Overview of Lender-Place Insurance Products, Markets and Issues

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Overview of Lender-Placed Insurnce

Topics Covered

1. Ensuring Continuous Insurance Coverage
2. The LPI Policy
3. LPI Underwriting of Loan Portfolio
4. Blanket LPI vs. “Regular” LPI
5. Insurance Tracking
6. Other Features of LPI
7. Market Participants
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9. LPI Pricing
10. LPI Premium Charges Relative to Voluntary Property Insurance
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1. Ensuring Continuous Insurance Coverage

Mortgage loan agreements include a requirement that the borrower maintain insurance to protect the property serving as collateral for the loan and, if the borrower fails to maintain the required insurance or fails to provide required evidence of insurance, the lender, through the servicer, may place insurance on the property serving as collateral for the loan and charge the borrower for this insurance.

When the mortgage owner hires a mortgage servicer to service the loan on behalf of the mortgage owner, the mortgage servicing agreement requires the servicer to maintain continuous insurance coverage on the properties serving as collateral for the mortgage loans. Lender-Placed Insurance (LPI) is an important tool for mortgage servicers to meet this requirement and for mortgage markets to operate smoothly.

LPI is a master insurance policy issued to the mortgage servicer as the policyholder and insured. A master policy means that the policy covers a group of properties and not just a single property like the homeowners insurance policy purchased by a borrower. A master policy also means that the policy covers all properties serving as collateral for loans in a specified loan portfolio and, as a property becomes eligible for coverage, a certificate of coverage for the individual property is issued under the master policy.

The LPI insurance policy provides that coverage begins on any property in the servicer's covered mortgage loan portfolio at the instant that the borrower's voluntary policy ceases to provide the required coverage. This provision is called automatic coverage. The LPI policy provides coverage, for example, if the borrower's homeowners insurance policy is canceled by the borrower or the insurance company or lapses because of non-payment of premium. To ensure that the property serving as collateral for its loans is always protected by insurance, the LPI policy provides coverage whenever the borrower's required insurance fails to remain in-force – even if the servicer or its vendor do not discover this failure of insurance coverage for days or weeks after the borrower's policy coverage has ended. The LPI master policy covers all properties in the servicer's loan portfolio and provides coverage as needed.

2. The LPI Policy

Master Policy Covers All Properties Serving as Collateral for Loans in Covered Portfolio

Automatic Coverage at Instant Borrower's Voluntary Policy Lapses

No Individual Property Underwriting

Underwriting at the Loan Portfolio Level

Limited Coverage Compared to a Homeowner's Policy – no personal property (contents), no liability, no additional living expense.

Provides Coverage for Vacant Properties

LPI (borrower still has mortgage) vs. REO (bank-owned property)

3. Underwriting of Loan Portfolio

"Schedule Rating" – Base Rates Adjusted Up or Down for Individual Servicer Clients Based on Characteristics of the Servicer's Loan Portfolio

Examples of Schedule Rating by Assurant, QBE and American Modern Home Follow

4. Blanket LPI vs. "Regular" LPI

Typical LPI Policy – premium charged as coverage is issued under the master policy for individual properties. Premium based primarily on amount of coverage established for the property. Insurer bills servicer periodically for premium on coverage issued under the maser policy. Insurance tracking required for this product. Servicer charges borrower if LPI placed on borrower loan.

Blanket Policy – premiums charged based on number and type of loans / properties in the covered portfolio with a charge for each property in the portfolio. No insurance tracking with a blanket policy. No charging of individual borrowers by servicer; cost of LPI built into loan servicing fee and, consequently, mortgage interest rate.

G. SCHEDULE RATING PLAN

In recognition of the unique risk characteristics of each mortgagee, the rates may be modified in accordance with the following schedule to reflect characteristics of the risk not contemplated in the base rates.

The maximum rate modification is (+) or (-) 25%.

1) Criteria	Range of Modification		
	Debit		Credit
a) Quality of Loan Underwriting	+ 20%	to	- 20%
(1) Quality of Underwriting			
(2) Source of Real Estate Loans – Direct and Indirect			
(3) Overall Delinquency Ratio			
(4) Average Loan to Value			
b) Quality of Loan Portfolio	+15%	to	-15%
(1) Mix - Government and Conventional			
(2) Mix – Fixed and Variable			
(3) Escrowed for Payment of Insurance			
c) Transactional Efficiency Systems Compatibility, Data Quality/Accuracy, Automation, Reconciliation Capabilities, Service Standards	+ 10%	to	- 10%
d) Management Experience	+10%	to	-10%

2) The credits or debits shall be summed and, if applicable, capped by the maximum modification to determine the schedule rate modification.
3) All schedule credits and all schedule debits shall be based on evidence that is contained in the file at the time the schedule credit or debit is applied.
4) The effective date of any schedule credit or debit shall not be any date prior to our receipt of the evidence supporting the credit or debit.
5) Any modification developed under this plan shall be for the term of the policy, subject to company review. If the modification proves to be inequitable because of materially changed conditions, a new modification based upon such changed conditions shall be established. The new modification will apply to all new and renewal certificates effective on or after the date of such change.
6) To be eligible, a minimum policy premium of $1,000 applies.

Lender Name:		**Year:**	
Agent Number:		**State:**	FL
Lender Number:		**Product:**	Hazard Insurance Protection LP
Policy Eff. Date:			

Praetorian Insurance Company

Hazard Insurance Protection

Account Rate Modification Plan

The following debits and credits will be applied to the appropriate base rates to recognize special characteristics of the risk not contemplated in our base rates. The maximum modification allowed is + / - 25%. Documentation supporting qualification for scheduled rating will be maintained by this the policy term, new debits/credits will be calculated and applied on future coverage requests.

Risk Characteristics	**Range of Modification**		**Lender Rating**
	Credit	Debit	
30+ day contractual delinquency rate measured as a % of total active mortgage loans.	-15%	+15%	0.00%
Foreclosure loans measured as a % of total active mortgage loans.	-10%	+10%	0.00%
Named Insured choice to purchase coverage for the lesser of value of improvements or unpaid principal balance.	-10%	+10%	0.00%
Operating Expenses Associated with Lender Placed Program	-15%	+15%	0.00%
Loss History for Hazard Insurance Protection	-15%	+15%	0.00%
Concentration of exposures in high risk (catastrophe prone) areas.	-15%	+15%	0.00%
Average property values.	-15%	+15%	0.00%
	TOTAL		0.00%

Maximum Debit or Credit to be applied is 25%
Qualifier - Minimum Size of Account Must Equal $500,000 Annual W.P. or 50,000 loans

CALIFORNIA
AMERICAN MODERN HOME INSURANCE COMPANY
Mortgage Security Program

Rate Deviations Factors (maximum 25%)

	Factors	Decrease	Increase
1. Loan Portfolio Size	1%	Over 20,000	Under 5,000
2. Loan Origination Type	5%	100% Direct	50% Indirect
3. Geographical Concentration	15%	90% Low Risk Area	50%+ High Risk Area
4. #Foreclosed/REO Properties	5%	1% or less	25% or more
5. #Foreclosed Commercial Properties	5%	1% or less	25% or more
6. Delinquency Ratios	5%	50% Under National Average	50% Above National Average
7. Combined Ratio History	5%	Below 95.0%	
8. Combined Ratio History	10%		Between 95.1% - 97.5%
9. Combined Ratio History	15%		Between 97.6% - 100.0%
10. Combined Ratio History	20%		Above 100.0%
11. General Management Capability	1%	Average of #'s 3+4+5+6 above	Average of #'s 3+4+5+6 above

5. Insurance Tracking

From the American Security Insurance Company (ASIC), part of Assurant, cover letter to a 2013 LPI rate filing in Florida:

> Any type of real estate loan involving a commercial or residential structure requires the borrower to keep sufficient insurance coverage in force to satisfy the lender's interest should the structure (collateral) be destroyed or damaged. In order to make sure this requirement is met, most **lenders** have a department which keeps track of all the insurance policies covering properties for outstanding loans. If borrower provided coverage is cancelled or expired, the **lender** begins sending a series of follow-up letters to the borrower reminding the borrower of his obligation to keep insurance in force. If the borrower fails to comply, the **lender** will request issuance of the policy.

Most servicers outsource all insurance tracking functions, and other activities unrelated to LPI, to the organizations providing the LPI.

For example, Assurant, through its business group called Assurant Specialty Property, provides LPI, insurance tracking and other "hazard outsourcing" or "insurance outsourcing" services, including:

- New Loan Boarding – entering data on new loans into the mortgage servicer's system of record
- Loss Drafts – releasing payments from voluntary insurers to borrowers for claims under voluntary insurance policies
- Escrow Administration – making payments from borrower's escrow accounts to voluntary insurers

QBE, through QBE First provides the same services to mortgage servicers, as well as property tax payment services. Managing General Agents / Managing General Underwriters, in addition to arranging for LPI for servicer clients, will also provide insurance tracking and other outsourcing services for mortgage servicers.

Table 1 lists the activities associated with insurance tracking and placement and administration of the LPI policy and whether those activities are related to the provision of LPI (and the responsibility of the LPI insurer) or related to a requirement of the mortgage servicer as part of its loan servicing responsibilities. In practice, all these activities are carried out by the LPI vendor. A key point of debate is what activities (and associated expenses) should be permitted in LPI charges to borrowers and what activities should be borne by the servicer as part of its loan servicing activities.

LPI-Related Servicing and Insurance Activities

Activity	Servicing vs. Insurance
Tracking Insurance	
Loading Insurance Information into Database	Servicing
Maintaining/Monitoring Insurance Tracking Database	Servicing
Contacting Borrowers, Problems with Insurance	Servicing
Customer Service Borrowers Insurance Evidence	Servicing
Contacting Insurers/Agents Insurance Evidence	Servicing
Placing Insurance	
Notifying Insurer to Issue Binder or Policy	Servicing
Issuing Temporary Binder	**Insurance**
Determining Coverage Amount	Servicing
Servicer Payment to Insurer	**Insurance**
Billing Borrower for LPI Premium	Servicing
Setting up Escrow when necessary for LPI	Servicing
Refunds to Servicer	**Insurance**
Refunds to Borrower	Servicing
Issuing Permanent Policy	**Insurance**
Customer Service about Insurance Placement	Servicing
Customer Service about Borrower Refunds	Servicing
Customer Service about LPI Claims	**Insurance**

6. Other Features of LPI

Perils Covered: Hazard, Flood, Excess Flood, Wind, Excess Wind

LPI vs. REO

Use of Surplus Lines Insurers

LPI is a Commercial Insurance Policy

7. Market Participants

The buyers of LPI are mortgage servicers. The biggest servicers have loan portfolios comprising millions of loans. *Inside Mortgage Finance* reported Wells Fargo, Chase and Citibank serviced 47% of mortgages by mortgage value at the end of the first quarter of 2012. There are many mortgage servicers, but the vast majority have small loan portfolios.

