Lender-Placed (LPI) Insurance Myths

Misconceptions include:

- Cost of LPI is 10X of standard coverage
- Policy Protects only the Lender’s interest
- Coverage is forced on the Borrower
- LPI causes default
## LPI Premium Factors

- **All risks taken - no selection or underwriting**
- **Automatic issuance commitment to servicer and investor**
  - Fannie/Freddie Servicing Guides require “Continuous Coverage”
- **Residential insurer of last resort in all states**
  - Residual Markets generally have underwriting restrictions
- **Nearly 60% of exposure is in hurricane prone states**
  - Nearly 100% Exposure Growth in these states during last 4 years
- **Heavy percentage of properties are vacant**
  - No coverage restrictions if property vacant
- **Many properties have poor loss history or in high physical risk areas and cannot be insured by standard or residual markets**

*Increased risk makes LPI more expensive than standard coverage*

*National average is less than 2X the prior standard premium*

## How is the Borrower’s Interest Covered?

- **Policy Is Dual interest and Replacement Cost**
- **Policy is placed at the last known amount of coverage chosen by the Borrower and Agent**
- **This is the best available indication of the replacement cost of the insurable improvements to the property**
- **Borrowers can change the coverage amount if they believe it is not correct**
- **Ensures replacement cost settlement to the Borrower on all losses**
# LPI is not Forced on the Borrower

## Outreach Timetable

<table>
<thead>
<tr>
<th>Period</th>
<th>Action</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Days prior to expiration</td>
<td>Over 80% of insurance information is obtained 30 days or more in advance of expiration</td>
<td><em>Receive EDI billing files</em></td>
</tr>
<tr>
<td>15 Days prior to expiration</td>
<td>Only 13% of Loans enter the Open Items Process</td>
<td><em>Begin Open Items Process to obtain coverage verification:</em></td>
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<tr>
<td></td>
<td></td>
<td>• Check carrier website</td>
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<tr>
<td></td>
<td></td>
<td>• Fax &amp; call Agent or Carrier</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Calls to borrower in many cases</td>
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<tr>
<td>0 Days</td>
<td>Only 9% of Loans receive a 1st Letter</td>
<td><em>Initial expiration letter sent:</em></td>
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<tr>
<td></td>
<td></td>
<td>• Reminds borrower that we do not have proof of coverage</td>
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<tr>
<td>30 Days after expiration</td>
<td>Only 3% of Loans receive a 2nd Letter</td>
<td><em>Binder letter sent:</em></td>
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<tr>
<td></td>
<td></td>
<td>• Tells borrower that if no response in 30 days policy will be purchased</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Quotes Premium</td>
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<td></td>
<td></td>
<td>• All disclosures included</td>
</tr>
<tr>
<td>60 Days</td>
<td>Only 2% of Loans receive an LPI Policy</td>
<td><em>Policy bills and paid by servicer:</em></td>
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<tr>
<td></td>
<td></td>
<td>• Borrower sent letter confirming lender placement with all disclosures</td>
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<tr>
<td></td>
<td></td>
<td>• Borrower sent complete policy package with forms &amp; endorsements</td>
</tr>
</tbody>
</table>

### Proactive Messages Emphasized to Borrowers:
- Policy will be more expensive
- Policy covers structure only
- Coverage determined based on last known coverage amount
- Lender or affiliate may receive compensation
- Policy or binder will be cancelled upon receipt of residential insurance coverage
- If cancelled, borrower will only be charged for the time the policy was in force

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# LPI Is Not The Cause of Increased Loan Defaults

- 84% of current LPI policies on delinquent loans placed more than 12 months prior to default, or after loan was already in default

- Current delinquency rates have driven up LPI placements to nearly 3%

- Anticipate placement rates will revert to historic level of less than 2% after mortgage crises abates
LPI Market Has Contracted Due to the Inherent Risks

- Prior to Hurricane Andrew in 1992 more than 10 LPI insurers active in the national market
- After Andrew many pulled out, including Progressive, TransAmerica and Cigna
- After storms in 2004 and 2005, many additional lender-placed insurers exited, including ACE, Safeco and Zurich
- Uncontrollable property exposure caused major carriers to exit
- Two major and a few smaller providers remain
- No significant barriers to entry

Lender-Placed Insurance Final Thoughts

- LPI fills a very small but vital role
- Always the coverage of last resort
- Rates are higher by necessity
- We anticipate market will return to normal placement rates of less than 2% of total loans