

# The 4 Most Important Things to Tell Reverse Borrowers about Hazard Insurance

**Book 5: Hazard Insurance and Loss Drafts**  
*An eBook Series from Reverse Market Insight*



*While servicing oversight can help minimize potential losses of inefficient loan servicing, it's first essential to properly educate borrowers at the time of origination. One essential area to focus on is the Hazard Insurance and Loss Drafts.*

## What Reverse Borrowers Need to Understand about Hazard Insurance and Loss Drafts

Right at closing, originators should ensure borrowers fully understand four things about Hazard Insurance and Loss Drafts:

1. The Borrower's Responsibility
2. The Servicer's Role
3. The Pros and Cons of Lender-placed Policies
4. How to File a Claim

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## 1. The Borrower's Responsibility is Clear

Reverse mortgage borrowers are always responsible for:

- Maintaining adequate hazard insurance coverage on the property throughout the life of the loan
- Paying the insurance premiums in a timely manner

If damage occurs, borrowers are then responsible for:

- Notifying the insurance provider
- Contacting the loan servicer
- Arranging for the repairs to be successfully completed

## 2. The Servicer's Role is Critical

Reverse mortgage servicers closely monitor the borrower's hazard insurance coverage throughout the life of the loan to make sure it is adequately sized and premium payments are current.

When a claim is made and approved by the insurance provider, servicers oversee disbursement of loss draft funds as repairs are successfully completed and certified.

## 3. The Pros and Cons of Lender-placed Policies

A lender-placed policy ensures that a property is always adequately covered if the borrower allows their own hazard insurance to lapse. The servicer will force-place this insurance coverage on the property to protect their own interest in the property.

Borrowers must understand ahead of time that lender-placed policies:

- Only cover the structure and not personal items like the original policy did
- Typically cost more than a borrower's preferred policy

## 4. How to Correctly File a Claim

### Step 1: Contact the insurance provider

Homeowners should take pictures and document what has occurred so they have clear evidence ready for their insurer when they file their claim.

Borrowers should obtain estimates from three qualified contractors to assure that their claimed amount will be more easily approved by the insurance company.

## Step 2: Contact the loan servicer

When homeowners let servicers know about the damage, they can help them through the process by ensuring repairs are completed appropriately and funds are dispersed.

Just like first-year repairs that were paid from the Repair Set Aside, for damages covered by hazard insurance, HUD requires that all damage repairs are certified by an FHA-approved inspector before the servicer can issue Loss Draft funds. Once approved the servicer can typically release the funds in thirds.

## Step 3: Move swiftly

Delaying repair completion can lead to more property damage that won't be covered by the hazard insurance company because it was not part of the original claim. For example, if an initial claim was approved to repair a damaged roof but delays allowed rain water to damage the interior of the house, the new damages would have to be paid out of pocket by the borrower.

*Note: If Properties Are in a Presidentially-Declared Major Disaster Area (PDMDA)*

Borrowers whose homes sustain property damage caused by a disaster located in a PDMDA may qualify for disaster relief through the Federal Emergency Management Agency (FEMA). These borrowers should first file a claim with their insurance carrier and contact their loan servicer before applying for Disaster Assistance on FEMA's website.

### With FEMA Disaster Relief:

- An inspection may be required to determine if the homeowner qualifies for assistance and how much assistance the homeowner will receive
- FEMA Disaster Assistance will not assist with losses covered under an insurance policy and typically will not cover all losses sustained to the homeowner
- Assistance is paid to homeowners in the form of a grant and is not generally required to be paid back
- Transitional sheltering may be available for homeowners who have applied and been approved for disaster assistance

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## Learn How To Minimize Losses In Any Reverse Servicing Portfolio

Upfront education about the Hazard Insurance and Loss Drafts is just one step to effective loan servicing. Portfolio Managers and HECM Issuers holding financial interest are often unaware of how operational inefficiencies can inflate loss severities within their servicing portfolios. RMI's seasoned servicing experts specialized in reverse can provide insights to transform performance, and our cutting-edge software is equipped with business rules designed to appropriately manage these assets. Contact us to learn about Servicing Oversight with Reverse Market Insight.



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### What are homeowners' responsibilities for hazard insurance?

*Reverse mortgage borrowers are always responsible for maintaining adequate hazard insurance coverage on the property throughout the life of the loan and paying the insurance premiums in a timely manner.*

*If damage occurs, the borrower is responsible for notifying the insurance provider, contacting the loan servicer, and ultimately arranging for the repairs to be successfully completed.*

### How are loss drafts handled?

*Just like first-year repairs that were paid from the Repair Set Aside, for damages covered by hazard insurance, HUD requires that all damage repairs are certified by an FHA-approved inspector before the servicer can issue Loss Draft funds. Once approved the servicer can typically release the funds in thirds.*

### Are lender-placed policies the same as homeowner's original policies?

*Lender-placed policies only cover the structure and don't cover personal items like original policies do, and lender-placed insurance is typically more expensive than the borrower's preferred policy.*

### Why is timeliness of repairs critical?

*Delaying repair completion can lead to more property damage that won't be covered by the hazard insurance company because it was not part of the original claim.*