The providers of LPI, insurance tracking and other outsourcing services fall into two groups. The first group consists of Assurant and QBE who each have a few dozen servicer clients, but together provide LPI and tracking services for over 50 million loans. In its recent comments to the FHFA, QBE First wrote that "QBEF clients collectively service approximately 20 million residential and commercial mortgages." In the first quarter 2013 conference call with investment analysts ("earnings call"), Assurant CEO Robert Pollock stated that Assurant "now provide insurance and related services for nearly 33 million loans."

The second group consists predominantly of managing general agents / managing general underwriters who have many small servicer clients. The American Modern Home schedule rating sheet gives a glimpse of this dual market – AMH provides a schedule rating discount if the loan portfolio hits 20,000 loans. My guess is that the smallest Assurant client has a loan portfolio larger than 20,000 loans.

The follow excerpts from the first quarter 2013 conference call between Assurant senior management and investment analysts provides some insight into LPI markets.

Excerpts from Assurant 1st Quarter 2013 Earnings Call Transcript

Assurant CEO Robert Pollock: Revenues also increased in our lender-placed business. We now provide insurance and related services for nearly 33 million loans. This represents a 16% increase from the first quarter of last year, even though we believe the nationwide inventory of mortgage loans declined owe that period.

Our strategy of aligning with market leaders continues to pay off. In the next 2 quarters, we will add another 900,000 loans from portfolio acquisitions by 2 of our clients.

The rollout of our new lender-placed product is on track and will be implemented in 28 states by the end of the second quarter. Our new product forms and rates submitted to New York in March are pending review. In Florida, we will participate in a rate review next month to discuss our previously submitted filing.

Assurant CFO Officer Michael John Peninger: Our placement rate in the first quarter remained elevated at 2.89%, largely driven by loan portfolios acquired in the fourth quarter of 2012. Absent these loans, placement rates would haw declined slightly.

We onboarded 1.7 million loans in the first quarter. And as Rob mentioned, we expect to add another 900,000 loans over the next 2 quarters. These 2.6 million new loans will produce premiums starting later this year. The changing composition of our loan portfolio, combined with macro trends, will lead to lower placement rates in the future; however, the new loans will help sustain our revenues over the course of 2013.

Assurant CFO Michael John Peninger: Well, there's a lot of expenses associated with onboarding the loan, Sean, and we've got a couple of things going on, just adding the loans, getting them onto the system, and then you've got - going forward, you've got the service requirement for those.

Robert B. Pollock
And some of those expenses come before the premium shows up. And that's always been how this business has worked and I think will continue to.

8. Operation of Insurance Tracking and LPI

Servicer is Responsible for Insurance Tracking – Included in Mortgage Servicing Fee Paid by Mortgage Owners

Tracking Vendor's Data Systems Connect with Mortgage Servicer's System of Record

Tracking Vendor Maintains Insurance Database, Updates Servicer System of Record

Positive Tracking: Tracking Vendor Get Bulk of Voluntary Insurance Information Through Electronic Data Interchange with Voluntary Insurers. Servicer System of Record updated to reflect evidence of required insurance.

Positive Tracking: If EDI does not produce required evidence, vendor contacts agent and/or insurer to confirm voluntary insurance. If outreach successful, System of Record updated to reflect evidence of required insurance.

Positive Tracking: If EDI or outreach to agent or insurer does not produce required evidence, letter cycle to borrower is initiated. Initiation of notice letter cycle is automated.

Automated Issuance: If evidence of insurance not produced during period of warning letters and the Servicer System of Record does not show required insurance in place, automated notification to LPI insurer to issue coverage under LPI policy and automated LPI issuance of certificate of coverage to servicer and borrower.

LPI vendor/insurer periodically bills servicer for premium associated with coverage issued in that period.

Servicer charges borrower for LPI – removes amount of charge from escrow if sufficient funds available, adds charge to escrow if escrow exists or creates escrow and adds charge to new escrow if escrow did not exist.

Retroactive Billing: LPI coverage in force from time voluntary policy ceases to be in force. By the time the certificate of coverage is issued for new LPI coverage, at least 45 days has passed from lapse of voluntary policy and premium charge is billed retroactively from period starting at date of lapse for a year of coverage.

Retroactive Billing: If lapse in coverage is discovered, for example, 18 months after lapse occurred, letter cycle must still proceed and now retroactive billing would be for two years of coverage with 18 months plus 45 days earned by LPI insurer. LPI insurer will bill premium to servicer and servicer will charge this amount to borrower.

Flat Cancellations / Full Refund: If coverage issued but borrower, in fact, had required insurance in place, LPI coverage is "flat" cancelled with full refund to servicer. Servicer reverses LPI charge to borrower after some period of time, depending on when borrower produced evidence of insurance and how quickly tracking vendor and servicer process the information. Testimony at NAIC and NY DFS hearings indicate flat cancellations in range of 10% to 20% of LPI placements.

In the event of Borrower Default / Foreclosure, Mortgage Owner Pays LPI Premiums to Mortgage Servicer.

9. LPI Pricing

Historically Very Simple Rating: Rate per $100 of coverage; a few states with territorial rating. Most states had the same filed rate. Base rates varied by servicer client through schedule rating, choice of deductibles

Significantly higher rates for Mobile Homes

Sometimes different rates for REO vs. non-REO

A few years back, Balboa introduced additional rating factors. QBE/Balboa introducing revised rating factors and Assurant introducing new additional rating factors in the past year. Still simple compared to homeowners insurance rating:

ASIC Additional Factors

- Amount of Coverage Factor – Marginal increase in premium decreases with higher coverage amounts
- Coverage Settlement – Basic, Actual Cash Value, Replacement Cost
- Expense Modification – Vary rate based on amount of commission selected by servicer-affiliated agent.

QBE Additional Factors -- Florida

- Amount of Coverage Factor
- Age of Home – 15 years old or more 54% higher rate than 14 years or less

American Modern Home – California

- Single Rate of $0.64 for $100 of coverage, same for LPI Hazard, REO and Vacant
- Blanket Condo and First Mortgage: Rate of $0.017 per $1,000 of outstanding loan balance in the portfolio for Condo and First Mortgage.

10. LPI Premium Charges Relative to Voluntary Property Insurance

In testimony before the NAIC, an Assurant representative stated that the average LPI premium is about twice the average homeowners premium[1]

Rate filings contain some information on average LPI premium. The 2012 Praetorian Insurance Company provided the following:

Balboa/QBE Average LPI Premium, 2006 - 2011

Year	Exposures	Written Premium	Average Premium
7/06-6/07	15,956	$37,427,737	$2,346
7/07-6/08	25,520	$125,281,407	$4,909
7/08-6/09	45,451	$297,001,037	$6,535
7/09-6/10	97,567	$596,331,000	$6,112
7/10-6/11	119,611	$589,176,927	$4,926

The 2012 LPI rate filings in California by ASIC, QBE and American Modern Home indicate average LPI premiums from $1,800 to $2,500. This compares with an average homeowners premium for the standard HO-3 policy of about $930. The American Modern Home rate filing includes a list of each LPI coverage issued from 2009 through 2011 with the premium amount for that coverage. The list shows significant variation in premium amounts and includes some small amounts, likely associated with coverage in force for a short period of time. Two pages listing American Modern Home premiums by policy follow.

[1] See presentation of John Frobose of Assurant at http://www.naic.org/documents/committees_c_120809_public_hearing_lender_placed_insurance_presentation_frobose.pdf

American Modern Home Insurance Company
Mortgage Security Program
California
Summary of Policies-In-Force & Premium 2010

Policy Count	2010 Premium
586	$6,538
587	$3,324
588	$3,523
589	$1,445
590	$1,331
591	$3,768
592	$1,564
593	$186
594	$160
595	$246
596	$854
597	$515
598	$2,069
599	$3,150
600	$3,383
601	$3,285
602	$3,150
603	$2,184
604	$1,848
605	$980
606	$1,400
607	$2,318
608	$3,136
609	$903
610	$3,025
611	$857
612	$2,344
613	$2,260
614	$1,660
615	$2,864
616	$877
617	$239
618	$593
619	$1,119
620	$2,368
621	$1,759
622	$1,753
623	$679
624	$94
625	$152
626	$88
627	$110
628	$2,244
629	$7,718
630	$15,698

American Modern Home Insurance Company
Mortgage Security Program
California
Summary of Policies-In-Force & Premium 2010

Policy Count	2010 Premium
631	$2,528
632	$5,874
633	$430
634	$2,100
635	$3,809
636	$2,814
637	$3,150
638	$1,575
639	$3,809
640	$1,200
641	$1,642
642	$3,065
643	$3,830
644	$2,350
645	$2,190
646	$1,298
647	$2,528
648	$2,864
649	$2,586
650	$4,225
651	$2,403
652	$1,781
653	$1,891
654	$1,889
655	$723
656	$1,979
657	$1,682
658	$1,507
659	$2,572
660	$2,124
661	$2,299
662	$219
663	$145
664	$189
665	$152
666	$158
667	$116
668	$96
669	$106
670	$134
671	$1,407
672	$557
673	$2,491
674	$22,282
675	$1,036

11. LPI Flood

The mechanics of insurance tracking and placement of LPI are the same for LPI Flood as for LPI Hazard, but there are some additional issues with LPI Flood.

Almost all voluntary flood insurance is provided by the National Flood Insurance Program (NFIP). There are caps to the amount of coverage provided under an NFIP policy. Even if a borrower has an NFIP flood policy, the coverage may not meet the lender's coverage amount requirements. LPI Flood is placed for the difference between the required amount of coverage and the amount of coverage provided by the NFIP policy. This is LPI Excess Flood coverage.

In addition, there are LPI requirements under the Flood Disaster Protection Act of 1973.

