

Consumer Counselor

Insurance Information for Michigan Consumers

Lender-Placed Insurance Coverage

When consumers finance a major purchase like a new home or car, or take a loan out and use property as collateral for the loan, the lender requires the consumer to insure the property against any potential losses. According to the Michigan Insurance Code, if a consumer fails to purchase the necessary insurance or the coverage lapses, the lender can purchase a policy to protect its interest in the property and charge the consumer. This type of coverage is referred to as lender-placed insurance or forced placed coverage.

How Lender-Placed Coverage Works

Lenders will buy an insurance policy if you don't maintain insurance coverage in accordance with the terms of your loan agreement. The loan documents you sign require you to maintain coverage. If coverage is not maintained, the lender will force place coverage to protect their interest in the property, and charge you for this coverage. The loan documents will spell out specifically what must be covered and how proof of coverage is to be submitted to the lender or the company servicing the loan.

Higher Premiums/Limited Coverage

Lender-placed coverage is much more expensive than coverage a borrower can purchase on their own. This coverage only protects the lender's interest in the property and provides limited coverage. For example, it does not provide the mandatory no-fault insurance coverage on your automobile and does not cover owner liability or content coverage for a homeowner.

A lender will try to verify coverage and notify the consumer of the action before force placing coverage. Be aware that most loan contracts allow a lender to secure property insurance back to the date they last show it was covered by the

consumer's personal policy. This could result in a large premium charge being added to the outstanding loan balance.

Avoiding Lender-Placed Insurance

Consumers fail to maintain the required coverage for a variety of reasons—cancellation, a lapse in coverage, or even just a simple oversight. Paying insurance premiums on time and reviewing the paperwork received from your insurance company and lender will prevent lender-placed insurance from being obtained to cover your property.

In the case of a mortgage, the premium for lender-placed insurance may be taken directly from an escrow account, which could result in an increase in your mortgage payment. Many lenders use third-party companies to process payments and insurance information. If paperwork is not processed in a timely manner, or if verification of coverage is mistakenly sent to the wrong address, the lender may not realize the property is adequately covered and secure lender-placed coverage. It is important to check lender information on a policy's declarations page, and carefully review all mortgage statements to ensure the lender has received proper information regarding your insurance coverage.

