



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) REAL PROPERTY LENDER-PLACED INSURANCE MODEL ACT



In 2021, The National Association of Insurance Commissioners ("NAIC") adopted the Real Property Lender-Placed Insurance Model Act ("Model Act"), which governs insurance a lender/servicer obtains when a borrower fails to obtain or maintain required insurance. The model applies to all lender-placed hazard insurance written in connection with mortgaged real property, including manufactured and mobile homes **except** for:

- i. transactions involving extensions of credit primarily for business, commercial or agricultural purposes;
- ii. insurance offered by the lender or servicer and elected by the mortgagor at the mortgagor's option;
- iii. insurance purchased by a lender or servicer on real estate owned property; and
- iv. insurance for which no specific charge is made to the mortgagor or the mortgagor's account.

The Act establishes when LPI coverage can become effective or must terminate; defines the permitted scope of coverage; sets forth requirements for filing and approval of LPI rates with states if such an insurance carrier is an admitted insurance carrier; and lists several prohibited practices. This Act provides an overall legal framework for states to use for regulating lender-placed hazard insurance.

Many of the requirements contained in this Model Act are similar to force placed insurance requirements promulgated in the Mortgage Servicing Rules as set forth in the Real Estate Settlement Procedures Act (12 CFR 1024.37). However, the provisions of the Model Act include additional guidance on how to calculate the proper amounts in Section 5: Calculation of Coverage and Payment of Premiums. Section 5 states that any lender-placed insurance hazard coverage, and subsequent calculation of premium, should be based upon the replacement cost value of the property as best determined as follows:

1. The dwelling coverage amount set forth in the most recent evidence of insurance coverage provided by the mortgagee ("last known coverage amount" or "LKCA"), if known to the lender or servicer.
2. If the LKCA is unknown, the replacement cost of the property serving as collateral as calculated by the insurer, unless the use of replacement cost for this purpose is prohibited by other state or federal law.
3. If the LKCA is unknown and the replacement cost is not available or its use is prohibited, the unpaid principal balance of the mortgage loan.

The Model Act does not allow for a calculation of lender-placed insurance coverage amount to be based on the lesser



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of the loan's outstanding principal balance or the replacement cost value, but rather on the LKCA, if known. Should the LKCA not be known, however, the outstanding principal balance of the loan shall be used.

This Section goes on to require that, in the event of a covered loss, any replacement cost coverage provided by an insurer that is more than the mortgage loan balance shall be paid to the borrower.

State Adoption of the Model Act

Since the adoption of the Model Act by the NAIC, three states have enacted substantially similar statutes: Rhode Island (**Title 27 Chapter 27-6.1 Lender Placed Insurance**) effective June 2022, Missouri (**SB 101 Section 379.1850**) effective August 2023, and Florida (**Part XXII Section 627.9901 Collateral Protection Insurance**) effective July 2023.

What This Means to Our Clients

Both OSC and SUI are in the process of making system programming enhancements to accommodate these changes, which will include revisions in required hazard insurance coverage amount calculations in the states of Rhode Island, Missouri and Florida, per their adoption of statutes similar to the NAIC Model Act. This will include revisions within lender procedure guides.

Should you have any questions pertaining to this Bulletin, please reach out to your Client Services Manager.