The Biggart Watters Flood Insurance and Modernization Act of 2012 made significant changes to the NFIP[2]

Premium Rate Structure Reforms

- Phases out subsidies for second homes, business properties, severe repetitive loss properties, or substantially improved/damaged properties. Rates for these properties will increase by 25 percent per year until premiums meet the full actuarial cost.
- Requires that any premiums for a new flood insurance policy for a property not currently covered must be based on actuarial rates.
- Raises the annual cap on premium rate increases for any property (except those subject to the phase-out) from 10 percent to 20 percent.
- Requires FEMA to allow policyholders that are not required to have their premiums escrowed every month with their lender to pay their premiums in installments. FEMA currently requires a single annual premium payment.

Premium adjustment

Requires premium rate adjustment on any property located in an NFIP-participating area to accurately reflect current risk of flood to such property. The determination is made after the effective date of any revised or updated flood insurance rate map. Any increase in the risk premium will be phased in over a 5-year period, at a rate of 20 percent. With respect to properties located in areas not previously designated as an area having special flood hazards and becomes designated as such an area, the chargeable risk premium rate will be phased in over 5-year period, at a rate of 20 percent following the effective date of the remapping.

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[2] From the NAIC summary of the Act at:
http://www.naic.org/documents/cipr_events_2012_cipr_summit_overview.pdf

Escrow of flood insurance
Provides for regulated lenders to escrow flood insurance payments for loans made two or more years after enactment of the law.

The impact of Biggart Watters is that many consumers currently required to purchase flood insurance will see large rate increases for NFIP policies and many consumers not previously required to purchase flood insurance will now be required to purchase flood insurance. One likely outcome is a significant increase in LPI Flood placements.

A countervailing impact of Biggart Watters is the requirement for lenders to create escrow accounts for flood insurance. When combined with the new requirements of the Consumer Financial Protection Bureau's (CFPB) mortgage servicing rule that servicers maintain voluntary insurance policies which would otherwise be canceled or lapse because of non-payment of premium for loans with existing escrow, the requirement for an escrow for flood insurance could significantly reduce LPI Flood placements.

The NFIP has its own LPI Flood product called the Mortgage Portfolio Protection Program. A recent description of the program is attached to the handout. The MPPP rates are significantly higher than LPI Flood rates. I don't have data on the amount of coverage issued under the MPPP.

12. LPI Insurers

Credit Insurance Experience Exhibit (CIEE)

The CIEE is a supplement to the statutory annual financial statement filed by insurers with state insurance departments and the National Association of Insurance Commissioners (NAIC)

CIEE is the only source for company-specific LPI Data by state other than individual state rate filings. Since not all states require rate filings and LPI insurers have gone many years without making new rate filings, compiling data form individual rate filings not possible, let alone feasible.

CIEE revised with reporting year 2004 for explicit reporting of LPI. CIEE Part 4A – Credit Property Insurance: includes columns for Creditor-Placed Home Single Interest and Creditor-Placed Home Dual Interest (as well as Creditor-Placed Auto and Credit Personal Property). Each insurance company writing this type of insurance is required to report its experience by state.

CIEE LPI data includes LPI Hazard, LPI Flood and LPI Wind Only. Data elements include:

1.1 Gross Written Premiums
1.2 Refunds on Terminations
1.3 New Written Premiums (Lines 1.1 – 1.2)
1.4 Premium Reserves, Start of Period
1.5 Premium Reserves, End of Period
1.6 Actual Earned Premiums (Lines 1.3 + 1.4 – 1.5)

2.1 Claims Paid
2.2 Total Claims Reserves, Start of Period
2.3 Total Claim Reserves, End of Period
2.4 Incurred Claims (Lines 2.1 – 2.2 + 2.3)

3.1 Commission and Service Fees Incurred
3.2 Other Incurred Compensation
3.3 Total Incurred Compensation (Lines 3.1 + 3.2)

5.1 Defense and Cost Containment Expense Incurred
5.2 Adjusting and Other Expenses Incurred

LPI Nationwide Experience, 2004-2012

	Premium ($ Millions)			Loss Ratios	
Year	GWP	NWP	EP	Paid LR	Incurred LR
2004	$1,485	$796	$807	33.5%	33.1%
2005	$1,832	$919	$850	40.4%	53.5%
2006	$2,163	$1,074	$988	29.5%	29.0%
2007	$3,058	$1,647	$1,402	16.0%	20.5%
2008	$4,000	$2,209	$1,999	20.1%	23.3%
2009	$5,181	$3,049	$2,641	16.0%	20.7%
2010	$5,915	$3,223	$3,248	15.7%	17.3%
2011	$5,692	$3,450	$3,256	22.5%	24.7%
2012	$5,115	$2,870	$3,187	30.5%	30.8%
2004-12	$34,442	$19,238	$18,378	22.4%	25.3%

CIEE Data Issues

QBE – Reported in CIEE Part 5, not part 4A. Gross written premiums reported incorrectly as same as net written premiums.

Balboa – 2005 and 2006 Newport data identical, 2006 Meritplan data not reported

Zurich – No data reported for Empire Fire & Marine, Empire Indemnity, Empire IC, Fidelity & Deposit

American Modern Home – No data reported (2012 CA rate filing show $29 million, $23 million and $11 million LPI written premium in 2009, 2010 and 2011, respectively)

Great American – No data reported (2012 CA rate filing shows $8 to $ 12 written premium annually, 2008 to 2011)

Lloyds – No Data reported

Two LPI Markets

Assurant and QBE/Balboa with Largest Mortgage Servicers

Managing General Agents / Managing General Underwriters with Remaining Mortgage Servicers

LPI Net Written Premium Reported in CIEE by Insurer Group, 2004 2012 ($ Millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2004-2012
Assurant	**$542.9**	**$640.6**	**$851.1**	**$1,219.2**	**$1,640.1**	**$1,744.8**	**$1,810.4**	**$2,021.9**	**$2,186.4**	**$12,657.5**
Amer Bankers FL	$50.7	$52.4	$51.3	$36.0	$36.5	$34.3	$32.3	$29.9	$31.1	$354.4
Amer Reliable						$6.1	$11.2	$13.3	$25.3	$55.9
Amer Security	$416.1	$508.7	$709.9	$1,078.9	$1,495.4	$1,586.7	$1,636.3	$1,713.7	$1,847.0	$10,992.9
Standard Guaranty	$70.4	$75.0	$85.3	$104.5	$108.1	$110.2	$116.0	$141.9	$144.7	$956.1
Voyager IC	$5.8	$4.5	$4.6	($0.1)	($0.0)	$7.5	$14.6	$123.1	$138.2	$298.2
Balboa	**$237.1**	**$242.1**	**$209.7**	**$418.3**	**$550.6**	**$1,138.4**	**$1,060.3**	**$1,112.8**	**$355.5**	**$5,324.8**
Balboa IC	$141.1	$134.7	$127.4	$185.5	$281.9	$732.3	$678.0	$653.7	$238.0	$3,172.7
Meritplan IC	$16.5	$25.1		$72.8	$47.1	$422.6	$375.5	$454.5	$117.4	$1,531.5
Newport IC	$79.4	$82.3	$82.3	$160.0	$221.7	($16.6)	$6.8	$4.5	$0.1	$620.6
QBE					**$12.6**	**$155.1**	**$341.8**	**$305.9**	**$310.4**	**$1,125.8**
QBE Ins Corp					$12.1	$28.8	$87.2	$78.7	$143.4	$350.2
QBE Specialty					$0.5	$126.3	$254.6	$227.1	$167.0	$775.6
Zurich	**$2.0**	**$1.7**	**$1.8**	**$3.5**	**$4.5**	**$4.7**	**$4.3**	**$3.3**	**$11.2**	**$37.1**
Yosemite IC	$2.0	$1.7	$1.8	$3.5	$4.5	$4.7	$4.3	$3.3	$11.2	$37.1
Ace	**$9.5**	**$8.6**	**$9.9**	**$5.1**						**$33.1**
Arch						**$3.7**	**$3.8**	**$3.1**	**$4.1**	**$14.7**
Life of South	**$10.0**	**$13.2**	**$1.0**	**$1.0**	**$1.5**	**$1.6**	**$2.2**	**$2.2**	**$2.1**	**$34.8**
Total	**$796.2**	**$918.7**	**$1,074.4**	**$1,647.1**	**$2,209.3**	**$3,048.9**	**$3,223.3**	**$3,449.8**	**$2,870.1**	**$19,237.8**

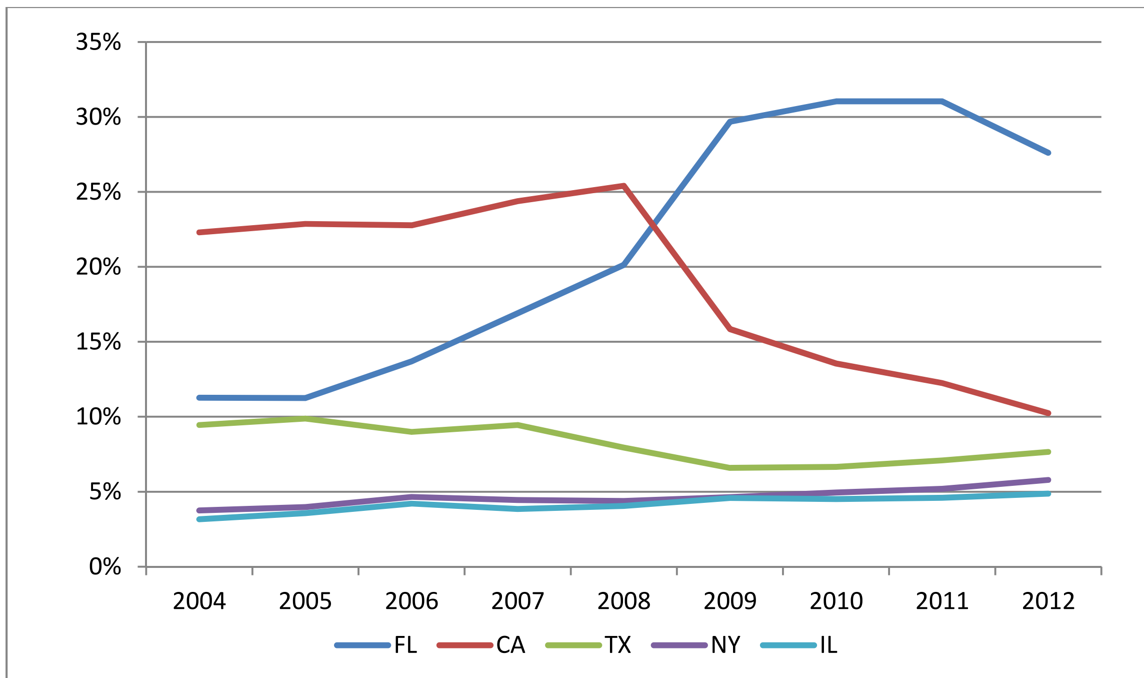
LPI Net Written Premium Market Share Reported in CIEE by Insurer Group, 2004 2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2004-2012
Assurant	68.2%	69.7%	79.2%	74.0%	74.2%	57.2%	56.2%	58.6%	76.2%	65.8%
Balboa	29.8%	26.4%	19.5%	25.4%	24.9%	37.3%	32.9%	32.3%	12.4%	27.7%
QBE					0.6%	5.1%	10.6%	8.9%	10.8%	5.9%
Zurich	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.4%	0.2%
Ace	1.2%	0.9%	0.9%	0.3%						0.2%
Arch						0.1%	0.1%	0.1%	0.1%	0.1%
Life of South	1.3%	1.4%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%

13. LPI by State

The graph below shows the largest states by percentage of total countrywide LPI premiums from 2004 to 2012. Over the past five years, the largest state for LPI premiums, by far, has been Florida. The tables that follow list LPI premium by state and state share of countrywide LPI premium.

