

# **Update on Lender-Placed Home Insurance**

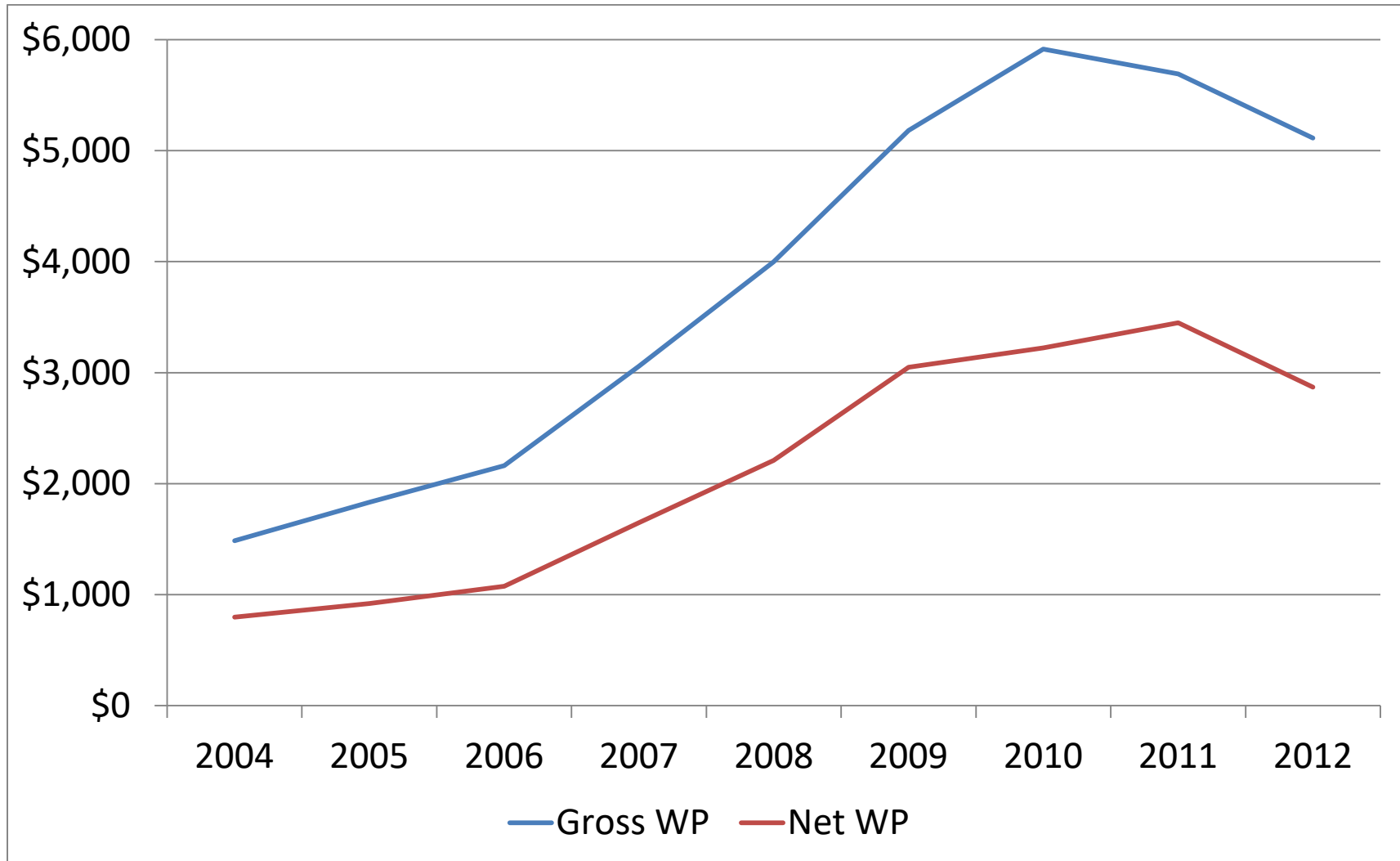
Birny Birnbaum  
Center for Economic Justice

