

Understanding Homeowners Insurance (HOI)



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A Comprehensive Guide by The Housing Assistant



Introduction

Homeowners Insurance (HOI) protects the lender and the borrower from financial losses due to damage or liability. Coverage types vary based on property type and loan program. This guide explains key insurance terms, forms, and requirements for condos, co-ops, single-family homes, manufactured homes, and new construction.

Key Terms & Definitions

- HOI – Homeowners Insurance policy that protects the structure and liability.
- HO-3 – Standard homeowners’ policy for single-family residences (dwelling + contents).
- HO-6 – Condo unit-owner policy for 'walls-in' coverage not included in HOA master policy.
- ACCORD Certificate – Proof of insurance, but not a legal policy. Should not replace the declaration page.
- Declaration Page – Legally binding part of the HOI policy that details coverage terms, limits, and endorsements.
- Insurance Quote – Not acceptable. A lender must receive the fully executed binder or declaration.

Insurance Requirements by Property Type

1. Single-Family Home

- Must have an HO-3 policy.
- Dwelling coverage must be at least equal to loan amount or full replacement cost.
- Deductible must be reasonable (usually not to exceed 5%).
- Lender must be listed as mortgagee.
- Flood insurance required if property is in a FEMA Special Flood Hazard Area (SFHA).

2. Condominium

- HOA must carry a master insurance policy that covers structure and common elements.
- Borrower must provide HO-6 'walls-in' policy if master doesn't include interior coverage.
- Fidelity Bond required on master policy if 20+ units.
- Confirm walls-in coverage minimum (usually 20% of appraised value).
- Master policy should be verified via Declaration Page, not just Accord.

3. Co-Op

- Similar to condo, but co-op insurance is typically carried entirely by the corporation.
- HO-6 may still be needed for borrower's personal coverage.
- Confirm liability and fire protection on master.
- Lender must receive proof of acceptable corporate policy.

4. Manufactured Home

- Requires specialized HOI covering manufactured/mobile homes.
- Must be affixed to permanent foundation and classified as real property.
- Replacement cost endorsement may be required.
- Must include liability, structure, and additional living expenses coverage.

5. New Construction

- During construction: builder's risk insurance or course-of-construction policy required.
- Upon completion: borrower must provide HO-3 or HO-6, depending on property type.
- Lender must verify coverage begins no later than loan closing.
- Proof of occupancy insurance required if home is delivered with Temporary CO (TCO).

Insurance Requirements Summary by Property Type

Property Type	Policy Type	Additional Requirements	Flood Required	Lender as Loss Payee
Single-Family	HO-3	Full replacement or loan amount	Yes (if in SFHA)	Yes
Condo	HO-6 + Master	Walls-in & master verified	Yes (NFIP)	Yes
Co-Op	Corporate Policy + HO-6	Borrower's liability policy may be needed	Case-by-case	Yes
Manufactured	Specialized Policy	Foundation proof & real property status	Yes	Yes
New Construction	Builder's Risk → HO-3/HO-6	HOI must start by closing	Yes (post-CO)	Yes

Investor-Specific Insurance Coverage Requirements

Fannie Mae (FNMA) & Freddie Mac (FHLMC)

- Hazard coverage must be equal to the lesser of 100% of the insurable value of the improvements or the unpaid principal balance of the mortgage.
- Maximum deductible: 5% of the policy's face amount.
- Lender must be named as mortgagee or loss payee.
- Master policies for condos/co-ops must include fidelity insurance (20+ units).

FHA

- Hazard insurance must equal at least the lesser of 100% of insurable value or loan balance.
- FHA does not specify a max deductible, but it must be customary for the area and type of coverage.
- Lender must be listed as mortgagee and insurer must be licensed.
- Flood insurance is required for properties in SFHA (FEMA zones A or V).

VA

- Must cover the lesser of 100% replacement cost or loan balance.
- Deductibles must be reasonable – typically no more than 5% of face value.
- VA must be satisfied that the policy adequately protects lender and veteran's interest.
- Master policies for condos must be reviewed under LAPP/SAR guidance.

USDA

- Coverage must be sufficient to restore or repair the dwelling to meet basic livability and safety standards.
- Deductibles should be reasonable and aligned with industry standards (generally ≤5%).
- Flood insurance is required if the property is in an SFHA.
- Borrower must ensure insurance remains active through loan term.