Public Hearing  
Lender-Placed Insurance  
NAIC C & D Committees  
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Peter Kochenburger  
Executive Director, Insurance Law Center  
University of CT School of Law  
NAIC Consumer Representative

Assumptions:

• Lenders have a legitimate need for Lender-Placed Insurance (LPI)

• In some instances, insuring the home means additional risks, but these risks are quantifiable just as the industry calculates far more complex risks

• LPI also carries significant reduced exposure – liability, personal contents and living expenses not included

  Risk assumptions need to be carefully evaluated
“Commissions”

- Commissions far in excess of work/service that is provided or necessary
- LPI market dominated by two insurers – agents are not “vetting and selecting” LPI insurers as they do for typical Personal and Commercial Lines policies
- Commissions – marketing/financial mechanism to encourage lenders to use the LPI insurer.

*Progress:* Fannie Mae (Freddie soon?) restructuring arrangements, Chase Ins. Agency discontinuing receipt

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Maintaining Coverage with the Voluntary Insurer

An Alternative that is Under-Examined

Advantages

- HO rates competitive in most markets, allows existing rate regulatory structure to function
- Insurer knows the risk and the homeowner and may have underwritten them for years
- Homeowner could maintain existing coverages
- Eliminates Commission problems and abuses
Maintaining Coverage with the Voluntary Insurer
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Challenges

• Risk profile may change – vacant homes, homeowner not maintaining residence due to financial problems
  
  But: these risks can be measured and accounted for

• LPI group coverage may protect lenders from risks standard HO policies do not
  
  Maybe: then exclude or price appropriately

• Lenders don’t have Contractual Rights to just continue the borrower’s policy

Now:

\[ \text{Vol. Ins.} \rightarrow \text{Ins. Status LPE} \]

\[ \text{Premiums & Ins. Contract Loss Payee End.} \rightarrow \text{Escrow Payments} \]

\[ \text{PH/B} \rightarrow \text{Mortgage payments & Loan, Mortgage} \]

\[ \text{Lender} \]
State Insurance Departments & the NAIC are best suited to:

- State insurance regulators are the best, if not only, regulatory bodies that have the expertise and regulatory authority to: (a) determine, (b) set, and (c) enforce, fair rates, coverages and commissions.

- Please test the statements and assumptions you are being provided by LPI insurers, lenders and servicers.

- The federal government (and state A.G.s) are tackling this problem – state insurance departments and the NAIC should not be late to the table.

- Who Pays for LPI? - Homeowners, Investors, and all of us as Taxpayers who help back Fannie Mae and Freddie Mac.