May 28, 2013

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
Constitution Center
400 Seventh Street SW
Ninth Floor
Washington, DC 20024

RE: Lender-Placed Insurance, Terms and Conditions; (No. 2013-N-05)

Dear Sir or Madam:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on the Notice regarding Lender-Placed Insurance, Terms and Conditions issued for public comment by the Federal Housing Finance Agency (FHFA). The notice addresses practices relating to lender-placed insurance that the FHFA considers contrary to prudent business practice, to appropriate administration of Fannie Mae and Freddie Mac (the Enterprises) guaranteed loans and which it views as exposing the Enterprises to potential losses as well as litigation and reputation risks. Many ICBA members sell loans directly or indirectly to the Enterprises and some have insurance agency affiliates.

The practices of concern to the FHFA regard conflicts between parties to the insurance agreement including:

1. Certain Sales Commissions. The Enterprises shall prohibit sellers and servicers from receiving, directly or indirectly, remuneration associated with placing coverage with or maintaining placement with particular insurance providers.

2. Certain Reinsurance Activities. The Enterprises shall prohibit sellers and servicers from receiving, directly or indirectly, remuneration associated with an insurance provider ceding premiums to a reinsurer that is owned by, affiliated with or controlled by the sellers or servicers.

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[1] *The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.*

With nearly 5,000 members, representing more than 24,000 locations nationwide and employing more than 300,000 Americans, ICBA members hold more than $1.2 trillion in assets, $1 trillion in deposits, and $750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The FHFA states that a number of organizations and regulators have raised concerns about lender-placed insurance costs, compensation, and practices. This includes excessive rates and costs passed onto borrowers, as well as commissions and other compensation paid to certain servicers by carriers.

As the FHFA points out, there are some greater risks involved with lender-placed insurance. Lender-placed insurance carriers do not have the opportunity to underwrite the properties they insure, and loss ratios for this insurance are significantly below those for voluntary hazard insurance. Yet, premiums are generally higher than voluntary insurance.

ICBA agrees that charging premiums that are double or more than those charged for voluntary insurance is not appropriate, even given the higher risks involved with lender-placed insurance. While community banks have had relatively few loans needing lender- placed insurance during recent times due to fewer delinquencies as compared to other lenders, they report to ICBA that when they do obtain these policies, the premiums are much lower than the FHFA reports. While some premiums are higher, there is work required to place and monitor insurance and expenses are incurred. Servicers should receive compensation commensurate with the work performed.

Earlier this year, the Bureau of Consumer Financial Protection issued final rules on mortgage servicing which included certain provisions for lender-placed insurance. While these provisions do not specifically address the amount of any commissions or compensation a servicer may earn when purchasing this product, there are specific timelines regarding the purchase of lender-placed insurance and requirements regarding the cost of the new coverage. In certain situations, the servicer cannot charge the borrower any more than the original premium amount, and if insurance is escrowed, the servicer must continue to advance those escrows, out of the servicers own funds. This is especially costly to small servicers.

ICBA urges the FHFA to address the issue of excessive commissions with those servicers that the FHFA believes are earning them rather than make a blanket policy which will only end up harming smaller servicers. The cost of servicing for the Enterprises has increased dramatically over the past 5 years, placing an undue burden on community bank servicers to comply with new rules and processes. Most community banks that service for the Enterprises do so to provide better service to their customers. From a community bank’s financial perspective, servicing mortgages for the Enterprises is at best a break-even business. As the cost of servicing for the Enterprises rises, more community banks will be forced to exit servicing for them. This will further consolidate the business among the largest servicers who are causing the problems the FHFA is trying to address.

Again, ICBA urges the FHFA to address the issue of excessive commissions and other abusive practices directly with the servicers that are perpetrating them and not through additional costly rules and policies that will harm community bank servicers.

We appreciate the opportunity to comment on this notice. If you wish to discuss our comments further, please contact the undersigned at 202-821-4408.

Sincerely,

Ann Grochala
Vice President- Lending and Mortgage Finance Policy

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