



GOVERNMENT OF PUERTO RICO  
Office of the Commissioner of Insurance

March 1, 2018

**RULING LETTER NUMBER: CN-2018-235-D**

**TO ALL MORTGAGE LENDERS, BANKS, LOAN ADMINISTRATORS, INSURERS THAT WRITE PROPERTY INSURANCE, AND PROPERTY INSURANCE PRODUCERS**

**TERM FOR DELIVERY OF PROPERTY INSURANCE POLICIES**

Dear Sirs and Madams:

The insurance industry and mortgage institutions have brought to the attention of the Office of the Commissioner of Insurance of Puerto Rico certain questions regarding the term in advance of the renewal date of property insurance or the effective date of coverage that mortgage institutions may require of their customers for the delivery of the property insurance policy that such institutions require for the protection of their interests, so that the policy may be paid with funds that the institution maintains in an escrow account for that purpose.

Section 27.141 of the Puerto Rico Insurance Code provides the following, in its relevant part:

(1) No person may require as a condition for, or in connection with, a loan or the purchase or deposit of property under contract or in connection thereof, that any insurance to be provided or whose premium is to be paid directly or indirectly by or on behalf of the assignee, depository or borrower or on his behalf, on account of such loan, purchase or deposit which secures said loan or is the subject of such a contract be provided in any manner through any particular person, producer or solicitor or any specific insurer.

(2) This section shall not prevent the reasonable exercise by the vendor, lender or depositor of his right to approve or disapprove the insurer selected to underwrite the insurance and to determine the adequacy and timeliness of the insurance offered; but in the exercise of such right:

(a) The insurance policy furnished by the assignee, depository or borrower in his behalf shall not be disapproved if such disapproval is not based exclusively on uniformly applied reasonable standards regarding the scope of the coverage required, the insurer's financial solvency, and the services offered. Said standards shall not discriminate against any particular type of insurer, nor shall they provide for the rejection of an insurance policy because said policy has additional coverage to what is required; and



(b) ...

(c) it shall not be required, directly or indirectly, for any assignee, depositary, borrower, insurer, producer to pay an additional charge with regard to the handling of any insurance policy required to secure the loan, or an additional charge to be paid to substitute insurer's insurance policy for that of another insurer; except that this clause shall not apply to interest that may be charged on loans for the payment of premiums or advances on premiums pursuant to the securing instrument, nor shall it apply to charges for administrative expenses permitted by other statutes, unless the Commissioner regulates the application of such charges in such a way that they are not in conflict with this section.

The Puerto Rico Insurance Code recognizes and guarantees the right of all borrowers to freely and voluntarily choose the insurer producer and the insurer of their preference to provide the property insurance coverage required by mortgage institutions. The provisions of the Insurance Code set forth clear standards with regard to acceptance by such mortgage institutions of the policies provided by their borrowers.

However, the Insurance Code does not establish a specific term in advance of the renewal date for the property insurance or effective date of coverage, within which borrowers must submit the property insurance policy to the mortgage institution, so that the institution may be able to take steps to evaluate the adequacy of the policy and process payment of the premium from the funds held in the escrow account.

Taking into consideration that the process the mortgage institution must carry out to evaluate the policy provided by the customer and to pay for such with the funds held in the escrow account requires some time in advance of the renewal date of the insurance or the effective date of coverage, we find that it is necessary to establish the following guidelines:

In the instances in which the mortgage customer wants to submit to the mortgage institution the property insurance policy through the insurance producer of the customer's preference and using the insurer of the customer's preference, so that the premium for that policy may be paid by the mortgage institution using the funds held in the escrow account, the policy should be delivered to the mortgage institution at least thirty (30) days in advance of the renewal date of the insurance or the effective date of coverage. Upon receiving the property insurance policy from the mortgage customer within the term established above, the mortgage institution shall pay the premium for the policy with the funds in the escrow account.

If the property insurance policy of the mortgage customer cannot be delivered thirty (30) days in advance of the renewal date of the insurance or the effective date of coverage, for reasons that are not attributable to the mortgage institution, the policy must be delivered with the fully-paid premium. In these instances, the receipt of the policy with the fully-paid premium will be deemed as a request for reimbursement of the premium that was not accrued, so that, as provided in

Section 27.160(3) of the Puerto Rico Insurance Code, the financial institution will return to the mortgage customer within thirty (30) days of the receipt of the fully-paid policy, the premium that was not accrued and which the institution collected and retained from the customer in an escrow account.

According to the above, and for the purpose of ensuring the express desires of consumers to appoint the insurance producer of their preference and in compliance with the provisions of Section 27.141 of the Puerto Rico Insurance Code, mortgage institutions shall respond diligently to letters of appointment notified to them by producers from their mortgage customers, and proving in a timely manner the necessary information for issuing the property insurance policy, so that the premium for the policy provided by the client may be paid with the funds in the escrow account and the client will not be financially affected.

Strict compliance with this Ruling Letter is hereby required.

Very truly yours,

**Javier Rivera-Ríos, LUTCF**  
Commissioner of Insurance