Figure 1
Top States by Share of LPI Premium, 2004 – 2012



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LPI NWP by State, 2004-2012 ($ Millions)

State	2004	2005	2006	2007	2008	2009	2010	2011	2012
FL	$84.2	$99.3	$142.8	$294.7	$506.9	$1,046.6	$1,184.1	$1,211.3	$981.0
CA	$165.8	$177.1	$227.3	$387.5	$536.1	$425.4	$356.4	$352.3	$198.4
NY	$28.8	$32.7	$48.2	$72.4	$95.9	$143.7	$174.5	$194.2	$188.1
TX	$84.7	$98.5	$94.5	$143.1	$153.7	$170.7	$180.4	$210.7	$172.9
NJ	$22.9	$25.1	$31.1	$44.4	$60.5	$86.9	$111.0	$136.6	$149.9
IL	$23.6	$30.3	$42.1	$60.3	$87.2	$133.1	$131.5	$158.3	$128.6
OH	$28.8	$34.5	$37.7	$44.2	$53.5	$66.8	$73.3	$100.8	$123.9
GA	$26.7	$29.1	$34.8	$39.1	$49.9	$69.4	$74.1	$80.3	$60.1
PA	$20.6	$24.2	$28.8	$29.0	$38.8	$54.6	$54.3	$62.1	$58.7
NC	$18.8	$21.7	$22.0	$22.8	$28.5	$48.5	$51.8	$65.3	$55.4
WA	$9.9	$10.1	$11.0	$13.7	$19.1	$30.8	$37.4	$41.2	$47.6
MD	$10.7	$11.9	$13.0	$21.4	$28.8	$41.1	$36.5	$42.9	$45.2
LA	$20.5	$25.0	$12.6	$19.1	$25.2	$40.4	$52.7	$54.4	$44.0
MI	$33.2	$40.3	$47.6	$96.3	$78.9	$81.5	$70.9	$68.5	$42.1
VA	$9.6	$11.9	$13.9	$24.9	$27.1	$33.5	$39.2	$38.3	$39.6
AL	$16.0	$16.0	$17.3	$20.2	$25.0	$33.2	$37.2	$37.9	$37.1
IN	$15.0	$18.3	$19.9	$23.7	$30.8	$41.2	$42.8	$52.4	$36.7
MA	$6.9	$9.3	$13.5	$21.6	$25.9	$37.2	$37.2	$37.9	$35.2
TN	$17.5	$21.3	$22.8	$23.9	$28.6	$37.1	$38.3	$44.5	$32.2
SC	$20.6	$26.9	$21.5	$19.7	$22.6	$32.1	$31.2	$36.3	$31.8
MO	$15.0	$14.2	$15.7	$18.9	$22.7	$31.7	$31.6	$33.8	$23.7
MS	$10.1	$12.8	$13.8	$12.4	$17.2	$24.3	$24.6	$29.3	$23.3
AZ	$11.8	$12.2	$15.5	$27.7	$39.8	$47.2	$43.0	$31.3	$22.3
CT	$5.2	$6.1	$8.0	$11.0	$14.6	$21.6	$21.4	$26.6	$22.2
OK	$9.3	$9.6	$9.7	$11.0	$14.1	$18.1	$20.5	$23.4	$21.6
UT	$4.1	$3.9	$3.3	$5.1	$7.5	$11.6	$10.3	$23.5	$21.2
NV	$5.1	$6.4	$9.1	$18.3	$24.7	$32.2	$35.3	$25.1	$20.9
WI	$4.4	$6.1	$8.0	$10.6	$15.2	$21.3	$22.3	$22.7	$19.6
KY	$8.4	$14.2	$9.2	$9.4	$11.5	$16.9	$17.0	$21.2	$18.5
CO	$10.6	$12.2	$14.1	$19.8	$18.0	$24.6	$25.3	$23.3	$18.5
OR	$5.1	$5.2	$5.1	$7.1	$10.2	$17.1	$16.6	$18.0	$18.1
AR	$7.0	$7.1	$7.4	$7.3	$8.8	$12.4	$13.2	$15.0	$16.4
MN	$6.4	$7.6	$11.6	$17.8	$22.0	$22.9	$22.6	$19.4	$15.0
NM	$4.7	$5.0	$4.7	$5.6	$7.4	$10.7	$13.1	$13.8	$13.0
HI	$1.2	$1.8	$2.2	$3.6	$3.5	$8.1	$10.1	$10.8	$11.1
RI	$1.2	$1.7	$2.5	$5.0	$5.8	$8.7	$7.8	$8.9	$8.2
KS	$3.4	$4.1	$4.6	$4.8	$5.8	$8.4	$8.7	$9.6	$7.9
ME	$1.3	$1.5	$1.9	$2.7	$3.8	$6.4	$6.9	$8.6	$7.6
IA	$2.3	$3.0	$3.3	$3.9	$4.8	$7.1	$7.5	$8.5	$6.8
NH	$1.2	$1.7	$2.1	$2.9	$3.8	$5.7	$7.0	$7.0	$6.7
DE	$2.0	$4.5	$6.0	$2.9	$3.9	$5.8	$6.5	$7.6	$6.1
WV	$2.9	$4.4	$4.2	$3.2	$4.6	$5.9	$6.1	$6.5	$5.9
ID	$1.5	$1.7	$1.6	$2.8	$4.0	$6.7	$6.5	$5.5	$5.4
DC	$2.1	$2.0	$2.4	$3.4	$3.8	$4.3	$4.7	$4.6	$4.4
NE	$1.3	$2.2	$2.0	$2.5	$3.1	$3.6	$4.0	$4.4	$3.8
VT	$0.5	$0.6	$0.6	$0.8	$1.0	$1.8	$2.2	$2.6	$2.5
MT	$0.9	$0.7	$0.7	$1.0	$1.1	$2.6	$3.1	$3.0	$2.4
AK	$0.8	$0.7	$0.6	$1.2	$1.2	$1.8	$1.9	$1.7	$2.2
SD	$0.6	$0.7	$0.7	$0.8	$1.0	$1.7	$1.6	$1.8	$1.7
WY	$0.7	$0.6	$0.5	$1.0	$0.8	$1.2	$1.7	$1.5	$1.4
OT	$0.0	$0.0	$0.0	$0.0	$0.0	$1.0	$3.3	$2.3	$1.0
PR	$0.1	$0.2	$0.3	$0.0	$0.0	$0.0	$0.0	$1.5	$0.9
ND	$0.3	$0.3	$0.3	$0.4	$0.4	$0.7	$0.7	$0.7	$0.8
VI	$0.0	$0.2	$0.3	$0.0	$0.0	$0.0	$0.0	$0.4	$0.5
GU	$0.0	$0.0	$0.0	$0.3	$0.3	$0.2	$0.5	$0.1	$0.0
AS	$0.0	$0.0	$0.0	$0.3	$0.2	$0.6	$0.9	$0.0	$0.0
US	$796.2	$918.7	$1,074.4	$1,647.1	$2,2[illegible].3	$3,048.9	$3,223.3	$3,449.8	$2,870.1

LPI NWP Market Share by State, 2004-2012 ($ Millions)

