prior to, the date of recording of the security instrument on this loan.

An insurance binder remains in effect for a limited period of time, such as 30 days. The effective date of new binders shall be as of or prior to, the date of recording of the security instrument on the loan, but no later than 30 days at funding.
13. For One to Four Family Units, a certificate showing proof of coverage must be submitted to CMS prior to funding.
14. Condominium properties: a copy of the Master Policy or a certificate showing proof of coverage for both the Homeowner's Association and the Condominium unit owner must be submitted to CMS prior to funding. Condominiums must also have an HO-6 policy covering improvements within the individual condo, which are not otherwise covered by the blanket policy. The HO-6 coverage must be for an amount that is at least 20% of the appraised value of the individual unit. The Master Policy must also contain a minimum of \$1,000,000 coverage for "Director's & Officer's" liability.

Windstorm/Hurricane Insurance is required coverage in high risk areas (e.g., Florida, Hawaii and the Gulf Coast Region). Though it is often included in the homeowner policy, it may be excluded in the state of Hawaii, or in coastal areas of Florida and the Gulf of Mexico, where a separate policy is required. If such coverage is not included in the homeowner policy, a separate Windstorm policy will be required. If the subject property is located in a high wind catastrophe area.

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## Requirements (continued)

### Rating Requirements (Conventional Loans)

For all Conventional Loan Programs the insurance company providing coverage must have a “B” rating or better from A. M. Best as shown in the latest edition of “Best’s Insurance Rating Guide.” The A. M. Best rating is verified by checking the “Best Insurance Rating Guide” electronically through the CMS Intranet Hazard Insurance portal prior to funding. The service must be licensed in the State in which the property is located, and must be licensed to transact the lines of insurance required in this transaction.

CMS maintains its own list/data base of B or better rated insurance companies as determined by A. M. Best. If the company is not listed on the list/data base, an alternative form is to print out the rating of the company form from either Demotech, Standard & Poor’s (S&P) or Kroll Bond Rating Agency. For Demotech, the rating must be “A”. For S&P, the rating must be “BBB”. For Kroll, the rating must be “BBB” or better.

- CMS will accept “B-” rated companies in the state of Florida only if the company is approved by Citizens Property Insurance Corporation and has been processed by the Property Insurance Clearinghouse. Refer to [Florida Insurance Requirements](#) section below for additional details.
- Companies rated “B” or higher must be chosen over “B-” rated companies. A list of companies must be provided from the Citizens Property Insurance Clearinghouse website if a “B-” insurance company is selected.

If the rating of the company is from either *Demotech*, *S&P* or *Kroll Bond Rating Agency*, the printed form must be uploaded to the file with the Hazard Insurance Policy.

CMS also will accept hazard insurance policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan if it is the only coverage that can be obtained. In addition, CMS will accept coverage obtained through state insurance plans—if that is the only coverage that is available.

### Florida Insurance Requirements

The borrower is required to search Citizens Property Insurance Corporation’s clearinghouse on all new orders for multi-peril homeowners (HO-3) policies. The clearinghouse will search for coverage with participating private-market companies before allowing the borrower to purchase a Citizens Property Insurance policy.

Citizens Property Insurance will only write a new insurance policy if:

- No comparable private-market coverage is available; or
- Comparable private-market offers of coverage are available, but the premiums are more than 15 percent higher than a comparable Citizens Property Insurance policy.

The borrower must accept the private-market offer if the premium is within 15 percent of a comparable Citizens Property Insurance policy.

CMS will accept the policies of an insurer that does not meet CMS’ rating requirement if this insurer is covered by reinsurance with a company that meets either one of the A.M. Best's Financial Strength Ratings, Demotech’s Financial Stability Rating, Standard and Poor's Insurer Financial Strength Rating or Kroll’s Financial Strength Rating.

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## Requirements (continued)

### Impound Requirements

The following are required to be escrowed/impounded:

- Hazard Insurance
  - Flood Insurance
- Note:** An escrow account for flood insurance for the life of the loan is required regardless of LTV and/or federal exemptions.
- Windstorm/Hurricane Insurance
  - HO-6 (condominium properties) when not covered by the Master Policy

### Waiver Eligibility

Insurance (excluding Flood Insurance) escrows/impounds may be waived under Conventional loan programs with the following criteria:

Primary Residence	Second Home	Investment Property
All states excluding CA and NM: up to 80% LTV California: up to 90% LTV New Mexico: up to 80% LTV	All states excluding CA: up to 80% LTV California: up to 90% LTV	All states excluding CA: up to 80% LTV California: up to 90% LTV

**End of Document**