**Public Hearing before the Florida Office of Insurance Regulation
Regarding a Rate Filing for Force-Placed Insurance by
Praetorian Insurance Company**

July 3, 2012

**Testimony of Birny Birnbaum
On Behalf of the Center for Economic Justice**

The Center for Economic Justice (CEJ) is a 501(c)3 non-profit consumer advocacy organization that advocates on behalf of low-income and minority consumers on credit, insurance and utility. CEJ has been active in credit-related insurance regulatory issues for over 15 years.

I am a consulting economist and former insurance regulator specializing in insurance rates, regulation and policy, with expertise in credit-related, auto and property insurance. I have particular expertise in evaluation of rates for credit-related insurance, including force-placed insurance. Appendix A describes my qualifications.

1. Summary of Testimony

A. The Lender-Placed Home Insurance (LPI) market is characterized by reverse competition, in which the cost of insurance placed on the borrower's loan is pushed up by LPI insurers in competition for servicers' business.

B. The LPI market is not beneficially competitive to consumers, as evidenced by numerous measures, including market concentration, high prices, low loss ratios and kickbacks to servicers.

C. Because of reverse competition, LPI insurer expenses cannot be deemed reasonable simply because the insurer incurred those expenses. With reverse competition, insurers will provide considerations to lenders and such expenses are not reasonably included in rates or passed on to borrowers.

D. Expenses permitted in LPI rates should include only those for activities directly and uniquely associated with the provision of LPI insurance. Expenses associated with servicing other the provision of LPI insurance must be excluded from rates. Such excluded expenses include commissions to servicer-affiliated producers, tracking expenses and captive reinsurance administrative fees.

E. Recent actions by state attorneys general and Fannie Mae challenge state insurance regulators to interpret and implement requirements for LPI rates to be "commercially reasonable."

F. Current and proposed LPI rates are clearly excessive and in violation of statutory rate standards. The very low loss ratios alone indicate excessive rates. Further, as soon as servicer-affiliated producers stopped accepting commissions, the LPI rates became excessive because an expense included in the filed rate was eliminated. The Department should act immediately to disapprove current LPI rates and force LPI insurers to file new rates that meet the statutory rate standards and exclude unreasonable expenses. In forcing LPI insurers to file new rates, the Department should define "commercially reasonable" LPI prices as rates that produce an expected loss ratio, including catastrophe reinsurance costs of 85% or greater.

G. The proposed rates in the Praetorian are clearly excessive. Praetorian selects a rate change of zero, despite an indicated rate of -14.6% However, the Praetorian indicated rate change is massively excessive; the reasonable indicated rate decrease is several times greater than -14.6%

H. The Praetorian indication is unreasonable and excessive because it includes excessive expense loads for commission and general and administrative expenses. The Praetorian rate indication is also unreasonable because of unreasonable premium and loss trends. The rate analysis is deficient because more current data and data broken out by Balboa IC and QBE Specialty should be used.

I. The Praetorian rate analysis is further suspect because of questionable incurred losses versus paid losses, failure to consider prior scheduled rating in establishing premium at current rate level, lack of support for the assessment of QBE rates relative to Balboa rates and the failure to analyze REO and non-REO property experience separately. The proposed scheduled rating program is arbitrary and unreasonable and the age of home rating factor, which increase rates by over 50% when a property turns 15 years old, is too blunt.

2. Mortgage Servicer Responsibilities and Lender-Placed Insurance

Mortgage servicers are entities which manage mortgage loans on behalf of the owners of the loan. The largest mortgage servicers include Bank of America, JP Morgan Chase, Wells Fargo, American Home Mortgage Servicing and GMAC who service millions of mortgages each. The largest owners of mortgages are the government-sponsored enterprises Fannie Mae and Freddie Mac. Fannie, Freddie and other mortgage owners/investors contract with mortgage servicers to perform a variety of activities to service the mortgage loans, including, among many other things, collecting mortgage payments by borrowers and distributing those funds to the proper parties.

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.

Among other responsibilities, the mortgage servicer is required, through its servicing agreement with the owners of mortgage loan, to maintain continuous insurance coverage on the properties serving as collateral for the loan. This requirement involves two distinct activities – tracking insurance on loans being serviced and placing insurance when the borrower fails to maintain the required insurance coverage. The insurance placed by the servicer under these circumstances is called lender-placed insurance (LPI) or force-placed insurance. LPI protects the lender's collateral in the event the borrower fails to maintain insurance protecting the collateral.

It is critical to distinguish activities related to monitoring and maintaining continuous insurance on mortgage loans that are the servicer's responsibility from those activities that are the LPI insurer's responsibilities. Insurance tracking – monitoring the portfolio of loans for evidence of required insurance maintained by the borrower – is a servicer responsibility for which the servicer is paid by the mortgage owner/investor.

3. The LPI Policy and LPI Issuance Process

3.1 LPI is a Group Master Policy

The LPI insurance policy sold to the servicer is a group insurance master policy. Group insurance 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 means that the policy covers all eligible properties 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 borrower's insurance company or if the voluntary policy 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 group policy covers all properties in the servicer's loan portfolio and provides coverage as needed.

When the insurance tracking vendor notifies the LPI insurance company that there is a lapse in coverage on a property in the mortgage loan portfolio, the LPI insurer issues a temporary binder of insurance coverage retroactive to the date and time the borrower's coverage ceased to be in-force along with correspondence to the borrower on behalf of the servicer that such binder has been issued and the premium for the LPI has been added to the borrower's loan amount. The correspondence informs the borrower that the LPI coverage will be canceled if the borrower provides the required evidence of insurance coverage. This process is largely automated and conducted by a single vendor providing insurance tracking services and LPI insurance.

The LPI insurance company bills the servicer on a monthly basis for all the insurance provided. The servicer then passes along the LPI premium charges to individual borrowers, removes funds from the borrower's escrow to pay for the LPI premium, debits the borrower's escrow if there are insufficient funds to pay the premium or establishes an escrow account if one does not exist and debits the new escrow account for the amount of the LPI premium. Again, while this is a servicer responsibility, some or all of these activities are performed by the LPI insurance company or vendor on behalf of the loan servicer.

If the borrower provides evidence that there was no lapse in required insurance coverage, the LPI insurance company will refund the premium paid by the servicer and the servicer will refund the LPI amounts charged to the borrower's loan. The LPI insurance company or vendor typically performs the individual borrower refund activities on behalf of the servicer. Testimony at a recent hearing before the New York Department of Financial Services indicates that 10% to 15% of LPI insurance is flat-cancelled, which means the LPI policy was erroneously placed.

If, after the temporary binder has been issued and after a certain period of time, the borrower fails to provide evidence of required insurance, the LPI insurance company issues a certificate of insurance from the master LPI policy, typically providing a year of coverage from the original effective date of LPI coverage. The certificate of insurance names both the servicer and the borrower as insureds covered by the policy.

3.2 Servicer Recovers LPI Premiums Even In Event of Foreclosure

The servicer recovers the LPI premium it has paid to the LPI insurer, even in the event that a borrower defaults and there is a foreclosure or short sale because the LPI premiums are paid by the owner of the loan (the investor) to the servicer out of the proceeds from the foreclosure or short sale.

3.3 LPI Coverage is Limited

LPI coverage is that of a dwelling fire policy, typically providing only hazard protection. Coverages typically included in a homeowners policy and generally not included in the LPI policy are liability, personal property and additional living expense (ALE) in the event of a claim. The absence of coverage for personal property and ALE can result in a significant difference in claim costs from a catastrophe event between LPI and homeowners policies.

3.4 There is No Underwriting of Individual Properties Insured under an LPI Policy

LPI policies cover all properties in the servicer's loan portfolio and provide coverage to any property as needed.

4. Servicer vs. Insurer Responsibilities for Maintaining Continuous Insurance Coverage

There are a variety of activities associated with the requirement of servicers to ensure continuous insurance coverage. Most of these activities are the responsibility of the servicer and not the insurance company providing the LPI. Table 1 lists activities associated with the continuous insurance requirement of servicers and whether the activity is the responsibility of the servicer or LPI insurance company.

It is important to distinguish between the entity responsible for the activity in Table 1 and the entity actually carrying out the activity. Servicers typically contract with an outside vendor for most or all of the servicer responsibilities in Table 1 and that vendor is typically the insurance company providing the LPI insurance.

The servicers are responsible for insurance tracking to monitor loans to ensure borrowers are maintaining the required insurance, including requirements that the insurance policy or policies have:

- sufficient coverage amount to repair or replace the property if destroyed;
- cover the relevant perils, including fire, wind and flood, for example; and
- been issued by an insurance company with acceptable financial strength, as measured by a minimum financial strength rating by a credit rating agency.

A mortgage servicer is likely to have LPI policies for normal hazards (such as fire) and for other perils not covered by a standard homeowners policy, such as flood, excess flood, wind and excess wind. All residential property insurance policies (homeowners and dwelling fire) exclude flood as a covered peril (or cause of loss) and borrowers in designated flood areas are required by lenders to purchase a flood insurance policy from the federal government's National Flood Insurance Program. In many coastal states, insurers have excluded wind (hurricane) coverage from the standard residential property insurance policy in certain parts of the state and, consequently, borrowers must purchase a wind-only policy from a state-operated insurance program, like the Texas Windstorm Insurance Association.

Table 1
Ensuring Continuous Insurance Coverage:
Mortgage Servicer vs. Insurer Responsibilities

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

4.1 Fannie Mae's Description of Unreasonable Expenses in LPI Premiums

Fannie Mae is a government-sponsored enterprise that purchases mortgages originated by others. Fannie Mae is the largest single owner of mortgages in the United States and contracts with mortgage servicers to service the tens of millions of mortgage loans Fannie owns. Fannie pays a fee to mortgage servicers for each mortgage loan serviced. In addition, when a mortgage owned by Fannie goes into default and the mortgaged property is foreclosed, Fannie pays any outstanding LPI premium due on the defaulted loan to the servicer. In a recent request for proposal[1] for insurance tracking and LPI, Fannie Mae also describes the problem with unreasonable expenses included in LPI premium charges.

[1] See Appendix B for the Fannie Mae RFP

After extensive internal review, Fannie Mae believes that current Lender Placed Insurance costs are not market competitive and can be improved through unit price reductions and fee transparency to the benefit of both the taxpayers and homeowners.

Current Situation
Fannie Mae's current Lender Placed Insurance situation is as follows:

1. Homeowners are required to maintain voluntary hazard insurance on Fannie Mae insured properties.

2. Lender Placed Insurance must be acquired by mortgage Servicers when a property is no longer eligible for Voluntary Insurance, or when the Servicer cannot obtain proof of adequate Voluntary Insurance from the homeowner, irrespective of whether or not that homeowner is current or delinquent on the loan.

3. The cost of Lender Placed Insurance is higher than the cost of voluntary hazard insurance. Homeowners are billed for the Lender Placed Insurance premiums. However, if the homeowner does not pay the premium (for example, if the property has already been vacated), then Servicers pass on the premium costs to Fannie Mae.

4. Servicers are responsible for providing tracking services, per Fannie Mae Guidelines. Many large Servicers have chosen to outsource the Insurance Tracking and associated administrative process to third parties, the largest of which are affiliated with Lender Placed Insurers.

5. Lender Placed Insurers often pay commissions/fees to Servicers for placing business with them. The cost of such commissions/fees is recovered in part or in whole by the Lender Placed Insurer from the premiums, which the Servicers pass on to Fannie Mae.

6. The existing system may encourage Servicers to purchase Lender Placed Insurance from Providers that pay high commissions/fees to the Servicers and provide tracking, rather than those that offer the best pricing and terms to Fannie Mae. Thus, the Lender Placed Insurers and Servicers have little incentive to hold premium costs down. In addition, Fannie Mae is often paying twice for Insurance Tracking services; once via the servicing fee that Fannie Mae pays to Servicers, and again via the Lender Placed Insurance premiums, since those premiums may include or subsidize the costs of tracking services (to the extent that insurers are providing such services).

In appropriate Circumstances, Lender Placed Insurance is necessary and important to the preservation of Fannie Mae assets. However, much of the current Lender Placed Insurance cost borne by Fannie Mae results from an incentive arrangement between Lender Placed Insurers and Servicers that disadvantages Fannie Mae and the homeowner.

The situation Fannie describes is reverse competition in LPI markets – where the price of LPI is inflated because of considerations to the mortgage servicer built into the LPI rates which are paid for by the 1-2% of borrowers who are charged LPI premiums. For example, in the recent LPI hearing in New York held by the Department of Financial Services, one mortgage servicer testified that it contracted with Balboa for insurance tracking, but paid no fee for that service. Balboa provided the insurance tracking without charge in exchange for providing the LPI on the servicer's portfolio. Another mortgage servicer testified that ZC Sterling – which became QBE First after acquisition by QBE – paid the servicer $9 million in addition to commissions for marketing. Consequently, LPI rates include inappropriate expenses – expenses not associated with the provision of insurance or the transfer of risk.

5. LPI Market Participants and Results

There has been dramatic growth in the amount of LPI insurance countrywide and in Florida over the past eight years, as shown in Table 2. Countrywide net written premium grew $800 million to $3.5 billion. Florida LPI net written premium grew by a factor of 15 from $84 million to $1.2 billion.[2] Gross written premium means the total premium on policies issued during the year before any refunds. Net written premium is gross written premium less premium refunded. Assurant has been the major writer of LPI with over 50% of the market. Florida's share of the countrywide total has grown to over one-third from 2009 to 2011.

Table 2
Florida and Countrywide LPI Premium, 2004-2011s
($ Millions)

	Florida	Countrywide	FL Share
2004	$84.19	$796.22	10.6%
2005	$99.28	$918.74	10.8%
2006	$142.81	$1,074.36	13.3%
2007	$294.66	$1,647.10	17.9%
2008	$506.91	$2,209.33	22.9%
2009	$1,046.56	$3,048.94	34.3%
2010	$1,184.11	$3,223.27	36.7%
2011	$1,211.26	$3,449.80	35.1%
2004-11	$4,569.80	$16,367.76	27.9%

[2] The source of the data in this table is Credit Insurance Experience Exhibit data from the creditor-placed home columns of part 4 plus the experience of QBE Insurance Corp and QBE Specialty reported in part 5 Other..

Table 3 shows that in 2009 and 2010, LPI represented a significant portion – about 15% of the total of LPI and homeowners premiums in Florida. The amount of Florida LPI is massive in both absolute dollar volume and as a share of total residential property premium. I estimate that 1-2% of mortgage borrowers have LPI placed on their loans – in sharp contrast to the 14% share of LPI premiums.

Table 3
Florida LPI and Homeowners Premium
($ Millions)

Year	LPI	Homeowners	LPI Share of Total
2009	$1,184.11	$6,932.27	14.6%
2010	$1,211.26	$7,568.47	13.8%

Average LPI premiums are much higher than average homeowners premiums. Table 4 shows the average LPI premium for Balboa Insurance Company and QBE Specialty based on combined data presented in the rate filing. The companies' own data show average LPI premiums reaching $6,535 in the 2008-09 period.

Table 4
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

Table 5 shows Florida LPI net written premium, paid to written loss ratios and incurred to earned loss ratios for Balboa IC and QBE Specialty, as reported in the Credit Insurance Experience Exhibit to the statutory annual statement. Table 5 shows massive growth by Balboa from 2008 to 2009 and very low loss ratios from 2007 through 2011. QBE grew quickly from its start in 2009 and also shows very low loss ratios. Table 5 also shows significant and persistent differences between paid loss ratios and incurred loss ratios.