State	2004	2005	2006	2007	2008	2009	2010	2011	2012
FL	10.6%	10.8%	13.3%	17.9%	22.9%	34.3%	36.7%	35.1%	34.2%
CA	20.8%	19.3%	21.2%	23.5%	24.3%	14.0%	11.1%	10.2%	6.9%
NY	3.6%	3.6%	4.5%	4.4%	4.3%	4.7%	5.4%	5.6%	6.6%
TX	10.6%	10.7%	8.8%	8.7%	7.0%	5.6%	5.6%	6.1%	6.0%
NJ	2.9%	2.7%	2.9%	2.7%	2.7%	2.9%	3.4%	4.0%	5.2%
IL	3.0%	3.3%	3.9%	3.7%	3.9%	4.4%	4.1%	4.6%	4.5%
OH	3.6%	3.8%	3.5%	2.7%	2.4%	2.2%	2.3%	2.9%	4.3%
GA	3.4%	3.2%	3.2%	2.4%	2.3%	2.3%	2.3%	2.3%	2.1%
PA	2.6%	2.6%	2.7%	1.8%	1.8%	1.8%	1.7%	1.8%	2.0%
NC	2.4%	2.4%	2.0%	1.4%	1.3%	1.6%	1.6%	1.9%	1.9%
WA	1.2%	1.1%	1.0%	0.8%	0.9%	1.0%	1.2%	1.2%	1.7%
MD	1.3%	1.3%	1.2%	1.3%	1.3%	1.3%	1.1%	1.2%	1.6%
LA	2.6%	2.7%	1.2%	1.2%	1.1%	1.3%	1.6%	1.6%	1.5%
MI	4.2%	4.4%	4.4%	5.8%	3.6%	2.7%	2.2%	2.0%	1.5%
VA	1.2%	1.3%	1.3%	1.5%	1.2%	1.1%	1.2%	1.1%	1.4%
AL	2.0%	1.7%	1.6%	1.2%	1.1%	1.1%	1.2%	1.1%	1.3%
IN	1.9%	2.0%	1.9%	1.4%	1.4%	1.4%	1.3%	1.5%	1.3%
MA	0.9%	1.0%	1.3%	1.3%	1.2%	1.2%	1.2%	1.1%	1.2%
TN	2.2%	2.3%	2.1%	1.5%	1.3%	1.2%	1.2%	1.3%	1.1%
SC	2.6%	2.9%	2.0%	1.2%	1.0%	1.1%	1.0%	1.1%	1.1%
MO	1.9%	1.5%	1.5%	1.1%	1.0%	1.0%	1.0%	1.0%	0.8%
MS	1.3%	1.4%	1.3%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%
AZ	1.5%	1.3%	1.4%	1.7%	1.8%	1.5%	1.3%	0.9%	0.8%
CT	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%
OK	1.2%	1.1%	0.9%	0.7%	0.6%	0.6%	0.6%	0.7%	0.8%
UT	0.5%	0.4%	0.3%	0.3%	0.3%	0.4%	0.3%	0.7%	0.7%
NV	0.6%	0.7%	0.8%	1.1%	1.1%	1.1%	1.1%	0.7%	0.7%
WI	0.6%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%
KY	1.1%	1.5%	0.9%	0.6%	0.5%	0.6%	0.5%	0.6%	0.6%
CO	1.3%	1.3%	1.3%	1.2%	0.8%	0.8%	0.8%	0.7%	0.6%
OR	0.6%	0.6%	0.5%	0.4%	0.5%	0.6%	0.5%	0.5%	0.6%
AR	0.9%	0.8%	0.7%	0.4%	0.4%	0.4%	0.4%	0.4%	0.6%
MN	0.8%	0.8%	1.1%	1.1%	1.0%	0.8%	0.7%	0.6%	0.5%
NM	0.6%	0.5%	0.4%	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%
HI	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%
RI	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%
KS	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
ME	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
IA	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
NH	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
DE	0.3%	0.5%	0.6%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
WV	0.4%	0.5%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
ID	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
DC	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%
NE	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
VT	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
MT	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
AK	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%
SD	0.1%	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%
WY	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
OT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%
PR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ND	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
VI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
US	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

14. LPI Loss Ratios

Why are LPI rates and premium charges so much greater than homeowners insurance?

Industry argues:

- Lack of individual underwriting, take-all-comers means LPI is much riskier than homeowners insurance for which the voluntary insurer can underwrite and reject individual properties.
- LPI exposures are concentrated in cat-prone areas and, consequently, more susceptible to catastrophe losses.
- LPI expenses are greater than expenses for homeowners insurance because of the special activities associated with administering an LPI policy.
- LPI expenses are greater than expenses for homeowners because many or most LPI coverages are canceled before the full term of coverage.

If these arguments are true, we would expect to see higher loss ratios for LPI than homeowners insurance. With average LPI premiums twice that of average homeowners insurance, the same percentage for expenses produces twice as many expense dollars. We would not expect twice as many expense dollars for LPI than for homeowners since there is no individual property underwriting – which means no expenses for property inspection, obtaining credit histories, CLUE (claims history reports), obtaining information from the policyholder about the amount and types of coverages as well as other acquisition expenses not found with LPI.

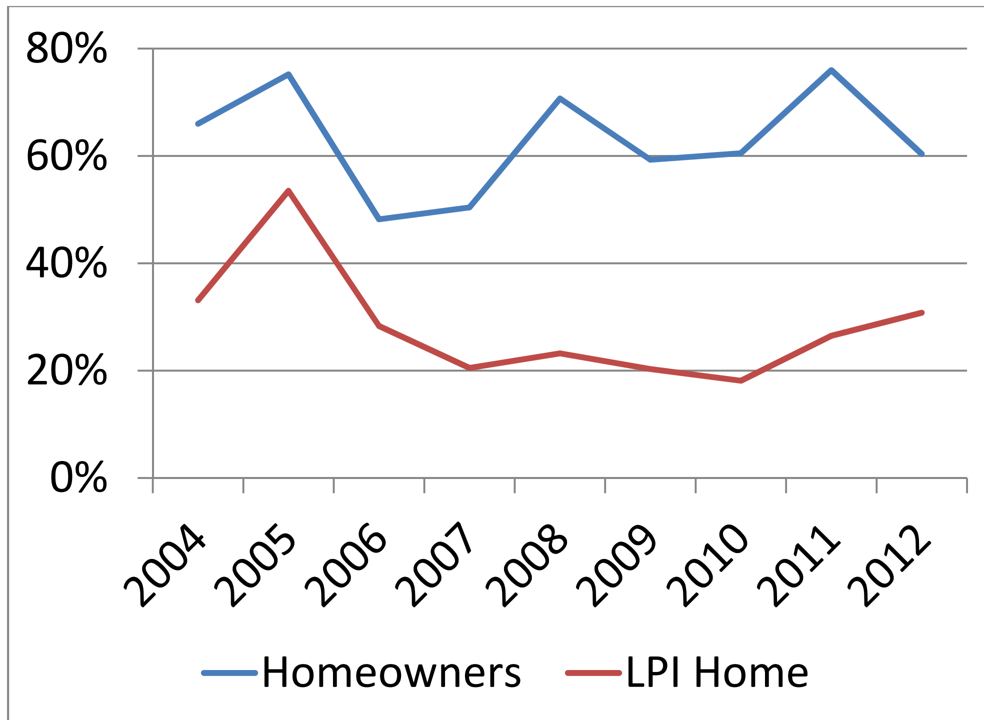
So, if we assume LPI poses greater risk and, consequently, produces greater claims and the expense percentage of LPI is less than the expense percentage of homeowners – even with the lower LPI expense percentage producing more expense dollars per covered property – we would expect that claim payments for LPI would be a greater percentage of premium than they are for homeowners insurance. Stated differently, based on the industry explanation for higher LPI rates, we would expect higher LPI loss ratios than homeowners loss ratios. And we would also expect greater volatility in LPI loss ratios than homeowners loss ratios if LPI is more susceptibility to catastrophe events.

The loss ratio results from 2004 through 2012 show LPI loss ratios have been far less than homeowners loss ratios.

Loss Ratios for Homeowners and LPI, All States, 2004-2012

Year	Homeowners	LPI Home
2004	66.0%	33.1%
2005	75.2%	53.5%
2006	48.2%	29.0%
2007	50.4%	20.5%
2008	70.7%	23.3%
2009	59.3%	20.7%
2010	60.5%	17.3%
2011	75.4%	24.7%
2012	60.4%	30.8%
2004-2012	63.0%	25.3%

Loss Ratios for Homeowners and LPI, All States, 2004-2012



The table below shows that in Florida – the state with the greatest catastrophe risk and the largest amount of LPI premium – LPI loss ratios were far less than homeowners loss ratios in years with and without catastrophe events. The table also shows homeowners and LPI loss ratios for all states except Florida. Again, the LPI loss ratios are far below the homeowners loss ratios. Of particular note are the years 2011 and 2012. While the homeowners loss ratio jumped in 2011 because of major catastrophe events, the LPI loss ratio remained low in 2011. And in 2012, the year of Superstorm Sandy, despite flood being covered by LPI but not by homeowners insurance, the LPI loss ratio remained far below the homeowners loss ratio.

Homeowners and LPI Loss Ratios, Florida Only and All States Ex Florida, 2004-12

	FL HO	FL LPI	All State Ex FL HO	All States EX FL LPI
2004	303.0%	75.2%	52.2%	28.0%
2005	153.6%	102.5%	60.2%	47.9%
2006	32.6%	29.6%	58.7%	28.9%
2007	25.6%	11.4%	63.0%	22.2%
2008	33.9%	10.6%	86.6%	26.7%
2009	38.4%	11.7%	72.5%	24.7%
2010	38.1%	7.2%	72.5%	23.1%
2011	35.9%	9.9%	90.8%	32.6%
2012	31.6%	13.3%	72.2%	40.3%
2004-2012	61.4%	13.6%	70.9%	30.0%

The chart on the following page shows LPI loss ratios by state from 2004 through 2012.

LPI Incurred Loss Ratios by State, 2004-2012
(sorted by state)