NAIC Property Casualty (C) Committee  
April 8, 2013

## LPI Written Premiums Since 2004 to 2012

| <i>Year</i> | <i>Gross<br/>(\$ Millions)</i> | <i>Net<br/>(\$ Millions)</i> |
|-------------|--------------------------------|------------------------------|
| 2004        | \$1,485                        | \$796                        |
| 2005        | \$1,832                        | \$919                        |
| 2006        | \$2,163                        | \$1,074                      |
| 2007        | \$3,058                        | \$1,647                      |
| 2008        | \$4,000                        | \$2,209                      |
| 2009        | \$5,181                        | \$3,049                      |
| 2010        | \$5,915                        | \$3,223                      |
| 2011        | \$5,692                        | \$3,450                      |
| 2012        | \$5,115                        | \$2,870                      |
| 2004-12     | \$34,442                       | \$19,238                     |

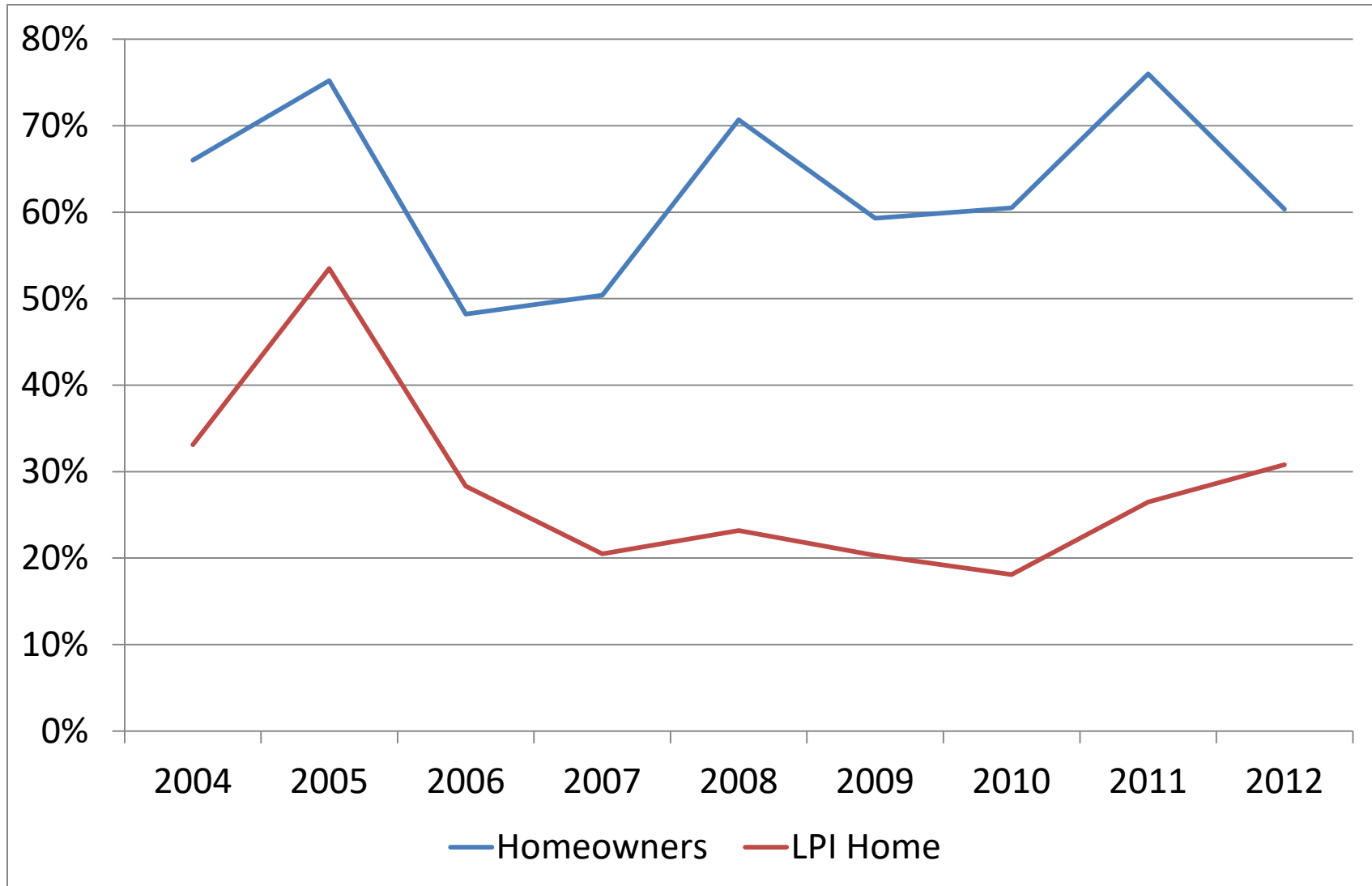
# LPI Written Premiums Since 2004 to 2012