Table 5
Florida LPI Net Written Premium and Loss Ratios for Balboa IC and QBE Specialty

Year	Balboa IC	Paid LR	Incurred LR
2004	$22,539,043	63.8%	74.0%
2005	$25,449,604	46.8%	82.0%
2006	$26,939,907	64.3%	28.1%
2007	$51,516,777	8.7%	10.7%
2008	$97,452,240	7.4%	9.2%
2009	$464,463,676	3.8%	13.7%
2010	$431,916,007	3.7%	2.4%
2011	$430,911,925	5.7%	9.2%
2004-2011	$1,551,189,179	7.3%	10.6%

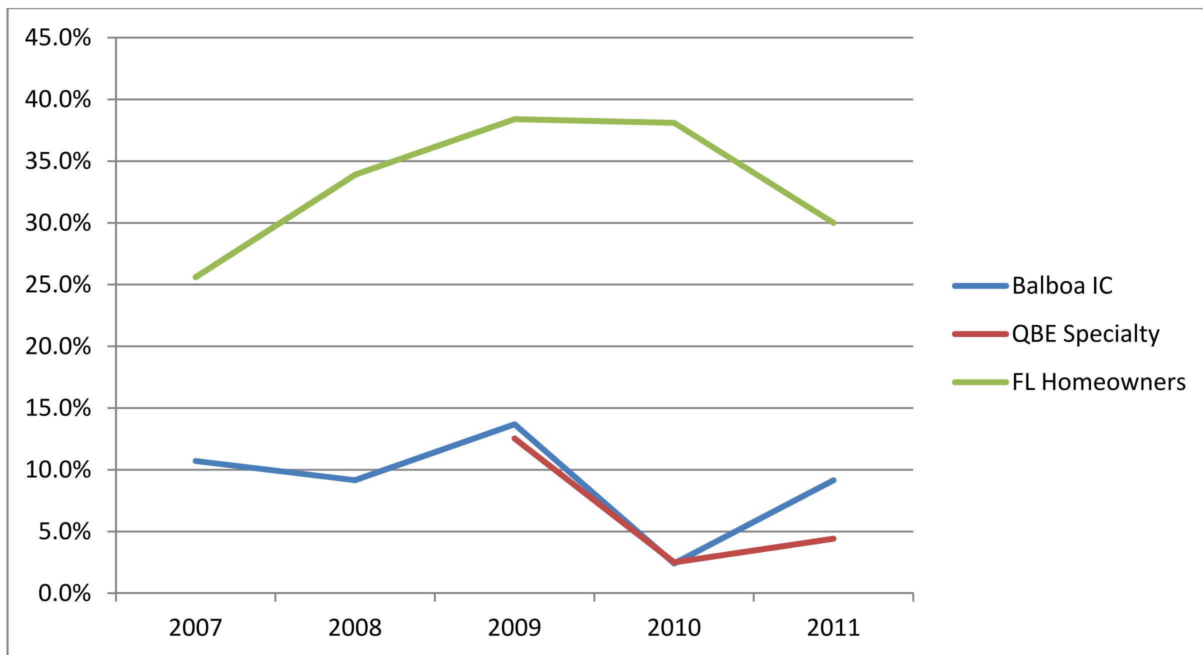
Year	QBE Specialty	Paid LR	Incurred LR
2004			
2005			
2006			
2007			
2008			
2009	$101,500,912	0.3%	12.5%
2010	$212,608,944	0.1%	2.5%
2011	$194,446,072	4.7%	4.4%
2004-2011	$508,555,928	1.9%	4.7%

Years	Combined	Paid LR	Incurred LR
2004-2011	$2,059,745,107	6.0%	9.1%
2005-2011	$2,037,206,064	5.4%	8.3%
2006-2011	$2,011,756,460	4.8%	7.4%
2007-2011	$1,984,816,553	4.0%	7.0%
2008-2011	$1,933,299,776	3.9%	7.0%
2009-2011	$1,835,847,536	3.7%	6.8%

Table 6 shows Balboa IC and QBE Specialty Florida LPI incurred loss ratios have been significantly below the Florida aggregate homeowners loss ratio in each year from 2004 through 2011. The chart below Table 6 graphs the data in the table.

Table 6
Incurred Loss Ratios: Balboa and QBE LPI vs. Florida Homeowners

Year	Balboa IC	QBE Specialty	FL Homeowners
2004	74.0%		303.0%
2005	82.0%		153.6%
2006	28.1%		32.6%
2007	10.7%		25.6%
2008	9.2%		33.9%
2009	13.7%	12.5%	38.4%
2010	2.4%	2.5%	38.1%
2011	9.2%	4.4%	30.0%



5.1 QBE Specialty Selling LPI through Surplus Lines

Florida prohibits a policy from being issued through surplus lines insurers unless the coverage under the policy is "eligible for export."[3] A coverage is eligible for export – eligible for sale through surplus lines – if the coverage meets a number of criteria.[4] One requirement is:

> (a) The full amount of insurance required must not be procurable, after a diligent effort has been made by the producing agent to do so, from among the insurers authorized to transact and actually writing that kind and class of insurance in this state, and the amount of insurance exported shall be only the excess over the amount so procurable from authorized insurers.[5]

QBE Specialty is a surplus lines insurer and the LPI sold by QBE Specialty is surplus lines insurance. It is unclear how QBE Specialty has met or can meet the Florida surplus lines requirements for LPI to be eligible for export when the coverage has been available and continues to be available from admitted carriers, including Balboa IC and American Security IC.

6. Detailed Analysis of Commissions, Other Acquisition and General Expenses

As a preliminary matter, the only potentially substantive justification for the proposed expense provisions is Exhibit 21 of the filing – "Letter of Intent on Commissions." Praetorian has claimed this information as a trade secret and the exhibit is not available to the public for review. Given that a prior Balboa IC LPI filing has contained materially false statements[6], it is reasonable and necessary for Exhibit 21 to be available for public inspection and review.

The filing contains unreasonable expense provisions – 15% for commissions, 2.4% for other acquisition expenses and 11.5% for general expenses for a total of 28.9%. The selection of expense provisions is completely arbitrary, without empirical or logical support and unreasonable on its face. Table 7 shows the three-year averages for commissions, other acquisition and general expenses for fire and homeowners lines in Florida from 2008 to 2010.[7]

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[3] Florida Insurance Statutes 626.915(1)

[4] Florida Insurance Statutes 626.916(1)

[5] Florida Insurance Statutes 626.916(1)(a)

[6] For example, in OIR Filing No. 10-20376, Balboa wrote to OIR Actuary Robert Lee and stated: Confirm no expense in this filing relates to activities that solely relate to bank or mortgage entity not related to insurance transaction. *RESPONSE: The insurance expenses used to support this filing are pulled from the Insurance Expense Exhibit which makes a part of our NAIC financial statements. The expenses identified in the IEE do not include any activity solely related to banking, mortgage lending, or mortgage servicing or any entity not related to the insurance transaction.* Earlier, in the letter, Balboa described expenses for activities specifically related to the insurance tracking activities of mortgage servicers, contradicting the response regarding non-insurance expenses.

[7] The Florida fire and homeowners figures are a weighted average of data reported in the OIR Annual Reports of 2009, 2010 and 2011, Florida Property and Casualty Insurance Calendar Year Experience pursuant to Section 627.915 (2), FS.

Table 7
Florida Homeowners and Fire Expenses vs. Praetorian Expenses

	Homeowners	Fire	Praetorian LPI
Other Acquisition	6.60%	3.61%	2.40%
General Expense	3.76%	4.41%	11.50%
Commission	12.91%	10.43%	15.00%
Total	23.26%	18.44%	28.90%

We would expect much lower historical expense provisions as a percentage of premium for LPI than for homeowners or fire for at least two reasons. First there are far fewer activities and related expenses for the sale and administration of a group master policy with no underwriting of individual properties than for individually-underwritten and individually-sold residential property insurance policies. Stated differently, expense dollars per property insured should be much less for LPI than for homeowners or fire.

For LPI, the LPI insurer issues a group master policy and, upon notification by the servicer, issues coverage for specific properties. The LPI insurer administers the group master policy, typically billing monthly for coverage issued during the period. The LPI insurer settles claims under the LPI policy and answers questions from the servicer and borrowers about claim settlement. The insurer must develop rates for the LPI insurance.

Contrast these few activities with those of an agent and insurer for homeowners insurance. The insurer and agent constantly seek to solicit new business via marketing and advertising and to maintain existing customers with customer service and communication. The sale of a homeowners policy involves the collection of large amounts of information about the consumer and the property, including credit history, loss history reports and other information for underwriting. The agent and insurer must work with the consumer to establish the coverages needed and the appropriate amount of coverage. The agent commission covers the expenses associated with agent's activities for marketing, new business solicitation, sales, underwriting, rating, customer service and assistance with claims. The insurer expenses cover the costs of advertising and marketing for sales and customer retention, developing sophisticated underwriting and rating systems, obtaining detailed underwriting and rating data for the sophisticated rating, issuing complete homeowners policies to new policyholders, customer service and claims settlement.

Second, because the average premium for LPI is much greater than the average premium for homeowners or fire, the same expense dollars per property insured should produce a much lower expense percentage of premium. With fewer expenses and higher average premium per property insured for LPI than homeowners, the expense percentages for LPI should be significantly less than those for homewoners. The Praetorian filing proposes higher expense percentages applied to higher average premium, which would produce expense dollars per

property insured for LPI multiples greater than the expense dollars per property insured for homeowners. The proposed expense provisions are clearly unreasonable and excessive.

The filing's public justification for these expense provisions consists of the following statements:

> Exhibit 13A displays both historical and prospective expenses. The selected expenses are based on future anticipated expenses and industry data. American Security Insurance Company figures are shown 13A for comparison. Our selections are in line with industry standards, and American Security Insurance Company represents the only direct competitor which writes this business on an admitted basis.
>
> The most recent Balboa filing made for the Risk Based Protection product noted that commission expense was projected based on expected market demands and the commission expense reflected in competitor programs. The combination of the Balboa business with the QBE Specialty business contemplates the payment of reasonable commissions to unaffiliated business partners. The commission expense used in this filing reflects the existing combination commission obligation of Praetorian and the expected commissions necessary to acquire new business commensurate with industry standards. Exhibit 21 details the commission expense reasonably expected and summarizes the services we expect to receive in return for payment of those commissions.

This explanation is gibberish. Exhibit 13A of the filing shows five-year historical average expenses of 4.7% for commissions, 2.3% for other acquisition and 9.4% for general expenses. Praetorian ignores these actual historical values and selects higher amounts, presumably because American Security's approved filing includes higher expense provisions. All three sets of expense provisions – Balboa IC historical average, Praetorian proposed and American Security – are unreasonable and excessive because the expenses are inflated by expenses associated with considerations for the mortgage service, including expenses for mortgage servicing activities.

6.1 Reverse Competition in LPI Markets Leads to Unreasonable Expenses

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 Fannie Mae RFP, cited above, describes this dynamic in LPI markets.

Because of reverse competition, LPI insurer expenses cannot be deemed reasonable simply because the insurer incurred those expenses. With reverse competition, insurers will provide considerations to lenders and such expenses are not reasonably included in rates or passed on to borrowers.

6.2 Consumers Are Especially Vulnerable to Excessive LPI Rates

The incentives and potential for excessive LPI rates are great. Consumers do not request the insurance, but are forced to pay for it. The cost of LPI is much higher than a policy the borrower would purchase on his or her own. Servicers have financial incentive to force-place the insurance because the premium includes commission and other consideration for the servicer. With some servicers, the insurance is reinsured through a captive reinsurer of the servicer, resulting in additional revenue to the servicer from the force-placement of the coverage.[8]

Borrowers are vulnerable to excessive rates for LPI insurance because the borrowers / consumers exert no market power in the setting of these rates. The insurance is force-placed on the borrower and the borrower has no say or decision in the amount or type of coverage placed. In addition, there is no downward market pressure on rates; the vendors/insurers offering LPI do not compete on the basis of price, but on the basis of services provided to the lender and compensation and other considerations provided to the lender or its affiliates.

6.3 Unreasonable Expenses

Because of reverse competition, borrowers are charged unreasonable LPI premiums because of unreasonable expenses included in the LPI premium. To compete for servicer business, LPI insurers must provide considerations to the lender. This cost of these considerations – payments by the LPI insurer to the servicer or expenditures by the LPI insurer to subsidize the servicer's cost for non-LPI activities – inflate the LPI premium beyond the reasonable costs of providing the insurance. Unreasonable expenses included in LPI rates include:

- Tracking/Servicing Activities Unrelated to the Provision of LPI
- LPI Commissions
- Captive Reinsurance Administrative Costs
- Affiliate Transactions at Above-Market Prices
- Flat Cancellations

6.3.1 Tracking and other Servicer Activities

Table 1 provides a list of LPI-related activities and identifies the activities as associated with servicing a portfolio of loans versus the issuance and administration of the LPI master policies and individual property coverages.

[8] See, for example, "Ties to Insurers Could Land Mortgage Services in More Trouble," Jeff Horwitz, *American Bankers*, November 10, 2010.

Although most of the activities in Table 1 are servicing activities, most or all of these activities are typically performed by the LPI vendor for the servicer. Some of these services may be billed separately from the LPI premium, but some portion of the LPI insurer's expenses are for performing servicer activities not a part of the provision of LPI. Such expenses are unreasonable to include in LPI premium charges to borrowers.

As in Table 1, the Fannie Mae RFP draws a clear distinction between insurance tracking and the provision of LPI insurance. The LPI requirements in the RFP are limited to issuance of insurance, settlement of claims under policy, customer service regarding claims. The LPI critical performance indicators are for speed of unearned premiums refunds, insurance placement and claim settlement. The key performance indicators are for claims call answer speed, damage inspection speed, estimated repair cost verification speed and call center abandonment rate.

Expenses for other loan servicing activities, including, for example, insurance tracking, customer service related to insurance tracking and billing borrowers for LPI, are expenses associated with the servicing the entire loan portfolio and are not reasonable to include in LPI premiums charged to 1%-2% of borrowers.

6.3.2 Commissions to Servicer-Affiliated Producers

At a recent hearing before the New York State Department of Financial Services, mortgage servicers testified about commissions paid to servicer-affiliated insurance agents (also known as producers). I monitored the hearing and provided testimony following the servicers and LPI insurers. Testimony at this hearing, in my opinion, revealed that commissions paid to servicer-affiliated producers are not justified by any service provided by these producers and represent a kickback to the servicer for placing the LPI. When asked what activities the servicer-affiliated producers perform to justify the commissions, the responses included:

- Soliciting LPI providers
- Reviewing LPI form letters and other documents
- Third-party broker commissions are commonplace
- Broker commissions are an accepted and approved practice
- LPI broker commissions are similar to those in other lines of insurance
- Manage the LPI rating program
- Manage the LPI vendor relationship
- Quality review of the LPI vendor
- Commissions are a cost of doing business

The classic role of the insurance producer is to help the policyholder determine her insurance needs and shop the market for the insurance product that meets the policyholder's needs while seeking the most competitive price for the product. Such activities simply do not exist in LPI because historically there were only three national providers of the necessary package of insurance and related services and there is no price competition among the insurers. With QBE's acquisition of the Balboa LPI business from Bank of America, soliciting new

business consists of asking typically two vendors for proposals – and such activity is a rare event for most servicers.

Reviewing LPI form letters and other communication templates is the servicer's responsibility. A servicer-affiliated producer performing such review is performing servicer activity which should not be compensated for through LPI insurance premiums.

The fact that third-party broker commissions are commonplace or a standard industry practice in LPI or other lines of insurance is no justification for such commissions in the LPI market. There have been a variety of standard industry practices by servicers and insurers that were unfair and abusive to consumers – and which were not justified by virtue of many servicers or insurers engaging in the same practice. In the servicing realm, recent settlements between states and servicers have identified a number of unfair industry practices, such as robosigning foreclosure documents. In the insurance realm, steering of business based on contingent commissions, unfair use of retained asset account and abusive sales of financed single premium credit insurance, were industry standard practices, to name a few.

Other justifications cited by industry witnesses –managing the LPI vendor relationship and quality review of the LPI vendor – are responsibilities of the servicer and, to the extent the servicer-affiliated producer is performing these activities, the commissions to these producers represent a kickback of the LPI premiums to subsidize servicer activities.

In summary, just as in the Praetorian filing, industry witnesses in New York provided no justification for any LPI commissions to servicer-affiliated producers. Fannie Mae's new policy – to not reimburse servicers for any portion of LPI premiums paid as commission to servicer-affiliated producers and described in the next section – provides further evidence that no commissions to servicer-affiliated producers are warranted.

