

Closing Policies and Procedures

Insurance Coverage and Guidelines

Borrower Name(s)- Must be on policy including NPS

Property Address- Must be exactly as it appears on the Appraisal Report, Purchase Contract if applicable and Title Commitment

New Policies Effective Date- Must reflect a full year coverage and be the day of closing or earlier but must not be for current month the loan is closing

Existing Policies Effective Date- Must remain in force for a minimum of 60 days after funding (expiration date must be after first payment month) Renewal is not available the full year premium will be collected

Miscellaneous Requirements- Policy Information may not be provided in Application form

Dwelling Coverage- Hazard-

Coverage Requirements

- Equal or exceed the total loan amount or
- Must state coverage is based on replacement cost to cover the loan amount or
- Equal or exceed the estimated rebuild cost from a Cost Estimator provided by the Insurance company (the cost estimator must reflect the policy number or property address)

Deductible

- HOI- 5% or \$5,000 whichever is less

Dwelling Coverage -Flood-

Must be escrowed *** Cannot be waived***

1 Year Premium to be paid- can be collected at closing

Must have NFIP Policy – NFIP will only cover Building and Contents if you see additional coverages, it is not an NFIP Policy it is a private policy

Coverage Requirements

- Equal to or exceed the dwelling amount on the hazard insurance or the max 250K allowed by NFIP
- Flood companies do not use the replacement cost, however if the flood coverage equals the hazard coverage and the hazard is based off a replacement cost estimator or has Replacement cost verbiage that is okay.
- Fannie Mae provides a flood insurance calculator tool which can be used to help calculate the required coverage for them:

<https://singlefamily.fanniemae.com/originating-underwriting/flood-insurance-coverage-calculator#/>

Deductible

- 1%

Miscellaneous Requirements –

- Must reflect flood zone
- We do not accept private flood policies on FHA loans – must be issued through the NFIP
- Flood application is only acceptable if it reflects all required information and executed by borrower and agent.

Blanket Policies (Condos/PUDS)-

Includes Semi-Detached PUDS and Townhomes

Must reflect hazard coverage, wind coverage, flood coverage (if applicable), liability coverage, Directors and Officers, coverage amounts, deductibles and effective dates (good for one full year)

Deductible

- 5% max (if any policies deductible exceeds this, the borrower may purchase their own policy, but the coverage must cover the total loan amount)

Miscellaneous Requirements-

- If co-insurance is included, it must be waived or meet Agency Policies with Coinsurance guidelines
- building ordinance or law, steam boiler and machinery/equipment breakdown coverage is included, if applicable
 - The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:
 - 100% of the replacement cost of the building housing the equipment, or
 - \$2 million
- The policy clearly states that each condominium, residential, or substantially residential project is a named insured, or is evidenced to be covered as an insured Association of Owners of the [Name of PUD] Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).
- At a minimum must protect against perils that are normally covered by the standard extended coverage endorsement, or customarily covered for similar types of projects
- The right of subrogation against unit owners must be waived, the insurance cannot be prejudiced by any acts or omissions of unit owners not under the control of the HOA, and the insurance must be primary
- Special other insurances must be included if required (i.e., earthquake insurance for Puerto Rico and some Guam buildings)
- The policy must require the insurer to notify in writing the HOA (or insurance trustee) at least 10 days before it cancels or substantially changes a condo project's coverage

Condo Requirements-

The lender must review the entire condo project insurance policy to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The insurance requirements vary based on the type of HOA master or blanket insurance policy as follows:

- “Single Entity” policy: The policy must cover all the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- “All-In” (sometimes known as an “all-inclusive”) policy: The policy must cover all the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- “Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.

Mortgagee Clause – Must appear in its entirety (no changes, no abbreviations)

Southwest Funding LP
 ISAOA
 13150 Coit Rd Ste 100
 Dallas TX 75240
 Loan Number:

New Construction Property Tax Calculation

Appraised Value x 80% x Tax rate

Non-Purchasing Spouse Information needed for Closing

- Full Legal Name
- Copy of Driver’s License
- Copy of Social Security Card or Executed SSA89
- NPS must be listed on all Insurance

HOA Cert

Must be dated within 60 days of Closing