## Countrywide Incurred Loss Ratios Homeowners and LPI, 2004-12

| <i><b>Year</b></i> | <i><b>Homeowners</b></i> | <i><b>LPI Home</b></i> |
|--------------------|--------------------------|------------------------|
| 2004               | 66.0%                    | 33.1%                  |
| 2005               | 75.2%                    | 53.5%                  |
| 2006               | 48.2%                    | 28.3%                  |
| 2007               | 50.4%                    | 20.5%                  |
| 2008               | 70.7%                    | 23.2%                  |
| 2009               | 59.3%                    | 20.3%                  |
| 2010               | 60.5%                    | 18.1%                  |
| 2011               | 76.0%                    | 26.5%                  |
| 2012               | 60.4%                    | 30.8%                  |
| 2004-2012          | 63.0%                    | 25.3%                  |

# Countrywide Incurred Loss Ratios Homeowners and LPI, 2004-12



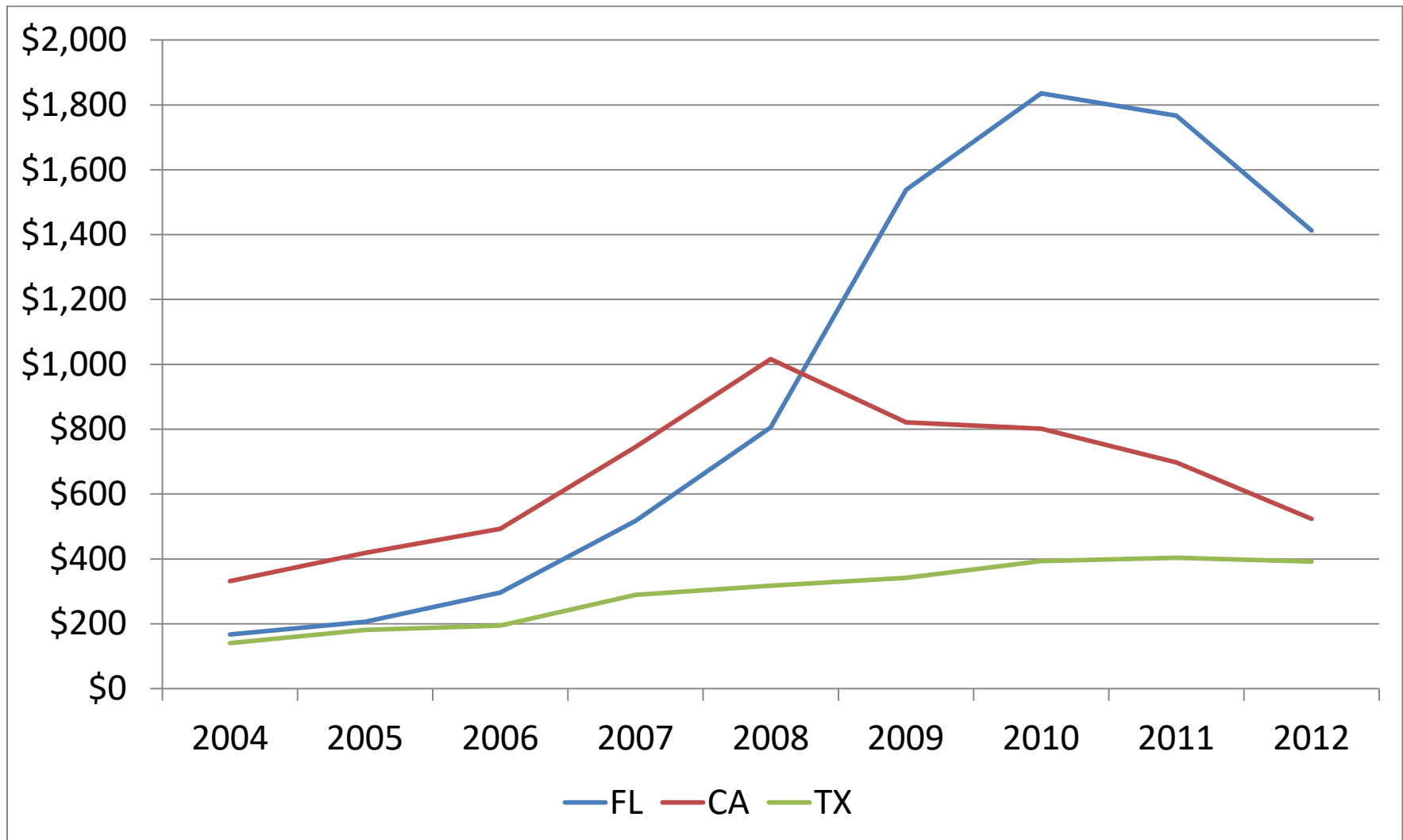
## States with Most LPI Net Written Premium (\$ Millions)