State	2004	2005	2006	2007	2008	2009	2010	2011	2012	2004-12
AK	8.4%	19.1%	23.8%	17.2%	42.1%	14.5%	7.5%	12.9%	36.9%	20.3%
AL	70.9%	67.7%	26.3%	34.3%	34.9%	32.3%	34.7%	75.7%	36.7%	45.5%
AR	33.1%	35.9%	39.2%	25.6%	69.3%	41.7%	31.6%	62.8%	42.1%	43.2%
AZ	19.3%	10.0%	12.1%	12.9%	13.1%	15.1%	26.0%	58.2%	28.8%	24.0%
CA	29.7%	35.9%	35.6%	18.9%	18.4%	19.7%	10.8%	21.3%	21.4%	21.2%
CO	24.5%	19.3%	10.4%	9.6%	14.6%	20.5%	20.8%	24.6%	37.4%	20.8%
CT	30.1%	34.3%	16.4%	25.6%	27.5%	36.7%	25.0%	46.6%	47.9%	35.4%
DC	6.5%	13.6%	14.9%	19.1%	10.3%	6.0%	11.7%	20.0%	18.2%	13.6%
DE	24.2%	20.6%	17.9%	10.6%	23.8%	26.0%	29.8%	-168.0%	283.8%	28.4%
FL	75.2%	102.5%	29.6%	11.4%	10.6%	11.7%	7.2%	9.9%	13.3%	13.6%
GA	20.5%	25.4%	21.6%	22.2%	33.9%	36.2%	34.6%	40.1%	34.1%	32.1%
HI	5.0%	9.7%	2.6%	5.3%	17.9%	5.6%	9.9%	4.9%	6.9%	7.5%
IA	30.8%	22.8%	23.0%	20.0%	81.3%	8.5%	25.1%	45.4%	26.1%	31.4%
ID	12.8%	2.8%	9.6%	5.2%	17.6%	24.5%	15.5%	26.6%	11.6%	16.6%
IL	32.0%	26.3%	34.5%	24.2%	31.2%	29.2%	27.1%	25.2%	37.8%	29.8%
IN	37.6%	41.8%	51.3%	32.2%	47.1%	26.5%	28.7%	37.6%	51.7%	38.8%
KS	29.3%	19.3%	49.4%	42.5%	41.0%	47.6%	35.7%	57.8%	47.5%	43.4%
KY	26.5%	26.5%	34.3%	29.1%	33.6%	35.1%	31.3%	37.7%	50.6%	35.4%
LA	10.3%	498.2%	43.4%	66.9%	126.1%	22.8%	20.0%	29.8%	61.7%	82.1%
MA	14.7%	9.6%	19.5%	28.4%	16.3%	17.3%	25.1%	38.0%	27.0%	24.5%
MD	21.2%	16.1%	13.5%	13.4%	11.4%	16.0%	20.7%	24.4%	24.9%	19.2%
ME	57.4%	27.9%	16.4%	32.3%	32.9%	26.9%	30.5%	35.2%	27.8%	31.0%
MI	42.7%	42.3%	49.2%	35.1%	42.0%	37.7%	43.4%	45.5%	54.3%	42.8%
MN	27.2%	35.8%	29.8%	24.6%	22.5%	19.5%	22.4%	27.1%	25.2%	24.6%
MO	32.0%	29.1%	44.9%	42.4%	46.3%	35.5%	29.4%	60.1%	58.8%	43.4%
MS	43.6%	299.9%	81.6%	46.7%	39.1%	35.6%	32.0%	47.6%	41.6%	62.3%
MT	24.1%	1.7%	26.1%	9.3%	26.8%	19.2%	27.8%	27.7%	33.0%	24.8%
NC	17.1%	19.3%	15.9%	17.2%	18.7%	16.9%	17.7%	39.0%	24.4%	22.7%
ND	42.4%	60.8%	65.9%	43.3%	49.9%	70.0%	41.7%	90.3%	18.0%	52.5%
NE	49.1%	39.6%	30.6%	27.4%	46.4%	26.8%	35.2%	42.8%	40.2%	37.4%
NH	16.2%	15.9%	16.3%	32.9%	20.7%	30.3%	29.4%	22.9%	23.6%	24.9%
NJ	21.8%	25.5%	21.4%	17.1%	19.1%	15.7%	18.7%	33.5%	51.9%	29.5%
NM	23.5%	28.4%	19.2%	27.1%	24.4%	14.6%	23.7%	34.4%	33.2%	26.4%
NV	6.7%	9.4%	11.4%	7.3%	8.7%	12.5%	9.6%	20.3%	15.5%	12.3%
NY	30.8%	23.3%	25.5%	18.9%	14.8%	34.0%	21.4%	23.6%	78.9%	35.4%
OH	34.5%	40.4%	33.2%	33.1%	34.5%	24.8%	28.1%	30.2%	28.8%	30.6%
OK	31.4%	27.7%	21.7%	39.5%	28.2%	39.2%	72.1%	55.8%	58.2%	46.5%
OR	40.6%	4.6%	7.2%	11.3%	16.1%	21.2%	14.9%	13.9%	18.2%	16.7%
PA	35.1%	32.3%	31.1%	21.5%	17.8%	21.2%	25.8%	33.9%	32.9%	28.0%
RI	23.9%	23.7%	16.9%	19.3%	32.8%	22.5%	24.1%	30.5%	35.5%	27.4%
SC	19.4%	22.2%	19.0%	26.1%	20.4%	23.3%	24.6%	31.5%	37.0%	25.7%
SD	17.5%	15.0%	30.3%	27.9%	24.9%	28.1%	66.2%	42.6%	33.6%	35.9%
TN	34.1%	17.5%	32.4%	26.4%	34.0%	28.5%	53.0%	66.4%	56.3%	42.4%
TX	20.4%	26.2%	11.7%	13.4%	38.8%	28.2%	22.4%	29.0%	25.8%	25.1%
UT	12.3%	14.7%	15.4%	9.2%	6.2%	12.7%	13.5%	29.2%	14.9%	17.2%
VA	19.7%	15.2%	22.7%	3.7%	12.1%	15.3%	18.1%	17.6%	18.5%	15.9%
VT	5.0%	50.9%	-3.9%	26.5%	51.8%	35.0%	26.9%	54.5%	46.3%	38.4%
WA	17.4%	14.6%	15.1%	13.2%	14.9%	20.1%	16.8%	19.2%	19.4%	17.7%
WI	35.7%	16.8%	20.6%	16.0%	34.7%	30.1%	28.1%	192.4%	163.1%	81.1%
WV	41.3%	18.9%	23.2%	29.3%	25.2%	26.3%	37.1%	32.1%	31.6%	29.8%
WY	12.5%	14.1%	18.3%	22.5%	12.2%	19.6%	32.9%	42.8%	19.2%	24.4%
US	33.1%	53.5%	29.0%	20.5%	23.3%	20.7%	17.3%	24.7%	30.8%	25.3%

LPI Incurred Loss Ratios by State, 2004-2012
(sorted by earned premium)

State	2004	2005	2006	2007	2008	2009	2010	2011	2012	2004-12
FL	75.2%	102.5%	29.6%	11.4%	10.6%	11.7%	7.2%	9.9%	13.3%	13.6%
CA	29.7%	35.9%	35.6%	18.9%	18.4%	19.7%	10.8%	21.3%	21.4%	21.2%
TX	20.4%	26.2%	11.7%	13.4%	38.8%	28.2%	22.4%	29.0%	25.8%	25.1%
NY	30.8%	23.3%	25.5%	18.9%	14.8%	34.0%	21.4%	23.6%	78.9%	35.4%
NJ	21.8%	25.5%	21.4%	17.1%	19.1%	15.7%	18.7%	33.5%	51.9%	29.5%
IL	32.0%	26.3%	34.5%	24.2%	31.2%	29.2%	27.1%	25.2%	37.8%	29.8%
OH	34.5%	40.4%	33.2%	33.1%	34.5%	24.8%	28.1%	30.2%	28.8%	30.6%
GA	20.5%	25.4%	21.6%	22.2%	33.9%	36.2%	34.6%	40.1%	34.1%	32.1%
NC	17.1%	19.3%	15.9%	17.2%	18.7%	16.9%	17.7%	39.0%	24.4%	22.7%
PA	35.1%	32.3%	31.1%	21.5%	17.8%	21.2%	25.8%	33.9%	32.9%	28.0%
MI	42.7%	42.3%	49.2%	35.1%	42.0%	37.7%	43.4%	45.5%	54.3%	42.8%
LA	10.3%	498.2%	43.4%	66.9%	126.1%	22.8%	20.0%	29.8%	61.7%	82.1%
IN	37.6%	41.8%	51.3%	32.2%	47.1%	26.5%	28.7%	37.6%	51.7%	38.8%
MD	21.2%	16.1%	13.5%	13.4%	11.4%	16.0%	20.7%	24.4%	24.9%	19.2%
WA	17.4%	14.6%	15.1%	13.2%	14.9%	20.1%	16.8%	19.2%	19.4%	17.7%
VA	19.7%	15.2%	22.7%	3.7%	12.1%	15.3%	18.1%	17.6%	18.5%	15.9%
TN	34.1%	17.5%	32.4%	26.4%	34.0%	28.5%	53.0%	66.4%	56.3%	42.4%
AL	70.9%	67.7%	26.3%	34.3%	34.9%	32.3%	34.7%	75.7%	36.7%	45.5%
MA	14.7%	9.6%	19.5%	28.4%	16.3%	17.3%	25.1%	38.0%	27.0%	24.5%
SC	19.4%	22.2%	19.0%	26.1%	20.4%	23.3%	24.6%	31.5%	37.0%	25.7%
MO	32.0%	29.1%	44.9%	42.4%	46.3%	35.5%	29.4%	60.1%	58.8%	43.4%
AZ	19.3%	10.0%	12.1%	12.9%	13.1%	15.1%	26.0%	58.2%	28.8%	24.0%
MS	43.6%	299.9%	81.6%	46.7%	39.1%	35.6%	32.0%	47.6%	41.6%	62.3%
CT	30.1%	34.3%	16.4%	25.6%	27.5%	36.7%	25.0%	46.6%	47.9%	35.4%
OK	31.4%	27.7%	21.7%	39.5%	28.2%	39.2%	72.1%	55.8%	58.2%	46.5%
NV	6.7%	9.4%	11.4%	7.3%	8.7%	12.5%	9.6%	20.3%	15.5%	12.3%
UT	12.3%	14.7%	15.4%	9.2%	6.2%	12.7%	13.5%	29.2%	14.9%	17.2%
WI	35.7%	16.8%	20.6%	16.0%	34.7%	30.1%	28.1%	192.4%	163.1%	81.1%
CO	24.5%	19.3%	10.4%	9.6%	14.6%	20.5%	20.8%	24.6%	37.4%	20.8%
KY	26.5%	26.5%	34.3%	29.1%	33.6%	35.1%	31.3%	37.7%	50.6%	35.4%
OR	40.6%	4.6%	7.2%	11.3%	16.1%	21.2%	14.9%	13.9%	18.2%	16.7%
AR	33.1%	35.9%	39.2%	25.6%	69.3%	41.7%	31.6%	62.8%	42.1%	43.2%
MN	27.2%	35.8%	29.8%	24.6%	22.5%	19.5%	22.4%	27.1%	25.2%	24.6%
NM	23.5%	28.4%	19.2%	27.1%	24.4%	14.6%	23.7%	34.4%	33.2%	26.4%
HI	5.0%	9.7%	2.6%	5.3%	17.9%	5.6%	9.9%	4.9%	6.9%	7.5%
KS	29.3%	19.3%	49.4%	42.5%	41.0%	47.6%	35.7%	57.8%	47.5%	43.4%
RI	23.9%	23.7%	16.9%	19.3%	32.8%	22.5%	24.1%	30.5%	35.5%	27.4%
ME	57.4%	27.9%	16.4%	32.3%	32.9%	26.9%	30.5%	35.2%	27.8%	31.0%
DE	24.2%	20.6%	17.9%	10.6%	23.8%	26.0%	29.8%	-168.0%	283.8%	28.4%
IA	30.8%	22.8%	23.0%	20.0%	81.3%	8.5%	25.1%	45.4%	26.1%	31.4%
NH	16.2%	15.9%	16.3%	32.9%	20.7%	30.3%	29.4%	22.9%	23.6%	24.9%
WV	41.3%	18.9%	23.2%	29.3%	25.2%	26.3%	37.1%	32.1%	31.6%	29.8%
ID	12.8%	2.8%	9.6%	5.2%	17.6%	24.5%	15.5%	26.6%	11.6%	16.6%
DC	6.5%	13.6%	14.9%	19.1%	10.3%	6.0%	11.7%	20.0%	18.2%	13.6%
NE	49.1%	39.6%	30.6%	27.4%	46.4%	26.8%	35.2%	42.8%	40.2%	37.4%
MT	24.1%	1.7%	26.1%	9.3%	26.8%	19.2%	27.8%	27.7%	33.0%	24.8%
VT	5.0%	50.9%	-3.9%	26.5%	51.8%	35.0%	26.9%	54.5%	46.3%	38.4%
AK	8.4%	19.1%	23.8%	17.2%	42.1%	14.5%	7.5%	12.9%	36.9%	20.3%
SD	17.5%	15.0%	30.3%	27.9%	24.9%	28.1%	66.2%	42.6%	33.6%	35.9%
WY	12.5%	14.1%	18.3%	22.5%	12.2%	19.6%	32.9%	42.8%	19.2%	24.4%
ND	42.4%	60.8%	65.9%	43.3%	49.9%	70.0%	41.7%	90.3%	18.0%	52.5%
US	33.1%	53.5%	29.0%	20.5%	23.3%	20.7%	17.3%	24.7%	30.8%	25.3%

