



Property Casualty Insurers  
Association of America

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**Senior Vice President**

May 24, 2013

Mr. Edward DeMarco  
Acting Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street, NW  
Washington, DC 20024

Dear Acting Director DeMarco:

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) recent Notice on Lender Placed Insurance, Terms and Conditions (No. 2013-N-05)(the Notice). PCI represents more than 1,000 member insurance companies, which account for nearly 40 percent of the property casualty insurance coverage written in the United States.

PCI understands the FHFA's statutory obligations in its conduct of the conservatorships of Fannie Mae and Freddie Mac (the Enterprises), and the need to protect U.S. taxpayers. However, PCI believes that the Notice does not adequately consider several important aspects of the operation and regulation of the lender placed insurance (LPI) market, and that proposed restrictions on LPI set forth in the Notice could have adverse, unintended consequences for insurers, sellers, servicers, and consumers.

First, LPI is already subject to extensive oversight by state insurance regulators. Under the McCarran-Ferguson Act, insurance is regulated by the states, not the Federal government. Each state has a robust regulatory framework over insurance companies and their practices. To ensure fair pricing, state regulation includes the filing of insurance rates (including components thereof), commissions paid to agents, and information on reinsurance transactions. Rates are reviewed to ensure that they are not excessive, inadequate, nor unfairly discriminatory. Therefore, although FHFA has an interest in ensuring that the Enterprises' sellers and servicers do not pay excessive LPI rates, existing state insurance regulation already protects this interest.

It is important to note that the practices which the rule seeks to address are practices presently permissible under state insurance regulation. Since state insurance regulators have expertise in insurance regulation and are in the best position to identify and address any problems in the LPI market, the fact that they permit these practices should be viewed as a strong presumption that the practices are not inappropriate.

Second, eliminating the practices identified by the Notice could adversely impact sellers and servicers. The practices compensate sellers and servicers for services provided by affiliated insurance agents and reinsurers. Those services include assisting with the selection of an LPI program, the monitoring of vendor compliance, the management of the program, and the assumption of LPI reinsurance risk. Accordingly, prohibiting the practices could have a negative effect on sellers, servicers, and consumers.

Third, the Notice correctly notes that the premiums for LPI are usually higher than those for voluntary insurance because insurers do not have the opportunity to underwrite the properties they insure. The Notice, though, suggests that some of the difference in premium does not reflect claims experience and other determinants of insurance premiums. PCI believes that the LPI is a competitive market, in which insurers compete vigorously on price and, as a result, ensure proper pricing of LPI. A substantial revision to the LPI industry, such as preventing insurers from charging the market price for LPI could reduce the availability of LPI for sellers and servicers. Furthermore, prohibiting the practices set forth in the Notice could reduce the efficiency of LPI programs. Any of these outcomes would harm sellers, servicers and consumers by increasing their LPI rates or preventing them from obtaining the LPI coverage they need to insure against property damage. Therefore, PCI encourages the FHFA to fully study the LPI market before moving forward with any reforms.

PCI respectfully requests to meet with the appropriate staff at FHFA to discuss the issues raised in this letter. We will follow-up with your office. In the meantime, if you have any questions about the issues raised in this letter, please feel free to contact us.

Thank you for your consideration and we look forward to working with you on this important matter.

Sincerely,

Nathaniel Wienecke