6.3.3 Fannie Mae Servicing Guidelines for LPI

On March 14, 2012, Fannie Mae issued new guidelines to mortgage servicers regarding LPI.[9] The new guidelines mandate that LPI premiums exclude certain unreasonable expenses, including commissions to servicer-affiliated producers and expenses associated with insurance tracking. The Fannie Mae servicer guidelines are consistent with the evaluation by Fannie Mae in its LPI RFP that LPI premium charges are unreasonably inflated by expenses unrelated to the provision of LPI insurance.

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[9] Fannie Mae, *Servicing Guideline SVC-2012-04, Updates to Lender Placed Property Insurance and Hazard Insurance Claims Processing,* March 14, 2012, available at https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2012/svc1204.pdf

Acceptable Lender-Placed Insurance Costs and Insurance Tracking Fees

Fannie Mae is clarifying its requirement for reasonable reimbursable expenses for lender-placed insurance. Any servicer request for reimbursement of lender-placed insurance premiums must **exclude**:

- any lender-placed insurance commission earned on that policy by the servicer or any related entity,
- costs associated with insurance tracking or administration, or
- any other costs beyond the actual cost of the lender-placed insurance policy premium.

The Praetorian filing cites one aspect of the Fannie Mae servicing guideline to justify higher rates – increased deductibles in support of its premium trend selection – but fails to mention other parts of the servicing guideline that justify lower rates because of lower expenses. The Fannie Mae guideline will result in fewer commissions paid on LPI. In fact, two major servicers – AHMSI and Chase – announced at the New York Department of Financial Services hearing in May, 2012, that they will no longer accept commissions on LPI placed on loans in their portfolios. It is likely that other servicer-affiliated producers will also cease accepting LPI commissions.

6.3.4 QBE Acquisition of Balboa / 10-Year Agreement for Bank of America Business

In June 2011, QBE acquired, among other things, the Balboa LPI business from Bank of America (BOA).[10] The acquisition included a ten-year agreement for Bank of America to use QBE for LPI. Since BOA was and remains one of the largest mortgage servicers, the BOA LPI business represents a significant portion of the QBE/Praetorian LPI business. There is no reason for Praetorian to pay a commission for the BOA LPI business as no producer services or other acquisition expenses are needed to maintain the BOA LPI business.

6.3.5 Quota Share Reinsurance

Quota Share reinsurance arrangements – in which the LPI insurer reinsures a portion of LPI business with a reinsurance company typically owned or affiliated with the servicer – are simply profit-sharing mechanisms designed to provide additional considerations to the servicer. These arrangements serve no substantive risk management purpose and, consequently, serve no purpose for the consumers/borrowers of LPI.

Captive LPI reinsurance arrangements should be prohibited because they create a conflict of interest between the servicer and the borrower. By having a financial interest in the price and placement of LPI through a captive reinsurance program, the servicer has a glaring conflict with

[10] Appendix C has news reports describing the transaction

the interest of the borrower for lower-cost LPI. Testimony of industry witnesses in NY – "we can see that there might be a perception of a conflict, but it does not affect our practice" – does not address or eliminate the actual conflict of interest. The person who has a conflict of interest does not eliminate the conflict simply by saving, "I'm not affected by these financial incentives."

Regardless of whether the captive reinsurance arrangements are prohibited, the expenses associated with administering the arrangements should be excluded from LPI rates because these expenses provide no benefit for the borrower charged the LPI premium.

6.3.5 Affiliate Transactions

LPI expenses for both Balboa and QBE include significant affiliate transactions. QBE First has testified that the QBE insurers pay a significant commission to QBE First to administer the LPI program. Expenses for affiliate transactions should be identified and reviewed for reasonableness to ensure that such affiliate transaction expenses are not insurer profit characterized as expense.

6.3.6 Flat Cancellations

When LPI coverage is issued and the servicer discovers that the borrower had, in fact, the required insurance on the property, the LPI premium is fully refunded. Testimony at the New York DFS hearing in May, 2012 indicated 10% to 15% of LPI policies were flat-cancelled, meaning the policies were placed in error and premiums fully refunded. The expenses associated with these flat cancellations to the insurer – issuing a temporary binder, removing the coverage, billing the servicer and refunding premium to the servicer – should be borne by the servicer and not the borrowers charged LPI premiums. Flat cancellations occur because the servicer erroneously directed the LPI insurer to issue coverage. These errors may have resulted from poor work by the servicer or its vendor performing insurance tracking. Or the errors may have resulted from borrowers not providing information in a timely fashion. Since there is no charge to consumers who are late providing insurance information – there is a flat cancellation – the cost of flat cancellations is an expense associated with servicing the portfolio. The cost of flat cancellation should not be borne by the small percentage of borrowers who are actually charged LPI premiums.

6.4 Reasonable Expense Provisions

The reasonable expense provisions are those for which the activities are clearly related to the transfer of risk with LPI insurance and for which Praetorian can demonstrate it will incur that expense. Praetorian should document the expenses associated with specific LPI activities and those expenses should be reviewed to ensure the expense is relevant for LPI and reasonable.

Commissions	0% to 2%
Other Acquisition Expense	2% to 3%
General Expense	3% to 4%
Total	5% to 9%

No provision for commissions is warranted for insurer-affiliated and servicer-affiliated producers. Commissions for non-affiliated producers should be documented and, if legitimate, a commission provision based on a premium-weighted average actual non-affiliated producer commissions and zero for affiliated producers. Many servicer-affiliated producers have already stopped accepting commissions on LPI because of the new Fannie Mae policy and other servicer-affiliated producers will soon stop accepting commissions on LPI insurance. Further, servicer-affiliated producers do nothing to warrant a commission. Industry testimony about the activities of servicer-affiliated producers indicates the activities of these producers are really vendor management oversight by the servicers. The costs of these vendor management activities are servicer responsibilities and not a reasonable LPI insurance expense.

Absent any concrete evidence to the contrary, a range of 2% to 3% is a maximum provision for other acquisition expense. Unlike personal lines insurance, there is no advertising to consumers (borrowers). Many mortgage servicers – and certainly the larger mortgage servicers – operate in many or all states. Given that there are only two national LPI insurers and servicers know who these insurers are, the LPI insurers do not require significant expense to solicit business; rather, the LPI insurers will typically respond to solicitations.

To put this in perspective, a 2% provision for other acquisition provides $10 million annually for $500 million in annual premium. This is a significant amount of money for other acquisition for LPI in Florida. As stated above, the following activities, present for homeowners insurance, are not found for LPI.

- Development of complex underwriting and rating models
- Development of complex premium calculation models and software
- Underwriting of individual properties and policyholders, including credit reports, credit scores, claims history reports and other property-or-consumer specific data
- Interaction with individual policyholders to determine appropriate coverage amount and coverages for the policy
- Sales and underwriting activity not resulting in a policy, including, for example, obtaining credit scores and loss history reports for applicants who do not purchase a policy.

Absent any concrete evidence to the contrary, a range of 3% to 4% is a maximum for general and administrative expense. As discussed above, the general and administrative expenses associated with a non-underwritten group blanket policy must be significantly less than general and administrative expenses associated with homeowners insurance. The following expenses for homeowners insurance are not found for LPI:

- Maintenance of detailed underwriting, rating and coverage information on individual policyholders
- Billing of individual policyholders

7. Detailed Analysis of Non-Expense Provisions of Rate Filing

As a preliminary matter, several key rate development issues could not be analyzed because the supporting documentation was claimed a trade secret and not available to the public.

As with the expense provisions, the requested rate bears no relation to the rate indicated by the Praetorian data analysis and is based on unsupported claims about the LPI market. The filing states:

> The overall indication emphasizes the more recent loss data that shows increasing loss frequency and recent regulatory trends expected to reduce future premium. The company anticipates these trends will continue. Significant market uncertainty remains with respect to lender placed insurance, in addition to the specific actions noted in the trend discussion below. The market is characterized by large volumes of seriously delinquent loans, changing loan servicing and loan modification requirements, and a persistent backlog of REO properties. The increasing market uncertainty and the recent premium and loss trends support the company's selected rate change for this filing.

The only regulatory change cited by Praetorian in its filing is a change in deductibles required by Fannie Mae. The filing does not mention other changes in the Fannie Mae LPI guidelines – changing coverage amount to unpaid principal balance after a loan with LPI goes 120 days delinquent and Fannie's refusal to reimburse servicer-affiliated producer commissions and tracking expenses included in LPI premiums.

Praetorian cherry picks the regulatory changes to maximize the indicated and selected rate. While using higher deductibles to justify a more negative premium trend than indicated by the data, Praetorian ignores the impact of higher deductibles in its loss trend analysis.

The requirement by Fannie to change coverage amounts to unpaid balance at 120 days delinquent does not necessarily mean a lower amount of coverage. A significant number of mortgages are underwater – meaning that more is owed on the home than the home is worth. The fourth quarter 2011 negative equity report from CoreLogic[11] shows that around 43% of Florida mortgages have negative equity.

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[11] http://www.corelogic.com/about-us/researchtrends/asset_upload_file866_14435.pdf

Praetorian's argument that higher-than-indicated rates are needed because of "market uncertainty" and because of "large volumes of seriously delinquent loans, changing loan servicing and loan modification requirements, and a persistent backlog of REO properties" is without empirical support. The LPI market has been characterized by uncertainty, large volumes of seriously delinquent loans, changing loan servicing requirements and a backlog of REO properties for several years. Serious mortgage delinquencies peaked in 2010 and have declined significantly since then, though the numbers are still far above historical norms. There is simply no actuarial or economic basis for the Praetorian selected LPI rate and rate justification.

Some of the most glaring problems with the actuarial analysis in the filing are now discussed.

7.1 Ignored Indication

The filing shows an indicated rate change of -14.6%. Yet, the filer selects a zero rate change. The indicated rate change from a reasonable analysis is at least three times greater than the filer's indication.

7.2 Data Time Frames

The filing presents premium and loss data from third quarter 2006 through second quarter 2011, evaluated as of September 2011. The filing was filed with the Office on May 4, 2012. It is unclear why calendar accident year data through fourth quarter 2011 was not presented, since such data was available at the time of filing.

The use of other-than-most-currently-available data poses problems. First, the impact of the negative premium and massive positive loss trends are increased. Second, it is not possible to reconcile the data presented to any calendar year report, such as the statutory annual statement or Credit Insurance Experience Exhibit. Third, the premium and loss data are mismatched with expense and LAE data because the former are based on a July through June 12-month period, while the latter are based on a January through December 12-month period.

7.3 Balboa IC and QBE Specialty Combined vs. Separate Experience

The premium and loss data, including premium and loss trend data, are presented on a combined basis for Balboa IC and QBE Specialty. The combination of the data may skew results, particularly for trend analysis and loss development. The data should be presented separately for Balboa IC and QBE Specialty to allow review of individual company data for anomalies for individual company experience or combined experience.

7.4 Paid vs. Incurred Losses

Table 5, above, shows significant and persistent differences between paid and incurred loss ratios. While it is reasonable to expect paid loss ratios to lag incurred loss ratios for a short time when premium is growing, the disparity between paid and incurred loss ratios for both Balboa and QBE persists when premium growth stabilized. The high incurred loss ratios relative to paid loss ratios suggest that one or both insurers are over-reserving and, consequently, overstating incurred losses during the period of experience review.

7.5 QBE Rate vs. Balboa

The filing claims that the current average QBE Specialty rates are 10.5% higher than the Balboa rate level. The filing asserts the rate differential was calculated by rerating QBE Specialty policies using current Balboa IC rates (Exhibit 5C). No support or evidence is provided for this assertion, which has impact on the premium at current rate level analysis. Data in the filing do not support this assertion of rate differential. Exhibit 24 – Overall Premium Impact Calculation – shows the current number of property risks and total premium for Balboa IC and QBE. The average premium for Balboa IC is $352,100, 194 / 87,678 equals $4,015.83. The average premium for QBE Specialty is $108,558,904 / 26,432 equals $4,107.10. The average QBE premium is only 2.3% greater than the average Balboa premium.

7.6 Scheduled Rating Impact

Balboa's prior filings include scheduled rating, which is a deviation from the filed and approved base rates at the discretion of the insurer up to + / - 25% of the base rates. The presence of significant schedule rating credits would mean that the actual net written premium was at rates significantly below the filed and approved rates. There is no indication of any consideration of scheduled rating in the rate development analysis. Yet, Exhibit 24 indicates that significant scheduled rating credits were awarded. The scheduled rating factor for Balboa in the Exhibit 24 for current experience is 0.751, indicating an average scheduled rating credit of 24.9% If this is accurate, then actual premiums at current rate levels for Balboa are about one-third higher than presented.

Presumably, QBE Specialty also employed scheduled rating, but no data are provided for current or historic QBE scheduled rating.

7.7 Premium Trend

The filing proposes a premium trend of -3.0% based, in part, on an analysis of changing average amounts of insurance (Exhibit 9) and, in part, on the following:

The largest purchaser of residential mortgages, Fannie Mae, announced that effective June 1, 2012, changes in deductible requirements and coverage requirements for lender placed insurance. These changes will reduce premium, and the premium trend shown likely underestimates the impact of the Fannie deductible and coverage policy revisions.

The premium trend analysis and selection are massively flawed and must be rejected:

- Fannie has delayed the effective date of the new LPI requirements and has not announced a new effective date, so this rationale is currently not valid.

- The proposed rates provide a rate reduction of 1.1% for non-hurricane and 1.8% for hurricane for moving from a $500 to $1,000 deductible. The impact of Fannie's new requirement is likely to have a fraction of these rate impacts because some servicers are likely already using the higher deductible.

- The data used for the premium trend analysis is not actual premium, but amount of insurance. Based on the proposed amount of insurance factor in the filing, a 1% change in amount of insurance results in less than a 1% change in the premium. Increasing the amount of if insurance from $200,000 of coverage by 1% to $202,000 of coverage increases the premium by 0.5%.

- The premium trend data are likely skewed by the combination of Balboa and QBE experience. Exhibit 5C shows that QBE premium started in second quarter 2009 and increased significantly in the third and fourth quarters of 2009. Exhibit 9 shows that the average amount of insurance jumped from second quarter 2009 to third quarter 2009 when the QBE experience was supplementing the Balboa experience. The result was a high point for average amount of insurance.

- The premium trend selection of -3.0% bears no relation to the amount of insurance data presented in Exhibit 9. The table below shows the average amount of insurance (AOI) by quarter from Exhibit 9 and the 12-month average by quarter. The filer is only able to produce a negative premium trend by relying on the most recent years – four and eight points. If the analysis was based on ten or more points, the premium trend is positive.

- The premium trend selection produces the absurd result of applying a -3% premium trend – for over six years -- to the four-quarter period ending second quarter 2007 even though the average amount of insurance for that period of $148,252 was over 25% less than the most recent four-quarter period ending second quarter 2011. Similarly, over five years of -3% premium trend is applied annual experience ending second quarter 2008 even though the average amount of insurance for that period almost 20% less than the most recent four-quarter period ending second quarter 2011.

- LPI insurers have no say in which properties are insured. Past amounts of insurance are not a guide to future amounts of insurance for new properties insured. The amount of insurance is predominantly determined by the type of property for which the borrower fails to provide evidence of insurance, which is a function of the state of the real estate market and the economy.

Table 8
Praetorian Premium Trend Data

Quarter	Average AOI	12-Month Average AOI	Trend Analysis Points	Exponential Trend
2006Q3	133,759			
2006Q4	141,440			
2007Q1	153,093			
2007Q2	160,340	**148,252**	17	7.4%
2007Q3	173,234	158,438	16	6.1%
2007Q4	181,488	168,502	15	5.0%
2008Q1	184,520	175,962	14	4.0%
2008Q2	194,007	**184,558**	13	2.9%
2008Q3	195,749	190,009	12	2.1%
2008Q4	199,315	194,298	11	1.2%
2009Q1	205,325	199,152	10	0.2%
2009Q2	207,447	**202,794**	9	-0.7%
2009Q3	213,305	207,594	8	-1.7%
2009Q4	211,522	210,104	7	-2.4%
2010Q1	208,588	210,301	6	-2.4%
2010Q2	200,512	**207,775**	5	-1.8%
2010Q3	204,072	205,753	4	-1.2%
2010Q4	205,593	204,555		
2011Q1	204,603	203,696		
2011Q2	201,947	**204,035**		

7.8 Loss Trend

Praetorian selects an annual loss trend of 23.9%, which, combined with the premium trend of – 3.0% produces an annual net trend 27.7% The filing justifies the selection by stating the "selected loss trend reflects the significant increase in frequency experienced in recent periods."