15. Reverse Competition

Reverse competition describes a market structure in which consumers/borrowers exert little or no market power over prices. Instead of competing for individual consumers, insurers compete for the entities with the market power to steer the ultimate consumer to the insurer. Insurers compete for the servicer's business by providing considerations to the servicer, with the cost of such considerations passed on to the borrower. Greater competition for the lender's business leads to higher prices of credit-related insurance, including LPI, to the borrower. This form of competition, which results in *higher* prices to consumers, is called reverse competition.

The term "reverse competition" was used as early as 1977 in a report by the Department of Justice describing the title insurance market:

> In other words, competition in the title insurance business is directed at the producer of the business rather than the consumer. A title company wishing to increase its market share would not necessarily try to reduce prices or improve coverages in order to attract retail purchasers of title insurance. Rather, the company would seek to influence those brokers, bankers and attorneys who are in a position to direct the title insurance business to it. The most direct manner of influencing this is to grant the producer of the business a fee, commission, rebate, or kickback – to the detriment of the title insurance purchaser. This is the phenomenon of reverse competition.
>
> The presence of reverse competition in the title insurance industry has resulted in "a long history of such anti-competitive practices as fixed fees, forced (tied) sales and kickbacks." Reverse competition as the effect of raising the cost of title insurance, for the higher the cost of the insurance, the larger the referral commission or kickback to the business producer and the more business a title insurer is likely to have.

The NAIC Credit Personal Property Model Act defines reverse competition:

> "Reverse competition" means competition among insurers that regularly takes the form of insurers vying with each other for the favor of persons who control, or may control, the placement of the insurance with insurers. Reverse competition tends to increase insurance premiums or prevent the lowering of premiums in order that greater compensation may be paid to persons for such business as a means of obtaining the placement of business. In these situations, the competitive pressure to obtain business by paying higher compensation to these persons overwhelms any downward pressures consumers may exert on the price of insurance, thus causing prices to rise or remain higher than they would otherwise.

We see the effects of reverse competition in LPI markets with variety of considerations offered by LPI vendors to the mortgage servicers – considerations which are not related to the provision of LPI but the expenses for which are included in LPI charges to borrowers and investors. The considerations from LPI vendors to mortgage servicers or affiliates of the mortgage servicers have taken the following form:

1. Commissions to servicer-affiliated agents
2. Captive reinsurance arrangements
3. Free or below-cost services not related to the provision of LPI, such as insurance tracking and other insurance outsourcing services
4. Cash payments
5. Profits from an LPI insurance company affiliated with the mortgage servicer

In October 2011, the New York Department of Financial Services (NYDFS) launched an investigation into the force-placed insurance industry and conducted public hearings in May 2012. The NYDFS investigation revealed[3]:

- The premiums charged to homeowners for force-placed insurance are two to ten times higher than premiums for voluntary insurance, even though the scope of the coverage is more limited.
- The loss ratios for force-placed insurance seldom exceed 25 percent. Nevertheless, rate filings made by insurers with DFS reflected loss ratio estimates of 55 to 58 percent.
- Insurers and banks have built a network of relationships and financial arrangements that have driven premium rates to inappropriately high levels ultimately paid for by consumers and investors.
- Force-placed insurers have competed for business from banks and mortgage servicers through "reverse competition": i.e., rather than competing for business by offering lower prices, insurers have created incentives for banks and mortgage servicers to buy force-placed insurance with high premiums by enabling banks and mortgage services, through complex arrangements, to share in the profits associated with the higher prices.

In a market characterized by reverse competition, smaller players and new entrants are at a competitive disadvantage. In LPI, we see two LPI vendors with 90% or more of the market. In title insurance, we see four title insurer groups with close to 90% of the market. Before the financial crisis wiped out private mortgage insurers, that market was also heavily concentrated.

There are two basic approaches to dealing with reverse competition. One approach tries to regulate the market – limits or prohibitions on certain types of kickbacks – but does not alter the market power of lenders and servicers and, consequently, attempts to regulate against market forces.

The second approach tries to harness market forces to produce more beneficial competition. An example is the direct purchase of LPI by Fannie which creates a more competitive market between buyers and sellers and removes the market power of servicers to command consideration for selection of a particular LPI vendor.

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[3] April 5, 2013 letter from Superintendent Benjamin Lawsky to other state insurance regulators at http://www.dfs.ny.gov/about/press2013/Force-Placed_Letter.pdf

16. Recent Regulatory Activity Involving LPI

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.

National Association of Insurance Commissioners

NAIC Adopted the Creditor-Placed Insurance Model Act in 1996. Model does not apply to "Insurance on collateralized real property." Adopted by 3 states – AR, MI, MS. Model Act strongly criticized by consumer groups

Public Hearing in August 2012 on LPI

In 2013 NAIC charges its Property Casualty Committee, chaired by Commissioner Mike Chaney of Mississippi, to review the Model Act with options to amend the Model Act or withdraw it.

California Department of Insurance

In 2012, required LPI insurers to make new rate filings which resulted in:

- 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%

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

Held a public hearing in May 2013 on a new LPI rate filing from American Security Insurance Company. The filing affects over 20% of all LPI written countrywide.

New York Department of Financial Services

Investigation starting in 2011 leading to settlements with Assurant, QBE, Balboa and others in 2013.

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.

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 April 2013, Fannie retracted the new guidelines.

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.

In February 2013, FHFA stopped Fannie from implementing the direct purchase program.

In late March 2013, FHFA issued a request for comment on a proposal for Fannie and Freddie to impose certain restrictions regarding LPI.

FDIC

Taking the lead on rules implementing LPI-related provisions of Biggart Watters Act

17. Issues of Concern

1. Servicer Conflict of Interest if Servicer Has Financial Interest in Placement of LPI Other Than Protection of Property Serving as Collateral for Covered Loan

2. Unreasonably High LPI Charges by Servicers to Borrowers / Charges Which Include Amounts for Activities Unrelated to the Provision of LPI

3. Changes in NFIP / Potential for Big Increase in LPI Flood / Implementation of CFPB Mortgage Servicing Rule Requiring Maintenance of Voluntary Policy if Loan Has Escrow and Flood Insurance Requirement to Establish Escrow Account for Flood Insurance

4. Unnecessary Placement – Maintain Voluntary Policy When Possible, Including Non-Escrowed Loans

5. "False" Placement / High Percentage of Flat Cancellations / Performance Standards for Insurance Tracking

6. Lengthy / Unlimited Retroactive Billing

7. Poor Performance of State Insurance Regulators on LPI Rates and Kickback Schemes

8. LPI Placed through Surplus Lines Insurers

9. Schedule Rating

10. New Rating Factors

11. Standards for Determining Amount of Coverage and Type of Loss Settlement

12. Regulatory Gaps / Cooperation

MORTGAGE PORTFOLIO PROTECTION PROGRAM

I. BACKGROUND

The Mortgage Portfolio Protection Program (MPPP) was introduced on January 1, 1991, as an additional tool to assist the mortgage lending and servicing industries in bringing their mortgage portfolios into compliance with the flood insurance requirements of the Flood Disaster Protection Act of 1973.

The MPPP is not intended to act as a substitute for the need for mortgagees to review all mortgage loan applications at the time of loan origination and comply with flood insurance requirements as appropriate.

Proper implementation of the mandatory purchase requirements usually results in mortgagors, after their notification of the need for flood insurance, either showing evidence of such a policy, or contacting their insurance agent/producer or their insurer to purchase the necessary coverage. It is intended that flood insurance policies be written under the MPPP only as a last resort, and only on mortgages whose mortgagors have failed to respond to the various notifications required by the MPPP.

II. REQUIREMENTS FOR PARTICIPATING IN THE MPPP

The following paragraphs represent the criteria and requirements that must be followed by all parties engaged in the sale of flood insurance under the National Flood Insurance Program (NFIP) Mortgage Portfolio Protection Program.

A. General

1. All mortgagors notified, in conjunction with this program, of their need to purchase flood insurance must be encouraged to obtain a Standard Flood Insurance Policy (SFIP) from their agent/producer or insurer.

2. When a mortgagee or a mortgage-servicing company discovers, at any time following loan origination, that there is no evidence of flood insurance on a property in a Special Flood Hazard Area (SFHA), then the MPPP may be used by such lender/servicer to obtain (force-place) the required flood insurance coverage. The MPPP process

MORTGAGE PORTFOLIO PROTECTION PROGRAM RATE AND INCREASED COST OF COMPLIANCE (ICC) TABLE[1, 2]

ZONE	MPPP RATES PER $100 OF BUILDING COVERAGE[3]	MPPP RATES PER $100 OF CONTENTS COVERAGE[3]	ICC PREMIUM FOR $30,000 COVERAGE[4, 5]
Emergency Program Community	4.32	4.36	N/A
A Zones – All building & occupancy types, except A99, AR, AR Dual Zones	4.32 / 2.19	4.36 / 2.10	$70
V Zones – All building & occupancy types	6.43 / 6.43	6.04 / 6.04	$70
A99 Zone, AR, AR Dual Zones	1.12 / .67	1.49 / .60	$5

1 Add Federal Policy Fee and Probation Surcharge, if applicable, when computing the premium.

2 MPPP policies are not eligible for Community Rating System premium discounts.

3 Basic and additional insurance limits are shown in the Rating section.

4 ICC coverage does not apply to contents-only policies or to individually owned condominium units insured under the Dwelling Form or General Property Form.

