

MORTGAGE IMPAIRMENT COVERAGE: Competitive Options Exist for Your Client Despite Market Shifts

Mortgage impairment insurance is a policy purchased by financial institutions to protect their financial interests on property owned by borrowers. Home and business owners are required to carry first-party insurance on the mortgaged property to protect their own interests, but what if they don't buy enough to cover their loan balance or don't buy the proper coverage? This insurance policy is secondary to the owner's own policy and protects only the interest of the financial institution. Since the financial institution cannot be certain that every homeowner and business owner will maintain the proper insurance, they run the risk of having the collateral behind their loan impaired by an uninsured calamity. The policy can also cover a broader range of perils including flood, wave wash, collapse or subsidence and earthquake that might not be insured on the borrower's own policy. A variety of options are available, and limits available can be substantial. The policy is usually written subject to a deductible. The examples of perils on the following page will help illustrate how this coverage can be beneficial to lenders.

While mortgage impairment insurance was standard in the past, the state of the financial industry in general (and subprime loans specifically) has resulted in carriers increasingly withdrawing from the market. Although the exposure is still real, pricing and availability have impacted demand for the coverage. If any of your clients or prospects lend money to property owners, they should be encouraged to research mortgage impairment coverage.

Examples of events that could be covered by a mortgage impairment insurance policy:

- If the borrower's homeowners insurance company becomes insolvent and the borrower's house were to be destroyed by fire, then the coverage can pay for the loss suffered by the financial institution.
- If the borrower's homeowners insurance lapses due to the non-payment of premium and the borrower's house were to be destroyed by fire, then the coverage can pay for the loss suffered by the financial institution.
- If a commercial property owner purchases a property policy that excludes earthquake coverage and the property is destroyed by an earthquake, then the coverage can pay for the loss suffered by the financial institution.
- If the financial institution suffers a loss that is denied by the borrower's homeowners insurance company, then the coverage can cover the cost to investigate and determine whether coverage should be afforded by the homeowners policy or the mortgage impairment policy.
- If the financial institution escrows for the borrower's homeowners insurance and the financial institution fails to pay the insurance premium for this policy on behalf of the borrower, then the policy can pay for damages (borrower's interest) if the borrower's house were to be destroyed by fire.
- If a commercial borrower fails to pay the real estate taxes on a property and the government seizes the property for such non-payment, then the coverage can pay for the loss incurred by the financial institution for its interest in the property.

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To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker or marketing@amwins.com.

If you do not have a contact at AmWINS to help with your financial services risks, [click here for a list of brokers on our website](#).

Legal Disclaimer: Views expressed here do not constitute legal advice. The information contained herein is for general guidance of matter only and not for the purpose of providing legal advice. Discussion of insurance policy language is descriptive only. Every policy has different policy language. Coverage afforded under any insurance policy issued is subject to individual policy terms and conditions. Please refer to your policy for the actual language.

AmWINS Group, Inc.

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- If the financial institution has been escrowing for the borrower's homeowners insurance for the life of the loan but discontinues payment of such insurance after the satisfaction of the loan and fails to inform the borrower that they are now responsible for making the insurance payments, then this coverage can pay for damages (borrower's interest) if the borrower's house were to be destroyed by fire and the homeowners policy had lapsed.
- If a title abstractor makes an error in searching for any liens on a property and the borrower brings suit against the title abstractor as well as the financial institution for their involvement in the process, then this coverage can pay the defense costs for the financial institution (contingent coverage).
- If a title abstractor makes an error in searching for any liens on a property and the title insurance company becomes insolvent (or the title insurance policy has lapsed), then this coverage can pay for the loss to the financial institution's interest (which would have been payable by the title insurance company) as a result of the defect in title.

(Note: The above loss examples are for illustrative purposes only and are not specific to any insurance policy. Please refer to the policy quoted or issued to determine if these events would be insured by your policy.)

Despite the trend to get out of the market, reduce coverage or increase pricing, the AmWINS Financial Services Practice is able to offer the following:

- Limits up to \$5 million
- Worldwide coverage
- A.M. Best "A" rated carrier
- Earthquake coverage in all states except California
- Flood coverage, including lenders unrequired flood coverage
- 90-day automatic protection for all perils
- 3-year policy coverage
- Coverage for newly acquired organizations
- Non-cancelable policy
- Loss of private mortgage insurance protection
- Coverage for mobile homes
- Coverage for both checking and ex-checking
- Title E&O and contingent coverage
- Primary and excess coverage available
- Full compliance with FNMA/GNMA/FHLMC

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