| <i>Year</i> | <i>FL</i> | <i>CA</i> | <i>TX</i> | <i>NY</i> | <i>IL</i> |
|-------------|-----------|-----------|-----------|-----------|-----------|
| 2004        | \$167     | \$331     | \$140     | \$56      | \$47      |
| 2005        | \$206     | \$419     | \$181     | \$73      | \$65      |
| 2006        | \$296     | \$493     | \$195     | \$101     | \$91      |
| 2007        | \$517     | \$745     | \$289     | \$136     | \$118     |
| 2008        | \$805     | \$1,016   | \$318     | \$175     | \$162     |
| 2009        | \$1,538   | \$821     | \$341     | \$240     | \$237     |
| 2010        | \$1,836   | \$802     | \$393     | \$293     | \$266     |
| 2011        | \$1,767   | \$697     | \$404     | \$295     | \$261     |
| 2012        | \$1,412   | \$524     | \$392     | \$296     | \$249     |
| 2004-12     | \$8,544   | \$5,848   | \$2,652   | \$1,663   | \$1,496   |

## States with Most LPI Net Written Premium (\$ Millions)

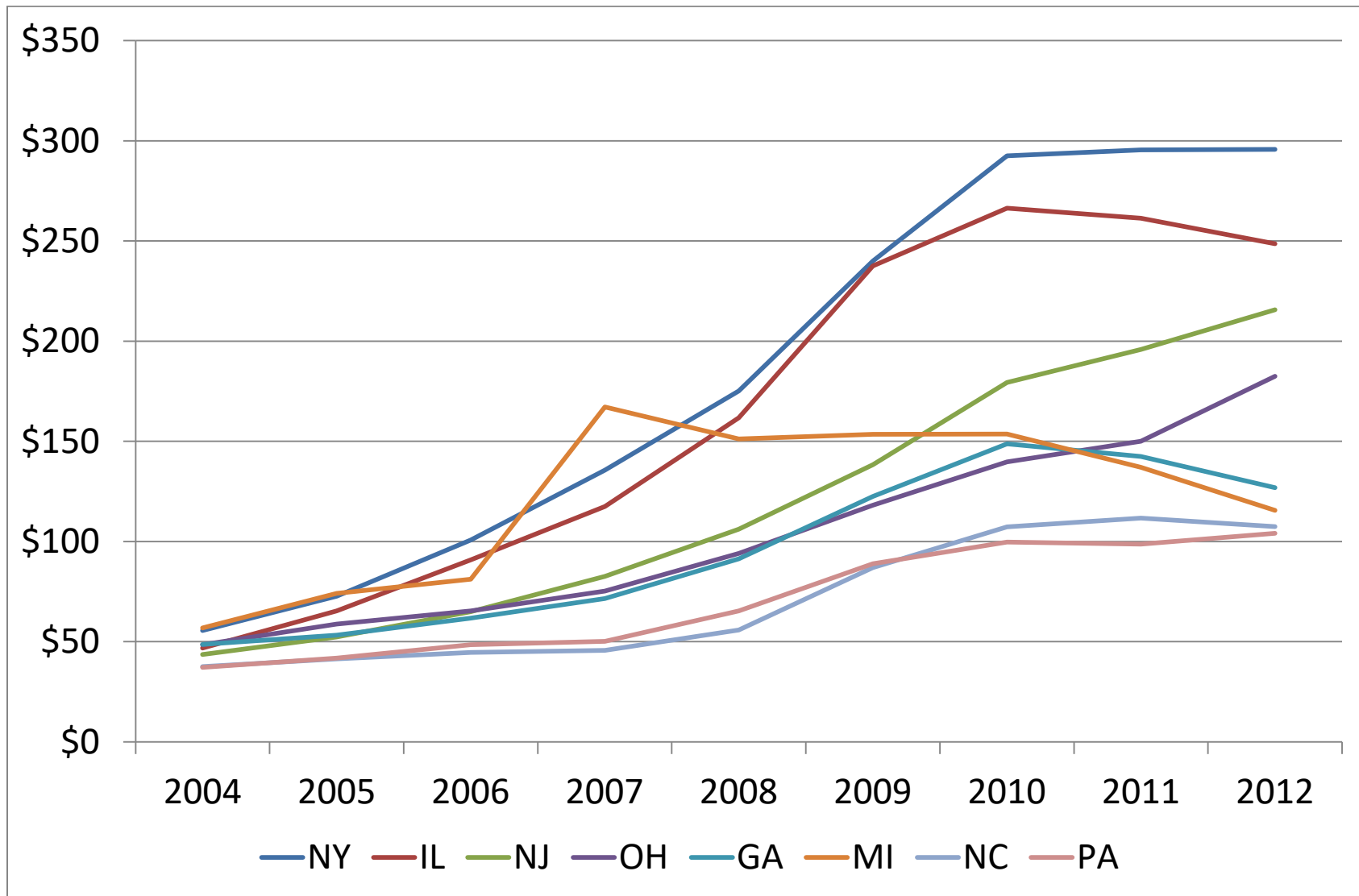
| <i>Year</i> | <i>NJ</i> | <i>OH</i> | <i>GA</i> | <i>MI</i> | <i>NC</i> | <i>PA</i> |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| 2004        | \$44      | \$48      | \$49      | \$57      | \$38      | \$37      |
| 2005        | \$52      | \$59      | \$53      | \$74      | \$41      | \$42      |
| 2006        | \$65      | \$65      | \$62      | \$81      | \$45      | \$48      |
| 2007        | \$83      | \$75      | \$72      | \$167     | \$46      | \$50      |
| 2008        | \$106     | \$94      | \$91      | \$151     | \$56      | \$65      |
| 2009        | \$138     | \$118     | \$122     | \$153     | \$87      | \$89      |
| 2010        | \$179     | \$140     | \$149     | \$154     | \$107     | \$100     |
| 2011        | \$196     | \$150     | \$142     | \$137     | \$112     | \$99      |
| 2012        | \$216     | \$183     | \$127     | \$116     | \$107     | \$104     |
| 2004-12     | \$1,079   | \$932     | \$867     | \$1,090   | \$639     | \$634     |