5 The ICC premium is not eligible for the deductible discount. First calculate the deductible discount, then add in the ICC premium.

can be accomplished with limited underwriting information and with special flood insurance rates.

3. In the event of a loss, the policy will have to be reformed if the wrong rate has been applied for the zone in which the property is located. Also, the amount of coverage may have to be changed if the building occupancy does not support that amount.

4. It will be the Write Your Own (WYO) Company's responsibility to notify the mortgagor of all coverage limitations at the inception of coverage and to impose those limitations that are applicable at the time of loss adjustment.

B. WYO Arrangement Article III – Fees

With the implementation of the MPPP, there is no change in the method of WYO Company allowance from that which is provided in the Financial Assistance/ Subsidy Arrangement for all flood insurance written.

C. Use of WYO Company Fees for Lenders/Servicers or Others

1. No portion of the allowance that a WYO Company retains under the WYO Financial Assistance/ Subsidy Arrangement for the MPPP may be used to pay, reimburse, or otherwise remunerate a lending institution, mortgage servicing company, or other similar type of company that the WYO Company may work with to assist in its flood insurance compliance efforts.

2. The only exception to this is a situation where the lender/servicer may be actually due a commission on any flood insurance policies written on any portion of the institution's portfolio because it was written through a licensed property insurance agent/producer on their staff or through a licensed insurance agency owned by the institution or servicing company.

D. Notification

1. WYO Company/Mortgagee – Any WYO Company participating in the MPPP must notify the lender or servicer, for which it is providing the MPPP capability, of the requirements of the MPPP. The WYO Company must obtain signed evidence from each such lender or servicer indicating their receipt of this information, and keep a copy in its files.

2. Mortgagee to Mortgagor – In order to participate in the MPPP, the lender (or its authorized representative, which typically will be the WYO Company providing the coverage through the MPPP) must notify the borrower of the following, at a minimum:
   a. The requirements of the Flood Disaster Protection Act of 1973;
   b. The flood zone location of the borrower's property;
   c. The requirement for flood insurance;
   d. The fact that the lender has no evidence of the borrower's having flood insurance;
   e. The amount of coverage being required and its cost under the MPPP; *and*
   f. The options of the borrower for obtaining conventionally underwritten flood insurance coverage and the potential cost benefits of doing so.

A more detailed discussion of the notification requirements is made a part of this program document under "O. Policy Declarations Page Notification Requirements" on page MPPP 3.

E. Eligibility

1. Type of Use – The MPPP will be allowed only in conjunction with mortgage portfolio reviews and the servicing of those portfolios by lenders and mortgage servicing companies. The MPPP is not allowed to be used in conjunction with any form of loan origination.

2. Type of Property – The standard NFIP rules apply, and all types of property eligible for coverage under the NFIP will be eligible for coverage under the MPPP.

F. Source of Offering

The force-placement capability will be offered by the WYO Companies only and not by the NFIP Servicing Agent.

G. Dual Interest

The policy will be written covering the interest of both the mortgagee and the mortgagor. The name of the mortgagor must be included on the Application Form. It is not, however, necessary to include the mortgagee as a named insured because the Mortgage Clause (section VII.Q. of the Dwelling Form and the General Property Form) affords building coverage to any mortgagee named as mortgagee on the Flood Insurance Application. If contents coverage for the mortgagee is needed, the mortgagee should be included as a named insured.

H. Term of Policy

NFIP policies written under the MPPP will be for a term of 1 year only (subject to the renewal notification process).

I. Coverage Offered

Both building and contents coverage will be available under the MPPP. The coverage limits available under the Regular Program will be $250,000 for building coverage and $100,000 for contents. If the WYO Company wishes to provide higher limits that are available to other occupancy types such as other residential or non-residential, it may do so only if it can indicate that occupancy type as appropriate. If the mortgaged property is in an Emergency Program community, then the coverage limits available will be $35,000 for building coverage and $10,000 for contents. Again, if the higher limits are desired for other types of property, then the building occupancy type must be provided at the inception of the policy or when that information may become available, but it must be prior to any loss.

J. Policy Form

The current SFIP Dwelling Form and General Property Form will be used, depending upon the type of structure insured. In the absence of building occupancy information, the Dwelling Form should be used.

K. Waiting Period

The NFIP rules for the waiting period and effective dates apply to the MPPP.

L. Premium Payment

The current rules applicable to the NFIP will apply. The lender or servicer (or payor) has the option to follow its usual business practices regarding premium payment, so long as the NFIP rules are followed.

M. Underwriting – Application

1. The MPPP will require less underwriting information than normally required under the standard NFIP rules and regulations. The MPPP data requirements for rating and processing are, at a minimum:

    a. Name and mailing address of insured (mortgagor; also see Dual Interest);

    b. Address of insured (mortgaged) property;

    c. Name and address of mortgagee;

    d. Mortgage loan number;

    e. Community name, number, map panel number and suffix, and program type (Emergency or Regular);

    f. NFIP flood zone where property is located (lender must determine, in order to determine if flood insurance requirements are necessary and to use the MPPP);

    g. Occupancy type (so statutory coverage limits are not exceeded. This information may be difficult to obtain. Also see Coverage Offered.);

    h. Is the building walled and roofed? Yes or No;

    i. Is the building over water? No, Partially, or Entirely; *and*

    j. Amount of coverage.

2. No elevation certificates will be required as there will be no elevation rating.

N. Rates

See table on page MPPP 1.

O. Policy Declarations Page Notification Requirements

In addition to the routine information, such as amounts of coverage, deductibles, and premiums, that a WYO Company may place on the policy declarations page issued to each insured under the NFIP, the following messages are required:

1. This policy is being provided for you as it is required by Federal law as has been mentioned in the previous notices sent to you on this issue. Since your mortgage company has not received proof of flood insurance coverage on your property in response to those notices, we provide this policy at their request.

2. The rates charged for this policy may be considerably higher than those that may be available to you if you contact your local insurance agent/producer (or the WYO Company).

3. The amounts of insurance coverage provided in this policy may not be sufficient to protect your full equity in the property in the event of a loss.

4. You may contact your local insurance agent/producer (or WYO Company) to replace this policy with a conventionally underwritten SFIP, at any time, and typically at a significant savings in premium.

    The WYO Company may add other messages to the declarations page and make minor editorial modifications to the language of these messages if it believes any are necessary to conform to the style or practices of that WYO Company, but any such additional messages or modifications must not change the meaning or intent of the above messages.

    Since the amount of underwriting data obtained at the time of policy inception will typically be limited, the extent of any coverage limitations (such as

when replacement coverage is not available or coverage is limited because the building has a basement or is considered an elevated building with an enclosure) will be difficult to determine. It is, therefore, the responsibility of the WYO Company to notify the mortgagor/insured of all coverage limitations at the inception of coverage and impose any that are applicable at the time of the loss adjustment.

P. Policy Reformation – Policy Correction

In the event that the premium payment received is not sufficient to purchase the amounts of insurance requested, the policy shall be deemed to provide only such insurance as can be purchased for the entire term of the policy for the amount of premium received.

With 2 exceptions, where insufficient premium is discovered after a loss, the complete provisions for reduction of coverage limits or reformation are described in:

- Dwelling Form, section VII, paragraph G.; *and*
- General Property Form, section VII, paragraph G.

The property must be insured using the correct SFIP form in order for these 2 exceptions to apply.

The 2 exceptions are following and apply only when after a loss it is discovered that the premium is insufficient to provide the coverage requested:

1. Any additional premium due will be calculated prospectively from the date of discovery; *and*
2. The automatic reduction in policy limits is effective the date of discovery.

This will provide policyholders with the originally requested limits at the time of a claim arising before the date of discovery without paying any additional premium. Policyholders will then have 30 days to pay the additional premium that is due for the remainder of the policy term, to restore the originally requested limits without a waiting period.

However, all claim payments will be based on the coverage limitations provided in accordance with the correct flood zone for the building location and not on the zone shown on the flood policy if it is in error.

When coverage is issued using an incorrect SFIP form, the policy is void and the coverage must be written under the correct form. The provisions of the correct SFIP form apply. The coverage limits must be reformed according to the provisions of the correct SFIP form and cannot exceed the coverage limits originally issued under the incorrect policy.

Q. Coverage Basis – Actual Cash Value or Replacement Cost

There are no changes from the standard practices of the NFIP for these provisions. The coverage basis will depend on the type of occupancy of the building covered and the amount of coverage carried.

R. Deductible

A $1,000 deductible is applicable for policies written under the MPPP.

S. Federal Policy Fee

There is no change from the standard practice. The Federal Policy Fee in effect at the time the MPPP policy is written must be used.

T. Renewability

The MPPP policy is a 1-year policy. Any renewal of that policy can occur only following the full notification process that must take place between the lender (or its authorized representative) and the insured/mortgagor, when the insured/mortgagor has failed to provide evidence of obtaining a substitute flood insurance policy.

U. Cancellations

The *NFIP Flood Insurance Manual* rules for cancellation/nullification are to be followed, when applicable.

V. Endorsement

An MPPP policy may not be endorsed to convert it directly to a conventionally underwritten SFIP. Rather, a new policy application, with a new policy number, must be completed according to the underwriting requirements of the SFIP, as contained in the *NFIP Flood Insurance Manual*. The MPPP policy may be endorsed to assign it under rules of the NFIP. It may also be endorsed for other reasons such as increasing coverage.

W. Assignment to a Third Party

Current NFIP rules remain unchanged; therefore, an MPPP policy may be assigned to another mortgagor or mortgagee. Any such assignment must be through an endorsement.

X. Article XIII – Restriction on Other Flood Insurance

Article XIII of the Arrangement is also applicable to the MPPP and, as such, does not allow a company to sell other flood insurance that may be in competition with NFIP coverage. This restriction, however, applies solely to policies providing flood insurance. It also does not apply to insurance policies provided by a WYO Company

in which flood is only 1 of several perils provided, or when the flood insurance coverage amounts are in excess of the statutory limits provided under the NFIP or when the coverage itself is of such a nature that it is unavailable under the NFIP, such as blanket portfolio coverage.

Y. Participating WYO Companies

A list of the WYO Companies that participate in the MPPP is available on FEMA's website at http://www.fema.gov/nfipInsurance/search.do?action=Search&state=mppp.