

# Behind the Binder

Knowing what's expected on a key insurance form often will prevent headaches

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**B**ROKERS MUST KNOW MANY PIECES of the loan-package puzzle that are necessary for closing a mortgage. All fit into the overall package and into finalizing the deal for borrowers. One piece that has proven elusive for many brokers is the insurance binder.

An insurance binder — or evidence of insurance — is a document that mortgage brokers request and receive from an insurance company. It covers several specific items relating to the property's insurance. It conveys to lenders and borrowers that those items afford them protection in case of a covered loss.

Insurance agents typically create the document when the broker requests coverage. They also often issue the insurance policy at that point. In other words, once the insurance agent creates the binder, insurance coverage typically is in place.

As such, if there is a covered loss between the time of closing and the time the mortgage company receives the official policy from the insurance company, the loss would be covered and the lender's interest protected.

Many brokers, however, don't understand what goes into creating the insurance binder on the part of the insurance agent and company. Likewise, the agent may have misconceptions about what the broker needs from the document and when. It is therefore important for the parties to have open lines of communication.

## The nuts and bolts

In addition to being important to brokers and borrowers as an essential part of the loan package, the insurance binder also is important for the insurance agent and insurance company. But lack of communication between agents, brokers

### What Goes Where?

When you receive an insurance binder, it's important to understand what each part conveys. Be sure to review each section carefully; errors can delay or invalidate coverage.

**Agency/company:** The property's insurance-provider and contact information.

**Insured and property information:** The person and property for which coverage is provided.

**Coverage information:** The type and amount of coverage, as well as the annual premium and dwelling amount. Lenders look at this section to see if their loan interest is covered and what types of coverage are provided.

**Cancellation:** Cancellation policy, including the amount of notice required.

**Numbers and dates:** Loan and insurance-policy numbers, plus coverage dates.

**Remarks:** Where payments should be sent, whether the policy has been paid by the insured, and any additional coverage or special instructions.

**Additional interest:** The mortgagee's name and address, any special wording, and the loan number.

Image courtesy of ACORD Corp.



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and borrowers can create problems.

In the binder, the insurance company states that it will provide coverage for a property for a certain period. For it to provide coverage, the policy must be issued. And when the policy is

issued, the insurance company expects payment in a certain period of time.

As such, when closing is delayed, the insurance company must either cancel the existing policy and then issue another policy with the new date or try to modify the date. Either way, the insurance company must process a change to meet the new date.

To avoid this, the insurance agent may process the binder but wait to issue the policy. This allows the agent to change the effective date as often as the mortgage broker needs.

There is a danger in this, however. If the

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## Behind the Binder

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agent sends an insurance binder to the mortgage broker without notifying the insurance company, and the broker forgets to tell the agent about the closing, there will not be coverage if there is a loss.

Because the insurance agent did not issue the policy, the insurance company will deny the claim because there is no coverage in force. The mortgage company and its client then turn to the agent. Because they have the insurance binder in hand, the insurance agent will be forced to file an errors-and-omissions claim to cover the loss.

Another problem can occur when the policy is issued but the broker does not notify the insurance agent of a canceled closing. For instance, a broker may receive the insurance binder and notification of an issued policy. But when the loan falls through and the client does not close, the broker does not inform the insurance agent. The insurance agent does not learn that the loan didn't close until following up on payment.

Sometimes the insurance company can cancel the policy without a problem. But some insurance companies charge a minimum fee if a policy is canceled after being issued. The question then arises of who pays this fee. This can create a problem for the insurance company because it often needs to eat the cost of the cancellation.

### Communication is key

To avoid such problems, the answer lies in communication. When requesting an insurance binder, brokers should let the insurance agent know how definite the closing will be and ask for a confirmed quote. This will lock the insurance rate in for 30 days. The thing to remember, though, is that this is just a quote and that there is no coverage in place. You must then tell them when the closing will be so that they can issue the policy.

It also helps to give the insurance agent your loan processor's and title company's name and phone number. This gives the agent other sources to contact for follow-up on the closing.

In addition, explain the basics of conditions to close to the insurance agent. Many insurance agents don't understand why mortgage brokers need insurance binders days or weeks before closing. If you tell them that the underwriter

requires the binder as a condition to close the loan, it may help them better understand your processes and enhance your relationship.

So it goes back to communication — communicating the need for the insurance binder, communicating the closing date and communicating when the client actually closes.

If mortgage brokers and insurance agents work together instead of as adversaries, everyone will win. You will close the loan, your client will get the house, and the insurance agent will get the borrower and property covered. **!!!**