# States with Most LPI Net Written Premium (\$ Millions) FL, CA and TX





# States with Most LPI Net Written Premium (\$ Millions) NY, IL, NJ, OH, GA, MI, NC and PA



## **Recent LPI Activity:**

### **Foreclosure Abuse Settlements**

In 2012, most state Attorneys General and the United States Department of Justice entered into settlement agreements with several mortgage servicers. The settlement agreements included requirements for LPI.

8. Any force-placed insurance policy must be purchased for a commercially reasonable price.

## **Recent LPI Activity: Consumer Financial Protection Bureau Mortgage Servicing Rules, January 2013**

- Servicer must pay premium to keep voluntary policy in place if the borrower has an escrow account;
- Servicer may not charge for LPI unless specific notices sent at least 45 and 15 days before borrower charged for FPI.
- Except for charges subject to State regulation as the business of insurance and charges authorized by the Flood Disaster Protection Act of 1973, all charges related to force-placed insurance assessed to a borrower by or through the servicer must be bona fide and reasonable.

## **Recent LPI Activity: Fannie Mae and the Federal Housing Finance Authority**

In March 2012, Fannie Mae issued new guidelines to servicers of Fannie loans, including

- No commissions to servicer-affiliated agents
- No LPI issued through surplus lines insurers
- No insurance tracking expenses in LPI

In May 2012, Fannie stayed the implementation indefinitely

In March 2012, Fannie Mae also issued a request for proposal for insurance tracking and LPI services with the intent of purchasing the services directly instead of reimbursing servicers.

## **Recent LPI Activity: Fannie and FHFA**

In March 2013, Fannie's proposal to purchase LPI directly from a consortium of smaller LPI insurers at a reported 30% to 40% price reduction was denied by its regulator, FHFA.

In late March 2013, FHFA issued a request for comment on proposal for Fannie and Freddie to “sellers and servicers from receiving, directly or indirectly, remuneration associated with” LPI commissions or proceeds from captive reinsurance arrangements.

## Recent LPI Activity:

### California Department of Insurance

#### Rate decreases for 4 LPI Insurers:

- American Security IC: -30.5%, \$577 average reduction
- QBE Insurance Corp: -35.0%, \$626 average reduction
- American Modern Home: -21.3% following an earlier reduction of -10.5%, \$604 average reduction
- Great American Assurance: -28.0%

## **Recent LPI Activity: Florida Office of Insurance Regulation**

Approved filing for Praetorian IC to replace the programs of Balboa IC (admitted carrier) and QBE Specialty IC (surplus lines carrier).

New filing reflects rate reduction:

-17.0% for Balboa and

-24.9% for QBE Specialty.

Average premium reduction of around \$1,000

## **Recent LPI Activity:**

### **New York Department of Financial Services**

Investigation starting in 2012 leading to March 2013 settlement with Assurant:

1. \$14 million penalty
2. Assurant agrees to make new rate filings with permissible loss ratio of 62%
3. Refile premium rates at least every three years
4. Refile premium rates by March 31 in any year following a year with an actual loss ratio of 40% or less
5. Separate rates for LPI and REO



## Recent LPI Activity: NY DFS

### 6. Prohibited practices:

- a. No LPI issued on behalf of an affiliated mortgage servicer
- b. No LPI commissions to servicer-affiliated agent or broker
- c. No LPI reinsurance with a servicer-affiliated reinsurer
- d. No LPI contingent commissions based underwriting profit or loss ratios
- e. No provision of below-cost outsourced services to servicers, lenders or their affiliates
- f. No payment to servicers or lenders for servicer or lender expenses in connection with securing business

## **Recent LPI Activity: NY DFS**

7. Prohibited practices become effective if and when they apply to every LPI insurer in NY, whether by legislation, regulation or agreement