



January 29, 2013

Ms. Margaret Burns  
Senior Associate Director  
Federal Housing Finance Agency  
400 7th Street, SW  
Washington, DC 20024

Ms. Maria Fernandez  
Associate Director  
Federal Housing Finance Agency  
400 7th Street, SW  
Washington, DC 20024

Dear Ms. Burns and Ms. Fernandez:

The Consumer Federation of America and the Center for Economic Justice applaud Fannie Mae's initiative to address the unreasonable charges for lender-placed insurance (LPI) and urge Fannie to quickly implement a program of direct purchase of LPI.

The purpose of LPI is to assist mortgage servicers in ensuring that the properties serving as collateral for the mortgage loans serviced are protected with continuous insurance coverage. Mortgage servicers, in collaboration with the large providers of LPI and insurance tracking services – Assurant and QBE – have turned LPI into a profit center for servicers. The result of these LPI schemes – which have included “commissions” to servicer-affiliated insurance agents, profits from captive reinsurance agreements, and subsidies (for example in below cost tracking services) to servicers for non-LPI servicers paid for through inflated LPI charges to borrowers – has been LPI charges far in excess of the reasonable cost of providing LPI coverage with 20% to 50% of the LPI premium being kicked back to servicers.

Regulators responsible for protecting consumers have largely failed to stop LPI abuses. To date, only one state, California, has forced an LPI insurer to reduce rates. And the recent rule by the Consumer Financial Protection Bureau largely avoided the issue of unreasonable LPI charges to borrowers. Fannie Mae's RFP and initiative to introduce competition to the LPI market – by giving the purchaser of LPI some market power that currently does not exist – is important both for taxpayers and borrowers. Taxpayers should not be overpaying mortgage servicers because of unreasonable LPI arrangements between servicers and LPI providers. Borrowers should not be paying twice for the same mortgage services – once through the interest rate and again through inflated LPI charges.

As organizations that have worked on credit-related insurance, generally, and LPI specifically for two decades, and as advocates for borrowers impacted by your actions, we ask for the same participation as mortgage servicers and LPI providers in your LPI initiative.

Sincerely,

Birny Birnbaum  
Executive Director  
Center for Economic Justice

J. Robert Hunter  
Director of Insurance  
Consumer Federation of America