The loss trend is clearly unreasonable and excessive. If the loss trend was actually 23.9% and the annual trend was actually 27.7%, we would expect to see massively deteriorating loss ratios. The actual loss ratios show no such deterioration. Even following a 15% rate reduction effective October 1, 2010, the Balboa loss ratio for 2011 remained below 10%.

Table 9
Recent Actual Florida LPI Loss Ratios for Balboa IC and QBE Specialty

Year	Balboa IC
2007	10.7%
2008	9.2%
2009	13.7%
2010	2.4%
2011	9.2%

Year	QBE Specialty
2009	12.5%
2010	2.5%
2011	4.4%

The loss trend selection is unreasonable because it fails to consider the impact of higher deductibles utilized by Praetorian in the premium trend selection. If higher deductibles are a valid consideration for premium trends, then the higher deductibles must be considered in the loss trend. No consideration of higher deductibles was given by Praetorian for the loss trend.

The loss trend selection is unreasonable because it selects the trend based on only five data points and, despite the claim that the rate selection is based on recent claim frequency increases, does not include the most recent data point of 12-months ending second quarter 2011. Table 10 shows annual loss severity, frequency and pure premium trends using Praetorian loss trend data for various analysis periods including the last data point and excluding the last data point. The Praetorian selection – five points excluding the last data point – is highlighted in bold. Had Praetorian selected the pure premium trend based on six points (excluding the most

recent point), the loss trend would have been 7.5% instead of 23.9%. Had Praetorian selected seven or more points, the loss trend would have been negative. The selection of a loss trend based on few data points to emphasize recent experience, while eliminating the most recent data point is arbitrary and unreasonable.

The loss trend analysis is suspect because the losses in loss trend Exhibit 10 do not match the losses reported in Exhibit 3 Summary of Premiums, Losses and ALAE. The losses in Exhibit 10 are closest to the actual incurred losses and LAE in the rate level indication exhibit. Consequently, it appears that the trend data is based on incurred losses and claims as opposed to paid losses and claims. Trend analysis based on incurred losses can be easily skewed by loss development factors.

The loss trend analysis highlights the weakness of the loss trend data utilized by Praetorian – data only through second quarter 2011 when more current data are available and combined data for Balboa IC and QBE Specialty instead of separate data and trend analyses.

Table 10
Exponential Trend Analysis Results, Praetorian Data from Filing Exhibit 10

					Exclude	**Last**	**Point**
Points	Severity	Freq	Pure Prem		Severity	Freq	Pure Prem
17	-17.1%	22.7%	1.7%				
16	-17.2%	25.3%	3.7%		-18.3%	21.4%	-0.8%
15	-17.3%	27.9%	5.8%		-18.6%	24.2%	1.1%
14	-17.0%	28.3%	6.5%		-18.9%	27.0%	3.0%
13	-16.2%	27.4%	6.7%		-18.8%	27.3%	3.3%
12	-16.2%	25.8%	5.5%		-18.3%	26.1%	3.1%
11	-18.4%	24.4%	1.5%		-18.6%	24.0%	0.9%
10	-19.9%	25.8%	0.8%		-21.7%	21.8%	-4.6%
9	-18.3%	26.6%	3.4%		-24.3%	22.9%	-7.0%
8	-15.6%	28.7%	8.6%		-23.6%	23.1%	-6.0%
7	-11.3%	35.8%	20.4%		-22.0%	24.6%	-2.8%
6	-1.8%	40.1%	37.5%		-19.0%	32.7%	7.5%
5	5.3%	46.3%	54.0%		**-9.9%**	**37.5%**	**23.9%**
4	12.9%	51.6%	71.2%		-4.2%	45.9%	39.7%

7.9 REO vs. non-REO

Real-Estate Owned (REO) is property that has been foreclosed and is now owned by the lender/investor. LPI premiums for REO properties cannot be passed on to the borrower because there is no longer a mortgage or a borrower involved. LPI premiums are paid by the servicer and passed through to the lender/investor.

It is logical that there is different loss experience for REO and non-REO properties. REO properties are more likely to be vacant and more likely to be in neighborhoods with other foreclosed properties. Earlier Balboa filings partially recognized this issue by having a rating factor for type of occupancy with significantly higher rates for vacant properties. Prior to 2010, the rate for vacant properties was 3.05 times the rate of owner-occupied properties. In 2001, the vacant occupancy rate became 1.54 times the rate of owner-occupied properties. The Praetorian filing eliminates this rating factor.

The analysis of loss experience should be performed separately for REO and non-REO properties because the loss experience of REO properties is likely to be worse than that of non-REO properties. There should be different LPI rates for REO and non-REO properties, so borrowers in non-REO properties are not charged excessive rates to subsidize the rates of REO properties.

7.10 Scheduled Rating

Scheduled Rating is a mechanism for the insurer to modify the base rates – and, consequently, premiums charged – by up to + / - 25% based on characteristics of the loan portfolio covered by the LPI. The proposed schedule rating plan includes:

- 30+ days contractual delinquency measured as a % of total active mortgage loans (+ / - 15%)
- Foreclosure loans measured as a % of total active mortgage loans (+ / - 10%)
- Named Insured choice to purchase coverage for the lesser of value of improvements for unpaid principal balance ((+ / - 10%)
- Operating Expenses Associated with Lender Placed Program (+ / - 15%)
- Loss History for Hazard Insurance Protection (+ / - 15%)
- Concentration of exposures in high risk (catastrophe prone) areas (+ / - 15%)
- Average Property Values (+ / - 15%)

Scheduled Rating should not be permitted or approved because it allows the insurer to arbitrarily change the rate. For “risk characteristics” that are objectively measured – delinquent loans, foreclosure loans, basis for coverage – a rating factor should be introduced if there is an objective relationship to risk of loss. In earlier filings, Balboa had a rating factor for loans in foreclosure.

Scheduled rating based on average property values and concentration of risk in catastrophe prone areas is inappropriate because those characteristics are already captured in proposed rating factors. The filing proposes a complex rating factor for amount of coverage and includes rating territories with extremely high relativities for cat prone territories.

Scheduled rating based on operating expenses is inappropriate because it is arbitrary and because operating expenses for LPI – as opposed to insurance tracking – are minimal. Given that operating expenses for LPI should be in the range of 5%, it is unreasonable to include a provision to change rates up to + / - 15% based on a subjective evaluation of operating expenses associated with a particular servicer. In addition, this factor is particularly unreasonable because affiliates of Praetorian are likely the contractors selected by the mortgage servicers to perform the insurance tracking and related services. In essence, scheduled rating could be used to reward servicers who select QBE/Balboa for non-LPI mortgage servicing activities.

Finally, scheduled rating for loss history is inappropriate for LPI because there is no reasonable opportunity for mortgage servicers to engage in LPI loss mitigation. Unlike insureds in other lines of insurance subject to scheduled rating who can employ loss mitigation strategies to reduce losses, mortgage servicers cannot and do not employ loss mitigation strategies for LPI. Properties insured are only those without sufficient evidence of insurance; the mortgage servicer identifies the properties to be insured under the LPI policy, but does not select the properties to be insured.

7.11 Age of Home Rating Factor

The age of home rating factor has a massive impact on premium. The relativities are 0.683 for homes zero to 14 years old, 1.051 for homes 15 years and older and 1.000 for "not supplied." For properties older than 14 years, the LPI premium is 54% higher than homes 14 years or younger. The age of home factors are the same for non-hurricane and hurricane perils.
It seems unlikely that the age of home factor is the same for non-hurricane and hurricane perils. Exhibit 29D shows relativities of 0.389 and 1.000 for homes 14 years and older and homes 15 years and older, respectively for hurricane pure premium. This is inconsistent with the filed age of home relativities.

Further, it is unclear if the age of home analysis was performed on countrywide for Florida-specific data. The preliminary one-way analysis in Exhibit 28E shows a much higher clam frequency for older homes, but a slightly lower claim severity.

8. Rates Relative to Voluntary Market / Citizens or Assurant

In a prior filing, Balboa rates were determined by comparison to Assurant and Citizens. There is no valid reason why LPI rates must be more than voluntary homeowners rates. Even if we assume that LPI claims are more frequent than homeowners claims, the lesser coverage and higher reasonable loss ratios for LPI than for homeowners could produce a lower LPI premium than homeowners premium for the same property. Table 11 starts with a homeowners premium of $1X. With an expected loss ratio of 65%, the expected claims on this coverage are 0.65X. If we assume that LPI claims are 1.6 times more frequent than homeowners claims and that the lesser LPI coverage is 80% of homeowners coverage, the expected LPI claims on this property are .65X * 1..6* 0.8 which equals 0.83X. With an expected loss ratio of 85%, the indicated premium for this property is 0.98X or slightly less than the homeowners premium for the property.

Table 11
LPI versus Homeowners Premium for Same Property

1	Homeowners Premium	1X
2	Expected HO Loss Ratio	0.65
3	Expected HO Claims (2 * 3)	0.65X
4	LPI Coverage / HO Coverage	80%
5	Higher LPI Pure Premium	160%
6	LPI Expected Claims (3 * 4 * 5)	0.83X
7	Expected LPI Loss Ratio	85%
8	LPI Premium (6 / 7)	0.98X

Public Hearing before the Florida Office of Insurance Regulation
Regarding a Rate Filing for Force-Placed Insurance by
Praetorian Insurance Company

July 3, 2012

Testimony of Birny Birnbaum
On Behalf of the Center for Economic Justice

Appendix A

Qualifications of Birny Birnbaum

Qualifications of Birny Birnbaum

I am a consulting economist and former insurance regulator specializing in insurance rates, regulation and policy, with expertise in credit-related, auto and property insurance.

My expertise in credit-related insurance is particularly relevant for this testimony. Credit-related insurance is insurance sold in connection with a loan and includes, for example, credit life insurance, credit disability insurance, and various forms of collateral protection insurance, such as credit personal property and lender-placed insurance.

I received my formal training at Bowdoin College and at the Massachusetts Institute of Technology (MIT). I received two Masters Degrees from MIT. The first degree was a Master of Management from the Sloan School with a concentration in applied economics and finance. The second degree was a Master of City Planning from the Department of Urban Studies and Planning with a concentration in community and regional economics.

Starting in 1991, I served as the Chief Economist for the Texas Office of Public Insurance Counsel (OPIC). OPIC is a Texas state agency dedicated to representing Texas insurance consumers as a class before the Texas Department of Insurance (TDI). While employed at OPIC, I provided expert witness testimony in numerous contested case and rulemaking hearings on insurance rates and risk classifications, provided expert testimony before the TDI in numerous rulemaking proceedings and authored numerous reports and analyses of Texas insurance markets. I provided expert testimony and reports on insurance rates, reasonableness of expenses in insurance rates and evaluation of markets for various lines of insurance, including residential property, auto, title and credit-related insurance. I also provided testimony on data collection for ratemaking and market surveillance for residential property, auto, title and credit-related insurance.

In November 1993, I began employment as Chief Economist and Associate Commissioner for Policy and Research for the Texas Department of Insurance (TDI). I served in that capacity for about three years under three Insurance Commissioners. My principal role at TDI was senior adviser to the Insurance Commissioner on policy, ratemaking, data collection and other technical issues. I had responsibility for the review and approval of insurance company rate and risk classification filings for several lines of insurance, including authority delegated by the Commissioner to approve or disapprove certain rate and risk classification filings. That authority covered personal auto, residential property insurance and credit-related insurance. In that role, I evaluated, among other things, the reasonableness of expenses included in proposed rates. I also represent the TDI on a variety of issues at the National Association of Insurance Commissioners (NAIC), including a committee on credit-related insurance.

In October 1996, I left TDI and began work as a consulting economist. Over the past sixteen years, I have had numerous consulting engagements with federal, state and local government agencies and consumer organizations. I have served as an expert witness on both economic and actuarial matters in administrative, legislative and judicial proceedings involving insurance rates and risk classification on auto and credit-related insurance, including lender-placed insurance. The Mayors of New York and Philadelphia retained me for expert analysis of

private passenger automobile rates and risk classifications. The Federal Trade Commission retained me to assist in credit insurance litigation. The Florida Insurance Commissioner appointed me to arbitration panels reviewing homeowners' rate and risk classification filings. The Ohio Civil Rights Commission retained me to examine the impact of insurance companies' use of consumer credit information on the availability and affordability of residential property insurance to minority populations in Ohio. The United States Department of Housing and Urban Development retained me to analyze complaints of redlining in the sale of homeowners insurance in New York

Since 1996, I have provided testimony and analysis on many aspects of credit-related insurance and title insurance in a variety of forums. In 2005, I prepared a report for the California Insurance Commissioner, *An Analysis of Competition in the California Title Insurance and Escrow Industry*. That report formed the basis for new regulations, which became effective in November 2007, to provide oversight of title insurance and escrow rates and data reporting requirements for title insurance agents and title insurance companies. I worked with the California Department of Insurance (CDI) in the development of those regulations. From 2009 to 2011, I prepared an analysis of title agent expenses in Pennsylvania for the Department of Insurance. This project included collection and review of detailed data from title agents and title insurance companies.

I also serve as the economic adviser to and Executive Director of the Center for Economic Justice (CEJ), an Austin, Texas-based non-profit that advocates on behalf of low income and minority consumers on credit, insurance and utility matters. CEJ's mission is to promote greater availability and affordability of basic services such as insurance, credit and utility products. I have written extensively on behalf of CEJ on insurance risk classification and some of my work can be found on the CEJ web site at www.cej-online.org. On behalf of the Center, I served for 12 years as a member of the NAIC Consumer Board of Trustees and represented consumers on many issues before the NAIC, including insurance rating and risk classification issues. On behalf of CEJ, I made many presentations to the NAIC on credit-related insurance and title insurance on a variety of topics including rates, reverse competition in credit-related insurance and title insurance markets and regulatory data collection for auto, residential property and credit-related insurance, and title insurance companies and title agents.

I have authored numerous reports on credit-related insurance, including two national reports and reports on credit-related insurance in many individual states. I have testified on credit-related insurance rates in numerous states. In recent years, I have written and testified about lender-placed insurance, including testimony before Congress in July in 2011 and before the New York Department of Financial Services earlier this year.

I have testified or been an invited speaker on insurance rates and risk classification. I have testified before insurance commissioners and/or state legislatures on insurance credit scoring in Alaska, Arizona, California, Colorado, Iowa, Florida, Georgia, Louisiana, Kansas, Massachusetts, Michigan, New Mexico, Nevada, Washington and Wisconsin. The Florida Insurance Commissioner appointed me as a member of the Florida Insurance Credit Scoring Task Force. I have testified on insurance rates and risk classification on several occasions before the NAIC. I have been invited to speak on insurance rate and risk classification issues before

many insurance organizations including the Insurance Regulatory Examiners Society, the Casualty Actuarial Society, the National Conference of Insurance Legislators, the National Conference of State Legislators, the United Farmers Agents Association, the National Association of Professional Allstate Agents and the National Insurance Task Force of the National Reinvestment Corporation. I testified before Congress in 2007 on insurance credit scoring.

Birny Birnbaum
Consulting Economist
1701 A South Second Street
Austin, TX 78704
(512) 448 3096

Birny Birnbaum is a consulting economist and former insurance regulator whose work focuses on insurance regulatory issues. He has served as an expert witness on a variety of economic and actuarial insurance issues in Florida, California, New York, Texas, and other states. He holds two Master's Degrees from the Massachusetts Institute of Technology.

Birny has worked with credit-related insurance data for over 20 years. Starting in 1991, he served as the Chief Economist for the Texas Office of Public Insurance Counsel (OPIC). OPIC is a Texas state agency dedicated to representing Texas insurance consumers as a class before the Texas Department of Insurance (TDI). While employed at OPIC, he provided expert witness testimony in numerous contested case and rulemaking hearings on insurance rates and risk classifications, provided expert testimony before the TDI in numerous rulemaking proceedings and authored numerous reports and analyses of Texas insurance markets. Birny provided expert testimony and reports on insurance rates, reasonableness of expenses in insurance rates and evaluation of markets for various lines of insurance, including residential property, auto, title and credit-related insurance. He also provided testimony on data collection for ratemaking and market surveillance for residential property, auto, title and credit-related insurance.

