

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 9, Topic 11 — Hazard Insurance

Register va-m26-7-ch09-t11

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 9, Topic 11 — Hazard Insurance.

1 verbatim provision(s). Each quote is a verified substring of the regulator-published source snapshot, not retyped.

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 9, Topic 11 — Hazard Insurance

11. Hazard Insurance Change Date July 30, 2019 • This chapter has been revised in its entirety. a. General Requirements The lender is responsible for ensuring that hazard insurance is obtained prior to loan closing, and maintained for the term of the loan. It must be of an insurance type or types and in an amount sufficient to protect the property against risks or hazards to which it may be subjected in the locality. Generally, the type(s) and amount of insurance coverage customary in the locality will satisfy this requirement. Policies must provide that all amounts payable, including unearned premiums, shall be payable to the holder, or to a trustee or other person for the holder. All policy payments received for insured losses must be applied to the restoration of the security or to the loan balance. b. Flood Insurance Requirements The lender is responsible for ensuring that flood insurance is obtained and maintained on any building or personal property that secures a VA loan if the property is located in a special flood hazard area (SFHA), as identified by the Federal Emergency Management Agency (FEMA). The following flood insurance considerations may apply: • The lender/holder's responsibility extends through the entire term of the loan, and includes insuring any secured property that becomes newly located in a SFHA due to FEMA remapping. • The VA appraiser's opinion on whether the property is located in a SFHA does not relieve the lender from responsibility for ensuring flood insurance coverage on a property which is in fact located in a SFHA. • Personal property requiring coverage can include a manufactured home and its appliances, carpet, etc. if they secure the loan. Continued on next page VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues 9-23 11. Hazard Insurance, continued b. Flood Insurance Requirements, continued • The amount of flood insurance must be equal to the lesser of the outstanding principal balance of the loan or the maximum limit of coverage available for the particular type(s) of property under the National Flood Insurance Act. • Contact local property insurance agents or brokers, or FEMA regional offices, for current information on maximum available coverage. Note: VA cannot guarantee a loan if the security is located in a SFHA and flood insurance is not available. c. Consequences of Uninsured Losses VA may reduce a future guaranty claim based on the lender's noncompliance with VA hazard/flood insurance requirements which results in uninsured losses (unless a waiver has been granted). The lender must determine the minimum insurance coverage needed to meet the requirements of 38 C.F.R. 36.4329 for a specific loan. If the required amount of coverage is maintained, no future guaranty claim can be reduced due to inadequate coverage provided there has been no change in the nature, value, or use of the security that would require new or additional coverage (based on what is customary in the locality) since VA's determination was made. Continued on next page VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues 9-24 11. Hazard Insurance, continued d. Special Considerations with Homeowners Associations Condominiums and many townhouse homeowners associations (HOAs) maintain blanket or master policies on common areas, including common mechanical and structural elements. The limits of coverage should be described in the policy, and may also

be referred to in the organizational documents. Lenders should be aware that policies maintained by some HOAs may not provide adequate coverage. Condominium HOAs may protect only the shell of the structure. These “studs out” policies do not cover: • interior walls, • flooring, • plumbing or electrical fixtures, • cabinets, • heating, ventilation, and air conditioning (HVAC) equipment, • appliances, and • other items considered part of the real property. Carefully review the terms of each blanket policy, or confirm with the HOA that adequate coverage is in effect (and check periodically for any changes in coverage). If coverage is inadequate, the homeowner can be held responsible through the terms of the loan instruments, for maintaining coverage on the portions of the real property not covered by the master policy. VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues 9-25

Source: VA Lenders Handbook (VA Pamphlet 26-7), Chapter 9, Topic 11 — Hazard Insurance · snapshot 23782f6842a5daf5