In November 1993, Birny began employment as Chief Economist and Associate Commissioner for Policy and Research for the Texas Department of Insurance (TDI). He served in that capacity for about three years under three Insurance Commissioners. His principal role at TDI was senior adviser to the Insurance Commissioner on policy, ratemaking, data collection and other technical issues. Birny had responsibility for the review and approval of insurance company rate and risk classification filings for several lines of insurance, including authority delegated by the Commissioner to approve or disapprove certain rate and risk classification filings. That authority covered personal auto, residential property insurance and credit-related insurance. In that role, he evaluated, among other things, the reasonableness of expenses included in proposed rates. Birny also had responsibility for data collection for various lines of insurance, including credit-related, property and auto insurance. Birny also represent the TDI on a variety of issues at the National Association of Insurance Commissioners (NAIC), including a committee on credit-related insurance.

In October 1996, Birny left TDI and began work as a consulting economist. Over the past sixteen years, he has had numerous consulting engagements with federal, state and local government agencies and consumer organizations. He has served as an expert witness on both economic and actuarial matters in administrative, legislative and judicial proceedings involving insurance rates and risk classification on auto and credit-related insurance, including lender-placed insurance. The Mayors of New York and Philadelphia retained him for expert analysis of private passenger automobile rates and risk classifications. The Federal Trade Commission retained him to assist in credit insurance

litigation. The Florida Insurance Commissioner appointed him to arbitration panels reviewing homeowners' rate and risk classification filings. The Ohio Civil Rights Commission retained him to examine the impact of insurance companies' use of consumer credit information on the availability and affordability of residential property insurance to minority populations in Ohio. The United States Department of Housing and Urban Development retained him to analyze complaints of redlining in the sale of homeowners insurance in New York

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Birny also serves as the economic adviser to and Executive Director of the Center for Economic Justice (CEJ), an Austin, Texas-based non-profit that advocates on behalf of low income and minority consumers on credit, insurance and utility matters. CEJ's mission is to promote greater availability and affordability of basic services such as insurance, credit and utility products. Birny has written extensively on behalf of CEJ on insurance risk classification and some of his work can be found on the CEJ web site at www.cej-online.org. On behalf of the Center, Birny served for 12 years as a member of the NAIC Consumer Board of Trustees and represented consumers on many issues before the NAIC, including insurance rating and risk classification issues. On behalf of CEJ, he has made many presentations to the NAIC on credit-related insurance and title insurance on a variety of topics including rates, reverse competition in credit-related insurance and title insurance markets and regulatory data collection for auto, residential property and credit-related insurance, and title insurance companies and title agents. Birny was an active participant in the discussions at the NAIC regarding insurer reporting of credit-related insurance experience through the Credit Insurance Experience Exhibit of the annual financial statements, including the change, effective with experience year 2004 reporting, for specific reporting of lender-placed insurance for residential properties.

Birny has authored numerous reports on credit-related insurance, including two national reports and reports on credit-related insurance in many individual states. He has testified on credit-related insurance rates in numerous states. In recent years, Birny has written and testified about lender-placed insurance, including testimony before Congress in July in 2011 and before the New York Department of Financial Services earlier this year. Birny has provided expert testimony on economic and actuarial issues in numerous litigations involving credit-related insurance and title insurance, including lender-placed insurance.

Education

1989	**Massachusetts Institute of Technology**	Cambridge, MA

Master's Degrees in Business (M.S., Management) and Urban Planning (M.C.P.). Concentration in finance and applied economics with coursework in econometrics, corporate, municipal and real estate finance and regional economic development.

1976	**Bowdoin College**	Brunswick, ME

A.B., German and Political Economy. Wesleyan University Program in Germany, Bonn, West Germany, 1974.

Professional Experience

1996 to Present	**Economist and Executive Director** Center for Economic Justice	Austin, TX

Serve as Executive Director for the Center for Economic Justice (www.cej-online.org), an organization dedicated to advocating on behalf of low-income and minority consumers before administrative agencies on credit, utility and insurance matters. Also provide expert economic, actuarial and policy analysis on behalf of CEJ. Served as designated consumer representative at the National Association of Insurance Commissioner on behalf of CEJ. Routinely provide testimony and presentations to insurance regulators and legislators on insurance regulatory and consumer protection issues from 1998 to present.

1991 to Present	**Consulting Economist** Birny Birnbaum Consulting Inc	Austin, TX

Provide economic and actuarial analysis on insurance, utility and credit matters to public organizations and consumers. Assignments include:

- Provided testimony on force-placed insurance markets and rates to the New York Department of Financial Services on behalf of the CEJ in May 2011

- Appointed to the Federal Advisory Committee on Insurance to advise the Federal Insurance Office on behalf of the CEJ in November 2011.

- Provided testimony to the Michigan House Insurance Committee on the profitability of Michigan auto insurers and the condition of the No-Fault auto insurance system in Michigan on behalf the Coalition to Protect Auto No-Fault in October 2011.

- Presented testimony to Congress regarding effectiveness of state insurance regulation, including oversight of force-placed insurance, on behalf of the Center for Economic Justice in July 2011.

- Prepared analysis of title insurance agent expenses for the Pennsylvania Department of Insurance from 2009 to 2011. Project included unique data collection and analysis.

- Provided analysis of usage-based auto insurance rate filings in California on behalf of Consumer Watchdog in 2010.

- Participated in North Carolina Consumer Finance Study Group to evaluate the North Carolina consumer instalment loan market and proposals for modifying statutory interest rate and fee caps for these loans on behalf of the Center for Economic Justice in 2010.

- Provide analysis and testimony on credit insurance and debt cancellation products sold by credit unions on behalf of the United States Department of Justice 2008 to 2009

- Authored *An Analysis of Competition in the California Title and Escrow Industry* for the California Commissioner of Insurance in 2005. Provided assistance to California Department of Insurance in preparing and issuing requests for information to title insurance companies and title agents in California from 2005 to 2008.

- Provided testimony and analysis on title insurance markets, reverse competition, expenses and rates in 2007 and 2008 New Mexico Title Insurance Rate Hearings on behalf of New Mexico Attorney General Gary King.

- Prepared analysis of credit insurance regulatory performance by states from 2004 through 2008, including credit life, credit disability, credit involuntary unemployment, creditor-placed (force-placed), GAP and credit family leave insurance coverages for the Center for Economic Justice in 2009.

- Provide analysis and testimony on credit insurance rates, regulations and market conduct problems in states on behalf of the Center for Economic Justice and other organizations. Authored state-specific reports on credit insurance in Alaska, Arizona, California, Indiana, Iowa, Maryland, Minnesota, New Mexico, Nevada, South Dakota, Texas, Wisconsin and Washington from 1997 through present.

- Provided testimony before Congress on insurance scoring on behalf of the Center for Economic Justice in October 2007

- Provided testimony on proposed auto insurance rating regulations and insurance scoring in Massachusetts in 2007 on behalf of the Center for Economic Justice.

- Provided testimony on proposed auto insurance rating regulations in California from 1993 through 2005 related to the rating factor requirements of Proposition 103 for the Foundation for Taxpayer and Consumer Rights.

- Provided technical assistance to the United States Department of Housing and Urban Development on an investigation of redlining in homeowner's insurance from 2005 to 2007

- Provided expert reports on insurers' use of credit scoring in connection with several litigations in Oregon regarding adverse action notification required by the Fair Credit Reporting Act from 2002 to present.

- Provided expert testimony in a hearing before the New York State Public Service Commission on a proposal by a utility to use credit scoring to establish customer deposits for utility service on behalf of the Public Utility Law Project in 2003.

- Performed a market conduct examination on proposed credit scoring program by an automobile insurer on behalf of the Georgia Insurance Commissioner in 2003.

- Provide technical assistance to the Philadelphia Automobile Insurance Rate Reduction Task Force on behalf of the Mayor of Philadelphia from 2000 to 2003 and prepared a report evaluating the fairness of auto insurance rates in Philadelphia for the Task Force.

- Provided analysis and a report to the Ohio Civil Rights Commission on the impact of insurers' use of credit scoring on availability and affordability of homeowners insurance for minority populations in Ohio in 2002.

- Provided technical assistance to the Federal Trade Commission regarding credit insurance sales and marketing practices from 2000 through 2002.

- Appointed as party arbitrator by the Florida Insurance Commissioner on panels reviewing insurer protests of the Florida Insurance Commissioner's decision to disapprove homeowner's insurance filings in 2002 and a personal umbrella insurance filing in 2003.

- Provide analysis and testimony before the National Association of Insurance Commissioners on credit-related insurance, including force-placed insurance and credit scoring issues on behalf of the Center for Economic Justice from 1998 to present.

- Provided expert testimony in California rulemaking hearings regarding the setting of rates for credit life, credit disability, credit unemployment and credit property insurance on behalf of Consumers Union and the Center for Economic Justice from 2001 through 2005.

- Provided analysis and testimony to the Georgia Insurance Commissioner on insurers' use of credit scoring on behalf of the Georgia Governor's Office of Insurance Consumer Advocate in 2001.

- Provided analysis of individual insurer private passenger automobile insurance rate, risk classification and credit scoring filings on behalf of the Georgia Governor's Office of Insurance Consumer Advocate in 2000.

- Provided expert testimony on rates for credit life and credit disability insurance in Texas in a contested case rate hearing on behalf of the Center for Economic Justice in 1999.

- Provided a report on credit insurance experience and market problems countrywide and by state to the Center for Economic Justice and Consumers Union in 1999

- Provided analysis of creditor-placed credit insurance in New Mexico on behalf of the New Mexico Superintendent of Insurance in 1998.

- Developed feasibility study of targeted loan-programs for hail-resistant roofs on behalf of the Center for Economic Justice in 2000.

- Provided reports on Texas private passenger automobile insurance profitability to the Center for Economic Justice in 1998 and 1999.

- Provided a report on Texas private passenger automobile insurance availability and redlining to Texas State Representative Lon Burnam in 1998.

- Advocate and analyst for residential and small commercial customer classes in the Austin, Texas Water and Wastewater Utility 1998-99 Cost of Service and Rate Design Study on behalf of the City of Austin.

- Provided analysis and testimony regarding private passenger automobile rate filings in New York on behalf of the City of New York 1996 through 1999.

- Authored report on economic and financial feasibility of a low-level radioactive waste disposal site in West Texas for the Sierra Blanca Legal Defense Fund in 1998.

- Provided analysis and testimony regarding private passenger automobile insurance rate filings in California on behalf of the Proposition 103 Enforcement Project in 1998.

- Provided a report on intergovernmental risk pools to the Texas Performance Review to the Texas Comptroller in 1998.

- Provided testimony regarding insurers' claims of trade secret for historic premium, exposure and loss data by zip code on behalf of the Missouri Department of Insurance in 1997.

- Provided testimony in litigation regarding public disclosure of insurer ZIP Code level data in Texas 1997 through 1999.

- Provided testimony regarding title insurance rates in Texas on behalf of the Texas Office of Public Insurance Counsel in 1997.

- Provided testimony in a California administrative hearing regarding compliance with applicable statutes and regulations of private passenger automobile class plans filed by insurers on behalf of the Proposition 103 Enforcement Project 1997 through 1999.

- Authored reports on auto insurance markets and redlining in Texas on behalf of the Center for Economic Justice in 1997.

1993-96 **Chief Economist & Associate Commissioner for Policy and Research**
Texas Department of Insurance Austin, TX

Senior adviser to Commissioner on policy, ratemaking and other technical issues. In addition, specific responsibilities included:

- Review and approve prior approval automobile and residential property rate and manual filings.
- Review and analyze proposals for decisions from administrative law judges and advise the Commissioner on industry-wide rate decisions and individual company manual filings.
- Expert witness for the Department in contested case proceedings regarding unfairly discriminatory or excessive rates.
- Custodian for underwriting guidelines submitted by residential property and private passenger automobile insurers.
- Oversight of process to designate Texas statistical agents for collection of insurer premium, exposure and loss experience.
- Review and present proposals to the Commissioner for modification of statistical plans governing data collection.
- Analyze and make recommendations to the Commissioner regarding determination of areas underserved for residential property and private passenger automobile insurance.
- Represent the Department at meetings of the National Association of Insurance Commissioners with specific responsibilities for insurance credit scoring, credit insurance, market conduct, underwriting, data collection, and catastrophe insurance issues.
- Liaison to the Texas assigned risk auto program (TAIPA) with responsibility for developing proposals for TAIPA quota calculations, quota credits for underserved areas, quota credits for voluntary and mandatory take-outs and for reporting of take-out activity.
- Oversight of organizations operating as advisory organization in Texas to ensure compliance of such organizations with Texas requirements.

1991-93 **Chief Economist**
Texas Office of Public Insurance Counsel — Austin, TX

The Office of Public Insurance Counsel represents consumers of insurance before the Commissioner of Insurance and other forums.

- Performed economic, actuarial, financial, statistical and policy analyses on issues of concern to consumers in various lines of insurance.

- Provided expert testimony in contested cases concerning various lines of insurance on behalf of the Office of Public Insurance Counsel. Topics included expected losses, expense provisions, insurer rate of return, investment income, underwriting profit, the degree of competition in Texas insurance markets, insurance availability, redlining and the validity of certain rating factors for pricing insurance. Lines of insurance included automobile, residential property, title, credit and workers' compensation.

1989-91 **Consulting Economist**
Mt. Auburn Associates — Somerville, MA

Responsible for business development, project management and substantive analysis.

- Evaluated economic impact of business lending by New York State agencies with reference to overall development finance policy.

- Trained 50 state program managers in the use of development loan funds as strategic economic development tools.

- Market development for recycled, or secondary, materials in Connecticut and New York with emphasis on achieving environmental and economic development goals -- reducing environmental pollution, increasing manufacturing using secondary materials, developing advanced technology.

1986-89 **Senior Business and Financial Analyst**
Port Authority of New York & New Jersey — New York, NY

The Port Authority operates the interstate transportation facilities for the Port of New York (tunnels, bridges, PATH train, airports, oceanborne cargo) and a set of world trade and economic development facilities (World Trade Center, Teleport, XPORT Trading Company, industrial parks).

Project Finance

- Evaluated and structured Port Authority investments in public-private economic development ventures, including commercial, residential, industrial and marine real estate and business developments.
- Trained 120 property negotiators and finance staff from all operating departments in the use of discounted cash flow analysis in creating value during lease negotiations.

Development Finance

- Evaluated alternative techniques for funding the Port Authority's $5 billion capital improvement program.
- Secured Export-Import Bank certification to improve the XPORT Trading Company's export finance capabilities.

Business Strategy

- Managed the development of the first comprehensive business plan for the World Trade Center, balancing revenue and economic development goals and resulting in physical redevelopment efforts.
- Designed decision-support computer models for senior Treasury staff adopted for use in the capital planning process.

1980-86 **Consulting Economist** — Seattle, WA
Self-Employed — Cambridge, MA

- Crafted a strategic economic analysis of the wood products industries for the Northern Tier (Massachusetts) Task Force.
- Assessed the location determinants of high technology and service industry firms as part of a critique of standard business climate indices for Mt. Auburn Associates and the Corporation for Enterprise Development.

- Evaluated effect of State economic development policy and programs on economic performance in Massachusetts for the Committee for Economic Development.

- Conducted 50 seminars on energy expenditures and local economic development for local officials and community groups in Washington State for the State Energy Office.

- Presented recommendations to the Seattle City Council and Seattle City Light on cost allocation and rate design, resulting in a modified rate structure, as a member of the Mayor's Citizen Rate Advisory Committee representing the ratepayer's organization, the Light Brigade.

- Interim Director of Citizens for a Solar Washington, a statewide organization educating and advocating for energy conservation and renewable energy resources.

1978-80 **Northwest Field Representative**
National Center for Appropriate Technology Seattle, WA

- Supervised grant awards and provided technical assistance to public and private organizations for community development projects and programs throughout the Northwest and Alaska.

- Provided expert testimony on key Federal and State food and energy legislation, including the Public Utilities Regulatory and Policy Act.

1977-78 **VISTA Volunteer**
Grant County Community Action Council Moses Lake, WA

- Trained the staff of 30 Washington State community action agencies in the concept and application of appropriate technology for enabling poor people to meet energy and food requirements.

- Organized local enterprises, including a farmers' market and community cannery.

Birny Birnbaum Expert Testimony in Litigation

Trial Testimony

- Case No. 08 C 0057, Community First Credit Union v United States of America, United States District Court, Eastern District of Wisconsin, 2009.
- Civil Action No. 08-cv-1071-REB-KMT, Bellco Credit Union v United States of America, United States District Court, District of Colorado, 2009.
- Civil No. CV 01-1446-BR, Ashby v. Farmers Insurance Company of Oregon in the United States District Court, District of Oregon, 2009.
- Cause No. 96-34235, Siebenmorgen v. The Hertz Corporation, in the 234th district court of Harris County Texas, 1998.
- Cause 97-09206, National Association of Independent Insurers, et al. v. Dan Morales, The Attorney General of Texas, et al, in the 98th district court of Travis County Texas
- Cause No. CV-001297, Nationwide General Ins. Co. et al v. Attorney General of Texas, et al, in the 261st district court of Travis County Texas.

Deposition Testimony

- Case No. 1:11-CV-21233-Altonaga/Simonton, Williams, et al v. Wells Fargo Bank, N.A., et al, United States District Court, Southern District of Florida, Miami Division, 2011.
- Civil Action No. 2:08-cv-311-GZS, Douglas Campbell and Denise Campbell v. First American Title Insurance Company United States District Court, District of Maine, 2011.
- Case No. CV 2004-742-2, Smith and Evie, et al v. Collingsworth, Pugh, United American, et al, Circuit Court of Saline County, Arkansas, 2011.
- Civil Action No. 08-cv-1071-REB-KMT, Bellco Credit Union v United States of America, United States District Court, District of Colorado, 2009.
- Case No. 08 C 0057, Community First Credit Union v United States of America, United States District Court, Eastern District of Wisconsin, 2009.
- Civil No. CV 01-1446-BR, Ashby v. Farmers Insurance Company of Oregon in the United States District Court, District of Oregon, 2007.
- Case No. 3:06-cv-295, Furniture Distributors, Inc dba Kimbrell's v. Voyager Life Insurance Company, United States District Court for the Western District of North Carolina, Charlotte Division, 2007.
- Civil Action No. 00-CP-15-275, Wright v. American Bankers Life Assurance Co. of Florida, Count of Common Pleas, Colleton County, South Carolina, 2007.
- Civil Action No. 01-C-43, Bender v. American General Finance, in the Circuit Court of Boone County, West Virginia, 2004.
- Civil No. 01-2688-09 VSM, Miprano, et al v. Progressive Hawai`i Insurance Corp., et al in the Circuit Court of the First Circuit, State of Hawai`i, 2004.
- Class Action No. 99-L-393A, Sims, et al v. Allstate Insurance Company, in the Circuit Court, Twentieth Judicial Circuit, St. Clair County, Illinois, 2004.
- File No. 02 CVS 2398, Richardson, et al v. Bank of America, et al, in the General Court of Justice, Superior Court Division, Durham County, North Carolina, 2003.

- Civil Action, Beverly Porter, et al v. First Family Financial Services, Inc., in the Circuit Court of Claiborne County, Mississippi, 2002.
- Case No. 02-C1-00077, Lawson v. American Bankers Life Assurance Company of Florida, Commonwealth of Kentucky, Jessamine Circuit Court, Civil Branch, 2002.
- Civil Action No. 99-0162, Bertha Gamble, et al v. MS Loan Center, Inc., et al in the Circuit Court of Jefferson County, Mississippi, 2002.
- Cause No. 00-2861, Wendell Gordon v. Vicky Lynn Miller, et al in the 68th district court of Dallas County, Texas, 2001.
- Case No. 99-1298-CIV, London, et al. v. Wal-Mart Stores, Inc., et al. in the Miami Division, Southern District of Florida, United States District Court, 2000.
- Case No. 98-1281-CIV, Fabricant v. Sears, Roebuck & Co., et al. in the Miami Division, Southern District of Florida, United States District Court, 2000.
- Civil Action File No. 97-1-3977-35, Wood, et al. v. Associates Financial Life Insurance Company, et al in the Superior Court of Cobb County, State of Georgia, 2000.
- Case No. 97-281-TUC-JMR-JCC, Siemer, et al., v. Associates First Capital, et al. in the Arizona District of the United States District Court. 2000
- Cause No. 96-34235, Siebenmorgen v. The Hertz Corporation, in the 234th district court of Harris County Texas, 1998.
- Cause 97-09206, National Association of Independent Insurers, et al. v. Dan Morales, The Attorney General of Texas, et al, in the 98th district court of Travis County, Texas, 1997.

Expert Reports

- Case No. 11-CV-81373-DMM, Kunzelmann, et al v. Wells Fargo Bank, N.A.,, et al, United States District Court, Southern District of Florida, Miami Division, 2012.
- Case No. 1:11-CV-21233-Altonaga/Simonton, Williams, et al v. Wells Fargo Bank, N.A., et al, United States District Court, Southern District of Florida, Miami Division, 2011.
- Civil Action No. 2:08-cv-311-GZS, Douglas Campbell and Denise Campbell v. First American Title Insurance Company United States District Court, District of Maine, 2011.
- Case No. CGC 05-446073, Rick L. Schwartz, et al v. Provident Life and Accident Insurance Company, et al, Superior Court of California, County of San Francisco, 2011.
- Civil Action No. 08-cv-1071-REB-KMT, Bellco Credit Union v United States of America, United States District Court, District of Colorado, 2009.
- Case No. 08 C 0057, Community First Credit Union v United States of America, United States District Court, Eastern District of Wisconsin, 2009.
- File No. 02 CVS 593, Tillman, et al v. Commercial Credit, et al, in the Superior Court of Vance County, North Carolina, 2008.
- Case No. BC 329482, Sjobring, et al v. First American Title Insurance Company, et al, Superior Court of the State of California for the County of Los Angeles, 2008

- Case No. 3:06-cv-295, Furniture Distributors, Inc dba Kimbrell's v. Voyager Life Insurance Company, United States District Court for the Western District of North Carolina, Charlotte Division, 2007.
- Civil Action No. 00-CP-15-275, Wright v. American Bankers Life Assurance Co. of Florida, Count of Common Pleas, Colleton County, South Carolina, 2006.
- Civil No. CV 01-1446-BR, Ashby v. Farmers Insurance Company of Oregon in the United States District Court, District of Oregon, 2005, 2006 and 2009.
- Civil Action No. 01-C-43, Bender v. American General Finance, in the Circuit Court of Boone County, West Virginia, 2004.
- Civil No. 01-2688-09 VSM, Miprano, et al v. Progressive Hawai`i Insurance Corp., et al in the Circuit Court of the First Circuit, State of Hawai`i, 2004.
- Case No.03CV24919, American Family, et al v. Missouri Department of Insurance and Legal Aid of Western Missouri, in the Circuit Court of Cole County, Missouri, 2004.
- File No. 02 CVS 2398, Richardson, et al v. Bank of America, et al, in the General Court of Justice, Superior Court Division, Durham County, North Carolina, 2003, 2003 and 2005.
- Civil No. CV01-1529-BR, Rausch v. Hartford Insurance, in the United Stated District Court, District of Oregon, 2003 and 2003.
- Civil No. CV 02-678-BR, Edo v. Geico Casualty, et al., in the United States District Court, District of Oregon, 2003.
- Civil No. CV01-1457-BR, Willes v. Safeco in the United States District Court, District of Oregon, 2002 and 2003.
- Civil No. CV01-1466-BR , Razilov v. Nationwide Mutual Insurance Company, in the United States District Court, District of Oregon, 2002 and 2003.
- Civil No. CV01-1464-BR, Mark v. Valley Insurance, in the United Stated District Court, District of Oregon, 2003 and 2003.
- Civil No. CV01-1464-BR, Spano v. Safeco Insurance, in the United Stated District Court, District of Oregon, 2002.
- Case No. 02-C1-00077, Lawson v. American Bankers Life Assurance Company of Florida, Commonwealth of Kentucky, Jessamine Circuit Court, Civil Branch, 2002.
- Case No. 97-281-TUC-JMR-JCC, Siemer, et al., v. Associates First Capital, et al. in the Arizona District of the United States District Court, 2000.
- Case No. 98-1281-CIV, Fabricant v. Sears, Roebuck & Co., et al. in the Miami Division, Southern District of Florida, United States District Court, 2000.
- Case No. 99-1298-CIV, London, et al. v. Wal-Mart Stores, Inc., et al. in the Miami Division, Southern District of Florida, United States District Court, 2000.
- Civil Action File No. 97-1-3977-35, Wood, et al. v. Associates Financial Life Insurance Company, et al in the Superior Court of Cobb County, State of Georgia, 2000.
- Civil No. 2:99-0913, Brown v. Public Finance Corporation, et al in the United States District Court for the Southern District of West Virginia at Charleston, 2000.
- Cause No. 96-34235, Siebenmorgen v. The Hertz Corporation, in the 234th district court of Harris County Texas, 1997.

Publications by Birny Birnbaum

- “Make Individuals Buy Policies,” *New York Times*, September 30, 2011.
- "Out of Favor: 'Managed Competition' Will to Higher Rates for Low-Income Auto Insurance Consumers," *Commonwealth*, Spring 2008.
- "Credit Scoring and Insurance," Co-author, in Credit Scoring: Concepts, Perspectives and Models, edited by Ravi Kumar Jain B, Icfai University Press, Hyderabad, India, 2008.
- “An Analysis of Competition in the California Title Insurance and Escrow Industry,” A Report to the Insurance Commissioner of California, 2005.
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**Public Hearing before the Florida Office of Insurance Regulation
Regarding a Rate Filing for Force-Placed Insurance by
Praetorian Insurance Company**

July 3, 2012

**Testimony of Birny Birnbaum
On Behalf of the Center for Economic Justice**

Appendix B

Fannie Mae Request for Proposal for Insurance Tracking and LPI

Request for Proposal

Lender Placed Insurance
Insurance Tracking
Voluntary Insurance Lettering Program

March 6, 2012

Fannie Mae

3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

www.fanniemae.com

1. Executive Summary

Fannie Mae is a government-sponsored enterprise that was chartered by Congress to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Fannie Mae's most significant activities include: (1) providing market liquidity by securitizing mortgage loans originated by lenders in the primary mortgage market into Fannie Mae mortgage-backed securities; and (2) purchasing mortgage loans and mortgage-related securities in the secondary market for Fannie Mae's mortgage portfolio. Fannie Mae acquires funds to purchase mortgage-related assets for Fannie Mae's mortgage portfolio by issuing a variety of debt securities in the domestic and international capital markets.

As a federally chartered corporation with extensive capital market participation, Fannie Mae is subject to extensive regulation, supervision and examination by the Federal Housing Finance Agency (FHFA) and by other federal agencies, including Treasury, the Department of Housing and Urban Development ("HUD"), and the Securities and Exchange Commission ("SEC"). The conservatorship Fannie Mae has been under since September 2008, with FHFA acting as conservator, has no specified termination date.

As a best practice Fannie Mae seeks to reduce expenses while improving service quality. After extensive internal review, Fannie Mae believes that current Lender Placed Insurance costs are not market competitive and can be improved through unit price reductions and fee transparency to the benefit of both the taxpayers and homeowners. Therefore, Fannie Mae is undertaking this competitive procurement process to improve the pricing and fee transparency for Lender Placed Insurance while maintaining coverage and service quality.

Current Situation
Fannie Mae's current Lender Placed Insurance situation is as follows:

1. Homeowners are required to maintain voluntary hazard insurance on Fannie Mae insured properties.
2. Lender Placed Insurance must be acquired by mortgage Servicers when a property is no longer eligible for Voluntary Insurance, or when the Servicer cannot obtain proof of adequate Voluntary Insurance from the homeowner, irrespective of whether or not that homeowner is current or delinquent on the loan.
3. The cost of Lender Placed Insurance is higher than the cost of voluntary hazard insurance. Homeowners are billed for the Lender Placed Insurance premiums. However, if the homeowner does not pay the premium (for example, if the property has already been vacated), then Servicers pass on the premium costs to Fannie Mae.
4. Servicers are responsible for providing tracking services, per Fannie Mae Guidelines. Many large Servicers have chosen to outsource the Insurance Tracking and associated administrative process to third parties, the largest of which are affiliated with Lender Placed Insurers.
5. Lender Placed Insurers often pay commissions/fees to Servicers for placing business with them. The cost of such commissions/fees is recovered in part or in whole by the Lender Placed Insurer from the premiums, which the Servicers pass on to Fannie Mae.
6. The existing system may encourage Servicers to purchase Lender Placed Insurance from Providers that pay high commissions/fees to the Servicers and provide tracking, rather than those that offer the best pricing and terms to Fannie Mae. Thus, the Lender Placed Insurers and Servicers have little incentive to hold premium costs down. In addition, Fannie Mae is often paying twice for Insurance Tracking services; once via the servicing fee that Fannie Mae pays to Servicers, and again via the Lender Placed Insurance premiums, since those premiums may include or subsidize the costs of tracking services (to the extent that insurers are providing such services).

In appropriate circumstances, Lender Placed Insurance is necessary and important to the preservation of Fannie Mae assets. However, much of the current Lender Placed Insurance cost borne by Fannie Mae results from an incentive arrangement between Lender Placed Insurers and Servicers that disadvantages Fannie Mae and the homeowner. This RFP is designed to change this situation.

Expected Outcome
The expected outcome of this procurement is for Servicers and Fannie Mae to obtain competitively-priced Lender Placed Insurance that incorporates price transparency and collaboration with Lender Placed Insurers. Fannie Mae expects to achieve the following:

1. Eliminate the ability of Servicers to pass on the cost of commissions/fees to Fannie Mae.
2. Eliminate the ability of Servicers to pass on the cost of Insurance Tracking services to Fannie Mae, since the cost for such services is reimbursed to the Servicer in the form of current servicing fees.

3. Separate the commissions and fees for Insurance Tracking services from the fees for Lender Placed Insurance to ensure transparency and accountability.

4. Require Servicers to order Lender Placed Insurance policies based on competitive pricing negotiated by Fannie Mae; Fannie Mae will choose one or more Providers based on the responses received during the RFP process. The chosen Providers will be placed on a Preferred Provider List.

5. Restructure the business model to align Servicer incentives with the best interests of Fannie Mae and homeowners.

6. Enforce best practices that encourage the use of voluntary insurance and reduce the demand for lender placed insurance.

Fannie Mae recognizes that the current system developed over a period of years. However, Fannie Mae is prepared to restructure the current Lender Placed Insurance business model to operate as a market driven service that efficiently meets the best interests of Fannie Mae, its partner insurers, taxpayers, and homeowners.

Fannie Mae is confident that the business model proposed herein is fair to all parties, allows market-based pricing, eliminates subsidies, and allows Fannie Mae to best meet its federal charter to facilitate home ownership, provide liquidity to the housing market, and protect taxpayers. Fannie Mae also believes that this new model is sustainable over time and robust enough to adjust to changing conditions as the housing market recovers. The attributes of the new business model will be as follows:

1. The premiums to be charged for Lender Placed Insurance will be negotiated between Fannie Mae and the Lender Placed Insurer(s). These premiums will be communicated to Fannie Mae's Servicer community.

2. The Lender Placed Insurer(s) will continue to invoice the Servicers for insurance provided. Fannie Mae will then reimburse the Servicers, but will not pay more than the rate negotiated by Fannie Mae. The rate negotiated between Fannie Mae and the Lender Placed Insurer(s) will exclude any commissions paid by the Lender Placed Insurer(s) to Fannie Mae Servicers to place their insurance on Fannie Mae properties. In addition the rate will exclude the cost of providing Insurance Tracking services or any other costs beyond the cost of the policy premium to the Servicer.

3. Servicers may contract for Insurance Tracking and associated administrative services from a Lender Placed Insurer on the Preferred Provider List, perform tracking services in-house, or outsource tracking to a Provider not on the list since the Servicer is fully liable for tracking costs. However, the full cost of such services must be billed independent of, and never embedded in, the insurance premiums charged for Lender Placed Insurance. Fannie Mae will not reimburse Servicers for these tracking and administrative services.

4. Fannie Mae will reevaluate the Preferred Provider List from time to time as appropriate to ensure Fannie Mae is receiving competitive pricing.

This new business model will come into effect at the close of this procurement process. Fannie Mae is prepared to work with all interested parties to achieve objectives set forth in this RFP. Furthermore, Fannie Mae welcomes creative proposals that further the timely and successful achievement of our goals.

RFP Overview
This RFP is organized into three separate and independent sets of requirements outlined in the following sections:

- Lender Placed Insurance (Section 4)
- Insurance Tracking Services (Section 5)
- Voluntary Insurance Lettering Program (Section 6)

Respondents to this RFP must bid on either or both Lender Placed Insurance (Section 4) and Insurance Tracking Services (Section 5); they may, if they choose to do so, incrementally bid on the Voluntary Insurance Lettering Program (Section 6). **Pricing for each section must be separate and independent.**

RFP Outcome
Lender Placed Insurance (Section 4): Selected Lender Placed Insurer respondents of this RFP will be put on a Preferred Provider List by Fannie Mae. The premium levels offered by the selected Lender Placed Insurer(s) on the list will be communicated to Fannie Mae's Servicer community. The Servicer community will be required to select a Lender Placed Insurer on the Preferred Provider List for loans they service for Fannie Mae.

Insurance Tracking Services (Section 5): Insurance Tracker bids will be communicated to Fannie Mae's Servicer community who are entitled to fulfill Tracking Services as they see fit.

Voluntary Insurance Lettering Program (Section 6): Fannie Mae will consider Lettering Program Lead responses and depending on the quality of responses and programs proposed may choose to implement a Voluntary Insurance Lettering Program with an RFP respondent.

2. Document Summary

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3. Instructions

Provider shall read and fill in the Comply or Exception Box for the applicable sections below as follows:

Comply or Exception Box (C/E): For each requirement, Provider shall mark this box with a "C" or "E", signifying that it proposes to fully Comply ("C") with the requirement, or request an Exception ("E") to the requirement. In order to mark the box with a "C", Provider agrees it shall fulfill all conditions of the requirement completely and exactly as stated in the table.

Exception/Explanation Box: If the Provider is requesting an Exception, then Provider shall provide a description of the exception and an explanation of the business reason why an exception should be made. If applicable, Provider's Response should describe the extent to which Provider can partially comply with the requirement. Provider may not put any text in the Exception/Explanation box if Provider complies with the requirement. Text in the Exception/Explanation box will be taken to mean that the Provider takes Exception to a requirement, regardless of whether the box contains a "C" or "E."

Once this RFP response template is complete, it should be saved as "[PROVIDER_NAME]_Fannie_Mae_LPI_RFP_Response" and uploaded to question 1.1 in Fannie Mae's E-Sourcing Tool by **5:00pm Eastern Daylight Time on March 23, 2012.** Due to the tight timeframes under which Fannie Mae is operating, please note that incomplete or late proposals may not be considered.

4. Lender Placed Insurance

Fannie Mae intends to place one (1) or more Lender Placed Insurance Providers on a Preferred Provider List and then communicate that list (including agreed upon pricing) to Fannie Mae's Servicer community. Fannie Mae will only reimburse Servicers for Lender Placed Insurance premiums from the Provider(s) and prices on the Preferred Provider List. Additionally, any Lender Placed Insurer placed on the Preferred Provider List is expected to provide a common set of services and meet a common set of business and performance requirements. The scope of the Lender Placed Insurance services to be provided will include, at a minimum, the following activities:

- Provide insurance coverage upon request from a Fannie Mae Servicer or the agent of a Fannie Mae Servicer
- Process and pay legitimate claims whether originated from a Fannie Mae Servicer or a homeowner
- Communicate quickly the results of claims review and make payments in a timely manner
- Issue timely invoices and process payments received for Lender Placed Insurance services
- Comply with all applicable state and federal regulations that apply to the Lender Placed Insurance business
- Provide insurance customer service to homeowners, Servicers and Fannie Mae to include call center operations
- Maintain books of record necessary to manage the scope of services covered in this RFP to include issuing accurate reports of operating data to both Fannie Mae and its Servicers as described below
- Provide robust reporting to offer increased transparency and accountability

In the sections below Fannie Mae defines the services and products to be expected from the Lender Placed Insurer. Prior to responding to this RFP, potential Lender Placed Insurer(s) shall review these requirements closely to determine if they can comply with these requirements.

4.1 Qualifications

The following qualifications are required for any firm wishing to provide Lender Placed Insurance:

Reference	Requirement	C/E	Exception
1.1.1.1	Lender Placed Insurers must be rated A X or better Financial Strength in A.M. Best Company's Insurance Reports.		

4.2 Fannie Mae Policy Requirements

Fannie Mae has specific policy requirements regarding Lender Placed Insurance that are described in detail below.

4.2.1 *Lender Placed Insurance General Requirements*

Reference	Requirement	C/E	Exception
2.1.1.1	Provide Lender Placed Insurance products described in Section 4.3 for Fannie Mae loans when properly notified.		
2.1.1.2	All Lender Placed Insurance products shall be based on a DP3 policy form.		
2.1.1.3	All Lender Placed Insurance products shall provide an all perils policy, which covers any direct damage to the house or other structures on the property unless it is specifically excluded. The policy must exclude coverage for personal		

Reference	Requirement	C/E	Exception
	property and contents.		
2.1.1.4	Lender Placed Insurer's policy exclusions shall be limited to those listed in Attachment E.		
2.1.1.5	All Lender Placed Insurance products master policies shall have no aggregate limit.		
2.1.1.6	All Lender Placed Insurance products claims reimbursement shall be based on replacement cost.		
2.1.1.7	Comply with all federal, state and local laws, requirements and ordinances as well as Fannie Mae Guidelines Part II: Mortgage and Property Insurance (Attachment B) related to any responsibilities assigned to the Lender Placed Insurer. Fannie Mae Guidelines are amended and updated from time to time and it is the Lender Placed Insurer's responsibility to monitor and adhere to updates.		
2.1.1.8	In the event that the homeowner provides evidence of acceptable insurance coverage, the total amount of Lender Placed Insurance premiums shall be refunded from the date that acceptable coverage was issued. The refund shall be paid on a pro-rated unearned premium basis and returned to the homeowner within 15 calendar days.		
2.1.1.9	Lender Placed Insurance can be terminated on a loan at any time by the Servicer for any reason. There shall be no fees tied to policy termination or any minimum time requirement. If a policy is terminated before natural expiration refunds shall be paid on a pro-rated unearned premium basis based on the date the policy was requested to be terminated. The refunds shall be returned to the homeowner within 15 calendar days.		

4.2.2 *Lender Placed Insurance Claims Process Requirements*

Reference	Requirement	C/E	Exception
2.2.1.1	Maintain a Lender Placed toll free telephone number for homeowners and Servicers to use when filing claims and/or to answer any questions they may have about the claims process.		
2.2.1.2	Maintain a toll free fax number to receive documents for claim processing.		
2.2.1.3	Provide English and Spanish speaking homeowner support through Insurance Tracker's call center representatives.		

Reference	Requirement	C/E	Exception
2.2.1.4	Provide Telecommunication Device for the Deaf ("TDD") services or other related services to support hearing impaired homeowners contacting Insurance Tracker's call center representatives.		
2.2.1.5	Maintain a user friendly website where customers can submit claims and review the status of any claims.		
2.2.1.6	Assist homeowners with the Lender Placed Insurance claim process from initiation of the claim to settlement. Such assistance may include answering questions, explaining each step of the process and expected turn times, explaining calculation of the resulting claim amount, and other information.		
2.2.1.7	Prior to settlement of a claim, validate that the projected claim funds are calculated correctly based on the deductibles and coverage exclusions.		
2.2.1.8	Make Lender Placed Insurance proceeds payable to the homeowner and Servicer when homeowner is active in the claim process.		
2.2.1.9	Make Lender Placed Insurance proceeds payable solely to Servicer where the property is vacant, the homeowner cannot be located, or a Proof of Loss claim has been filed.		
2.2.1.10	Use first class mail unless otherwise instructed by Servicer.		
2.2.1.11	Ensure Servicer has the ability to perform remote call monitoring for Lender Placed claim filings and disputes.		
2.2.1.12	Cooperate with Servicer to audit active and closed claims. Random audits will be performed to measure general compliance with law, regulation and the Fannie Mae Guidelines (Attachment B). Additionally from time to time special purpose audits will be performed to review actions taken on a specific account or set of accounts.		

4.3 Requested Insurance Products

Fannie Mae Guidelines contain requirements for the following Lender Placed Insurance products:

- Hazard Insurance
- Flood Insurance

Fannie Mae is seeking bids for the above insurance products that meet the requirements listed below.

4.3.1 *Hazard Insurance Requirements*

Reference	Requirement	C/E	Exception
3.1.1.1	All Hazard Insurance must comply with federal, state, local laws, regulations, requirements and ordinances as well as Fannie Mae Guidelines, Part II, Chapter 2: Hazard Insurance (Attachment B).		
3.1.1.2	All Hazard Insurance must include windstorm, hurricane, and hail coverage as required in the Fannie Mae Guidelines, Part II, Chapter 2: Hazard Insurance (Attachment B).		
3.1.1.3	Provide Hazard Insurance for all Fannie Mae Home Mortgage loans as requested and comply with Fannie Mae Guidelines, Part II, Chapter 2, 203: Coverage Required for Home Mortgage Loans (Attachment B).		
3.1.1.4	Provide Hazard Insurance for all Fannie Mae Planned Unit Development (PUD) Project loans as requested and comply with Fannie Mae Guidelines, Part II, Chapter 2, 204: Coverage Required for Units in PUD Projects (Attachment B).		
3.1.1.5	Provide Hazard Insurance for all Fannie Mae Units in Condo Projects as requested and comply with Fannie Mae Guidelines, Part II, Chapter 2, 205: Coverage Required for Units in Condo Projects (Attachment B).		
3.1.1.6	Provide Hazard Insurance for all Fannie Mae Units in Cooperative Projects as requested and comply with Fannie Mae Guidelines, Part II, Chapter 2, 206: Coverage Required for Units in Cooperative Projects (Attachment B).		

4.3.2 *Flood Insurance Requirements*

Reference	Requirement	C/E	Exception
3.2.1.1	All Flood Insurance must comply with federal, state, local laws, regulations, requirements and ordinances as well as Fannie Mae Guidelines, Part II, Chapter 3: Flood Insurance (Attachment B).		
3.2.1.2	As indicated in Fannie Mae Guidelines, flood insurance is only required for properties located in an SFHA flood zone (Attachment G).		
3.2.1.3	Provide Flood Insurance for all Fannie Mae Home Mortgage loans as requested and comply with Fannie Mae Guidelines, Part II, Chapter 3, 304: Coverage Required for First Mortgage Loans and Fannie Mae Guidelines, Part II, Chapter 3, 305: Coverage Required for Second Mortgage Loans (Attachment B).		
3.2.1.4	Provide Flood Insurance for all Fannie Mae Units in Condo Projects as requested and comply with Fannie Mae		

Reference	Requirement	C/E	Exception
	Guidelines, Part II, Chapter 3, 306.01: PUD Projects (Attachment B).		
3.2.1.5	Provide Flood Insurance for all Fannie Mae Units in Condo Projects as requested and comply with Fannie Mae Guidelines, Part II, Chapter 3, 306.02: Condo Projects (Attachment B).		
3.2.1.6	Provide Flood Insurance for all Fannie Mae Units in Cooperative Projects as requested and comply with Fannie Mae Guidelines, Part II, Chapter 3, 306.03: Co-op Projects (Attachment B).		

4.4 Performance and Reporting

4.4.1 *Performance Indicators*

Lender Placed Insurers are expected to consistently supply high levels of service to Homeowners, Fannie Mae and its Servicers. The purpose of this section is to clearly define the service levels and Performance Credits to which the parties commit.

Performance Indicators are the metrics that are to be monitored, measured, and reported by Lender Placed Insurers to Fannie Mae and the Servicers. As described in the table below, there are two types of Performance Indicators, Key Performance Indicators (KPI) and Critical Performance Indicators (CPI). These Performance Indicators enable all parties to objectively track the areas where the Lender Placed Insurer is performing at a level that is meeting, or below expectations.

	Key Performance Indicator (KPI)	Critical Performance Indicator (CPI)
Description	Fannie Mae sets a minimum performance level that the Lender Placed Insurer is required to meet. Failure to meet this service level results in an Executive meeting.	Fannie Mae sets a minimum performance level that the Lender Placed Insurer is required to meet. Failure to meet this service level results in a Performance Credit.
Reporting Frequency	Monthly	Monthly
Performance Credit Amount	N/A	$10,000 per CPI
Action for Failure to Achieve Minimum Service Level	Executive meeting between Fannie Mae and the Lender Placed Insurer (See Section 4.6.1.1)	Executive meeting between Fannie Mae and the Lender Placed Insurer (See Section 4.6.1.1). Performance Credit issued to the Servicer (See Section 4.4.1.1)

Each Performance Indicator includes the following fields:

Field	Definition
ID	Numerical abbreviation of the Performance Indicator (e.g., Insurance KPI1)
Name	Name of the Performance Indicator
Definition	Short description of the Performance Indicator
Measurement Period	Time period over which the Performance Indicator is tracked (e.g., once a week, once a month)
Minimum Service Level	Lowest level of performance the Lender Placed Insurer can achieve without failing the Performance Indicator
Data Source	Basis of information from which the Performance Indicator is measured

Field	Definition
Calculation	The detailed steps that are carried out to arrive at the Performance Indicator metric. This field also includes detailed examples of sample calculations
Performance Credit (CPI only)	The amount credited to Fannie Mae if a Performance Indicator falls below the Minimum Service Level for the month

Acceptance of KPIs and CPIs by a Lender Placed Insurer carries with it the requirement to capture and report periodically the level of performance delivered against the KPI and CPI standards. When service drops below minimum levels this KPI and CPI report shall be accompanied by a description of management efforts to improve performance as well as a root cause analysis to ensure failures are resolved and the risk of future failures is mitigated.

Reference	Requirement	C/E	Exception
4.1.1.1	Lender Placed Insurer agrees to measure Performance Indicators that include Critical Performance Indicators (CPIs) and Key Performance Indicators (KPIs).		
4.1.1.2	Lender Placed Insurer agrees that failure to meet Critical Performance Indicators' Minimum Service Levels shall result in Lender Placed Insurer issuing Performance Credits to Fannie Mae. A grace period of ninety (90) calendar days from service commencement shall be in effect during which Lender Placed Insurer shall not issue Performance Credits to Fannie Mae. Unless indicated otherwise, all other obligations will remain in effect during this period including Lender Placed Insurer's compliance with requirements and monitoring and reporting against established Service Levels.		
4.1.1.3	Lender Placed Insurer shall pay any CPI Performance Credits due to Fannie Mae, within 30 calendar days of the CPI failure.		
4.1.1.4	Lender Placed Insurer acknowledges that Performance Credits shall not be the sole or exclusive right or remedy for a particular lack of compliance of CPIs or KPIs.		
4.1.1.5	Lender Placed Insurer acknowledges that Servicer and Fannie Mae reserve the right to audit Lender Placed Insurer performance against agreed upon metrics at any time through the Term of the Agreement. Lender Placed Insurer shall provide any relevant requested data to support such audit activities.		

4.4.2 *Critical Performance Indicators*

Lender Placed Insurer is expected to meet at least the CPIs set forth below. In addition, respondents are encouraged to identify other areas and associated CPIs that will appropriately serve to manage performance expectations.

Reference	Requirement	C/E	Exception
4.2.1.1	Lender Placed Insurer agrees to a series of Critical		

Reference	Requirement	C/E	Exception
	Performance Indicators (CPIs). **Failure to meet one (1) or more CPIs shall result in the issuance of Performance Credits**, as outlined in 4.4.2.2 – 4.4.2.5. CPIs shall be related to the performance of the Services provided, each of which shall include: • ID of the Performance Indicator • Name of the Performance Indicator • A description of the Performance Indicator • A formula that outlines how the Lender Placed Insurer performance shall be calculated • The data sources from which data Lender Placed Insurer performance statistics shall be obtained • A minimum service level of which failure to reach results in a breach of the CPI and issuance of a credit • The credits associated with Lender Placed Insurer 's failure to meet the agreed-upon performance		
4.2.1.2	**ID:** Insurer CPI1 **Name:** Unearned Premiums Refund Speed **Definition:** Elapsed time between receiving acceptable evidence of Voluntary Insurance, and the appropriate refund issued for Lender Placed Insurance **Measurement Period:** Calendar Month **Minimum Service Level:** 98% of premium refunds processed within 15 calendar days **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for CPI1 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for CPI1 **Performance Credit:** $10,000 paid directly to Fannie Mae		
4.2.1.3	**ID:** Insurer CPI2 **Name:** Insurance Placement Speed **Definition:** Elapsed time between being notified that acceptable insurance is not in place for a property and placing a binder **Measurement Period:** Calendar Month **Minimum Service Level:** 95% of binders placed within Three (3) calendar days **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for CPI2 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for CPI2 **Performance Credit:** $10,000 paid directly to Fannie Mae		
4.2.1.4	**ID:** Insurer CPI3 **Name:** Settlement Issuance Speed		

Reference	Requirement	C/E	Exception
	KPI: Elapsed time between claims notification and initial settlement (excluding payments of recoverable holdback) **Measurement Period:** Calendar Month **Minimum Service Level:** 95% of settlements completed within 60 calendar days **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for CPI3 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for CPI3 **Performance Credit:** $10,000 paid directly to Fannie Mae		
4.2.1.5	**ID:** Insurer CPI4 **Name:** Monthly Management Report Delivery Speed **Definition:** Elapsed time between the 10th of the calendar month and time in which Fannie Mae confirms they have received the monthly management report **Measurement Period:** Calendar Month **Minimum Service Level:** 100% of reports delivered within two (2) calendar days **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for CPI4 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for CPI4 **Performance Credit:** $10,000 paid directly to Fannie Mae		

4.4.3 *Key Performance Indicators*

Reference	Requirement	C/E	Exception
4.3.1.1	Lender Placed Insurer shall provide insurance services in accordance with the Key Performance Indicators (KPIs). KPIs identify certain metrics, similar to CPIs, which are viewed as important to measuring the efficiency and effectiveness of the Services and evaluating Lender Placed Insurer's performance relative to Fannie Mae expectations and business needs. **KPIs are NOT subject to Performance Credits**, but are still contractual commitments by Lender Placed Insurer. Each KPI shall include: a) Name of the Performance Indicator b) A description of the Performance Indicator c) A formula that outlines how the Lender Placed Insurer performance shall be calculated d) The data sources from which data Lender Placed Insurer performance statistics shall be obtained e) An expected target performance level that the Lender Placed Insurer should reach in each period		

Reference	Requirement	C/E	Exception
	f) A minimum service level of which failure to reach results in a breach of the KPI		
4.3.1.2	**ID:** Insurer KPI1 **Name:** Claims Call Answer Speed **Definition:** Average monthly speed of answer on claims calls **Measurement Period:** Calendar Month **Minimum Service Level:** 95% calls answered within 30 seconds or less **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for KPI1 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for KPI1		
4.3.1.3	**ID:** Insurer KPI2 **Name:** Damage Inspection Speed **Definition:** Elapsed time between notification of claim and inspection of damages of the insured property by an insurance adjuster **Measurement Period:** Calendar Month **Minimum Service Level:** 95% damage inspections completed within five (5) calendar days or less **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for KPI2 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for KPI2		
4.3.1.4	**ID:** Insurer KPI3 **Name:** Estimated Repair Cost Verification Speed **Definition:** Elapsed time between insurance adjuster's estimates of repair and Insurer's verification of accuracy and approval **Measurement Period:** Calendar Month **Minimum Service Level:** 95% of repair cost verifications completed within three (3) calendar days or less **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for KPI3 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation methodology for KPI3		
4.3.1.5	**ID:** Insurer KPI4 **Name:** Call Center Abandonment Rate **Definition:** Number of phone calls made to the Lender Placed Insurer's call center that are abandoned by the customer before speaking to an agent **Measurement Period:** Calendar Month **Minimum Service Level:** Three (3) percent or less **Data Source:** Lender Placed Insurer shall complete Attachment D to indicate a proposed data source for KPI3 **Calculation:** Lender Placed Insurer shall complete Attachment D to indicate a proposed calculation		

Reference	Requirement	C/E	Exception
	methodology for KPI3		
4.3.1.6	Lender Placed Insurer shall propose any additional relevant KPIs in Attachment D.		

4.4.4 *Reporting Requirements*

Fannie Mae will require its preferred Lender Placed Insurer(s) to submit standardized reports on a regular basis. The reports will be of two types: Operational Reports (primarily daily or weekly) and Management Reports (primarily monthly).

Operational reports will focus on active details (e.g., monthly total of net written premium excluding any allowance for Incurred But Not Reported, number of claims paid, number of claims denied) to ensure that day-to-day programmatic requirements are being met.

Management reports focus on Key Performance Indicators that enable Fannie Mae to monitor the overall use of Lender Placed Insurance in the Fannie Mae portfolio of properties. Specific uses of Lender Placed Insurer reports include: (a) measurement of contract compliance; (b) regulatory and other external reporting; (c) tactical and strategic planning; (d) comparison of performance between and among Lender Placed Insurers; and (e) assessment of Fannie Mae's own performance in managing Lender Placed Insurer.

Fannie Mae requires that Lender Placed Insurers provide a full range of sample operational and management reports with summary information describing the intended use of such reports. Fannie Mae prefers to use Lender Placed Insurer's standardized reports rather than customized reports so long as the standardized reports meet Fannie Mae's reporting needs.

Reference	Requirement	C/E	Exception
4.4.1.1	**Operational Report**: Provide a weekly Lender Placed Insurance refunds report to the Servicer. The report shall include (without limitation) the: loan number, homeowner's name, policy number, coverage type, premium amount, term of coverage, cancelation date type of refund/credit and earned premium amount/credit amount. This report shall be provided to Fannie Mae directly upon request.		
4.4.1.2	**Operational Report**: Provide a weekly Lender Placed Insurance premium payment request report to the Servicer. The report shall include (without limitation) the: loan number, homeowner's name, policy number, coverage type, coverage amount term of coverage, state, and requested premium amount.		
4.4.1.3	**Data Request:** Provide the formula, values, and explanation for the calculation of required insurance coverage at the Servicer, Fannie Mae's, or a homeowner's request.		
4.4.1.4	**Data Request:** Provide a weekly file to reflect the status of Lender Placed Insurance issuance of policies.		
4.4.1.5	**Data Request:** Provide Servicer and Fannie Mae all documentation for active and closed claims upon request in a timely manner.		

Reference	Requirement	C/E	Exception
4.4.1.6	**Data Request:** Provide Servicer and Fannie Mae copies of all correspondence regarding claims disputes upon request in a timely manner.		
4.4.1.7	**Management Report:** Provide Lender Placed Insurer's standard monthly management reports to Fannie Mae and the Servicer. Monthly management report shall include at a minimum, monthly net written premium, number of claims paid and cost at the loan level, claims denied and why at the loan level and loss ratio at the state level. Hazard, Flood, and Wind shall be broken out separately and incurred by not reported shall be excluded. Provide samples of monthly management reports as an attachment with this RFP. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_4447_ManagementReport"		
4.4.1.8	**Management Report:** Provider Servicer and Fannie Mae a monthly Performance Indicator report detailing the performance metrics of all KPIs and CPIs in Sections 4.4.2. and 4.4.3. This report shall also include the issuance of any performance credits.		
4.4.1.9	All past reports shall be stored for a minimum of seven years after creation date.		

4.5 Pricing and Payment

4.5.1 *Insurance Pricing*

Reference	Requirement	C/E	Exception
5.1.1.1	Lender Placed Insurer certifies that insurance premiums do not include the costs of any form of commissions to Servicers or other 3rd parties.		
5.1.1.2	Lender Placed Insurer certifies that insurance premiums do not include or subsidize the costs of any tracking services provided to the Servicer.		
5.1.1.3	Lender Placed Insurer certifies that insurance premiums do not include or subsidize any other costs other than the policy premium.		
5.1.1.4	Provide pricing for all insurance products and corresponding Fannie Mae loan types in the pricing sheet (Attachment C). Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_Attachment C"		

Reference	Requirement	C/E	Exception
5.1.1.5	Provide pricing for all geographic locations presented in the pricing sheet (Attachment C).		
5.1.1.6	Insurance rates must be expressed on an annual per $100 of insured amount basis.		
5.1.1.7	Insurance rates must be quoted by state with a separate entry for states where Surplus Lines Taxes Apply.		
5.1.1.8	Submit an estimated loss ratio given Fannie Mae's portfolio in the pricing sheet (Attachment C) This estimated loss ratio shall exclude any allowance for incurred but not reported.		
5.1.1.9	Lender Placed Insurer shall provide an attachment that explains in detail how the estimated loss ratio was calculated. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_4519_LossRatioCalculation"		
5.1.1.10	Insurances rates shall not increase for the life of all policies placed within a year of the contract signing (e.g., if the contract is signed on 6/1/2012, all policies placed on or before 6/1/2013 shall not be subject to any rate increases for those policies duration).		

4.5.2 *Payment Terms*

Reference	Requirement	C/E	Exception
5.2.1.1	Lender Placed Insurer shall issue invoices to the Servicer by the 5th of the month and include detailed line item reporting of the number of Lender Placed Insurance policies issued the previous month. The report shall include (without limitation) the: loan number, homeowner's name, policy number, coverage type, term of coverage, state, state premium rate, and requested premium amount. The report should be segregated by hazard, wind and flood products and break out net written premiums and claim data at the state level.		
5.2.1.2	Lender Placed Insurer shall pay any applicable credits as a result of falling below a Critical Performance Indicator to Fannie Mae in a separate transaction.		
5.2.1.3	Lender Placed Insurer shall, if requested by Fannie Mae, support monthly premium invoicing at no additional charge.		
5.2.1.4	Lender Placed Insurer shall, if requested by Fannie Mae, support quarterly premium invoicing at no additional		

Reference	Requirement	C/E	Exception
	charge.		

4.6 Governance

It is critical to Fannie Mae that continuous, open and clear communications occur. The desired relationship is one in which Fannie Mae and its preferred Lender Placed Insurer(s) work together, in good faith, to proactivly review performance, industry trends, business needs, and current issues. Although, Fannie Mae will provide strategic oversight and expects full transparency from its Lender Placed Insurer(s), all day to day interactions and operational control will be between Lender Placed Insurer(s) and Fannie Mae's Servicer agents.

Fannie Mae expects to work with its preferred Lender Placed Insurer(s) to create a communications schedule to review such topics as the state of the relationship between Fannie Mae and its preferred Lender Placed Insurer(s), the extent to which performance is consistent with commitments made, the nature of short and long term action plans that may impact performance, and remedial actions taken to eliminate performance problems. Fannie Mae also expects to agree with its preferred Lender Placed Insurer(s) on the preferred framework for issue reporting and issue escalation.

The Key Performance Indicators section of this RFP (Section 4.4.1) sets forth the key Performance Indicators and associated service levels that the Lender Placed Insurer(s) will be expected to meet. Fannie Mae expects that any Lender Placed Insurers put on the Preferred Provider List as a result of this procurement will provide *monthly performance data* to Fannie Mae in a format acceptable to Fannie Mae. Such data will be at the customer level (i.e., by Servicer) as well as aggregated for all Fannie Mae loans for which the Lender Placed Insurer(s) provide Lender Placed Insurance.

Fannie Mae also expect face-to-face business reviews to be conducted at least semi-annually and even more frequently if preferred Lender Placed Insurer(s) fail to meet performance commitments. The site for these reviews is expected to be at the premises of the Lender Placed Insurer(s) but may, at the discretion of Fannie Mae, be held in Washington, DC. Such reviews may, at Fannie Mae's discretion, include Servicers to create an environment where all stakeholders are involved and have a free exchange of views as to causes and remedial actions required to improve performance.

From time to time Fannie Mae will reevaluate its providers to ensure it is receiving market competitive pricing and service.

Please indicate Lender Placed Insurer's compliance with the expected governance commitments listed in this section.

Reference	Requirement	C/E	Exception
6.1.1.1	If one (1) or more Lender Placed Insurer KPIs or CPIs (Section 4.4.3) fail to obtain the minimum service level then at least two of the Lender Placed Insurer's executives will host a meeting at Fannie Mae's premises to offer an explanation of the service level failures and to provide a concrete action plan and schedule for solving the core causes of the service failure. Servicer will not be responsible for reimbursing the executives travel expenses for this meeting.		

Reference	Requirement	C/E	Exception
6.1.1.2	Lender Placed Insurer will provide Fannie Mae with invoices that include the following fields by loan amount: Servicer, policy by type, premiums paid, insured amount, claims paid/denied, claims filed, closed date. The fields shall be broken out by state and product type (hazard, wind, and flood). While invoices will be issued to and paid by Servicers, such invoices will be made available to Fannie Mae at Fannie Mae's request.		
6.1.1.3	Lender Placed Insurer will host semi-annual site visits of Lender Placed Insurer premises for Fannie Mae.		
6.1.1.4	Lender Placed Insurer will visit Fannie Mae premises as requested at no cost to Fannie Mae.		
6.1.1.5	Lender Placed Insurer will provide a semi-annual business review to Fannie Mae.		
6.1.1.6	Lender Placed Insurer will provide Fannie Mae with a single global point of contact with ultimate decision-making authority and responsibility for the overall Fannie Mae – Lender Placed Insurer relationship.		
6.1.1.7	Lender Placed Insurer shall provide Fannie Mae with 30 calendar days' notice prior to changing the single global point of contact.		
6.1.1.8	Lender Placed Insurer to provide escalation procedures that Fannie Mae, Servicer, and Lender Placed Insurer would employ for any issues both in a steady-state and during transition. The procedures shall, at a minimum, include: i. Escalation contacts (name, title, role, email and phone numbers) ii. Time intervals for escalation iii. Levels of escalation		
6.1.1.9	Lender Placed Insurer at Servicer's request, with will meet with Servicer management to discuss: i. Open issues ii. Operating performance and KPIs iii. Process productivity iv. Changes in insurance requirements v. Billing requirements		

4.7 Transition Plan

The Lender Placed Insurer is responsible for providing a transition plan as an attachment. The transition plan shall detail the timing associated with:

- Moving policies to the new structure
- Implementing the specified reporting
- Tracking KPIs and CPIs
- Executing the specified governance model

- Interfacing with 1,300+ Fannie Mae Servicers

The transition plan attachment is also the area where Lender Placed Insurers shall propose any improvements to the Lender Placed Insurance processes in the steady state. The transition plan shall include, but not be limited to the requirements listed below.

Reference	Requirement	C/E	Exception
7.1.1.1	Provide a detailed plan as an attachment outlining how Lender Placed Insurer intends to implement the proposed services and integrate with the existing Servicer systems. Clear detail shall be provided on what steps the Lender Placed Insurer plans to take to maintain service quality in the event they are awarded Fannie Mae's entire portfolio. Lender Placed Insurer must clearly outline: • Fannie Mae responsibilities, Servicer responsibilities, and Insurance Tracking agent responsibilities in each phase of the implementation • Handoffs from Insurance Tracker to Servicer • Handoffs from Servicer to Insurance Provider • Activities, timing, and roles of each party Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_4711_TransitionPlan"		
7.1.1.2	Lender Placed Insurer shall operate under the assumption that all preexisting forced place insurance policies will be canceled and rewritten under the guidelines and pricing outlined in this RFP. The transition plan shall detail the most efficient way to transfer all Lender Placed Insurance to the new policy as quickly as reasonably possible.		

4.8 General Questions

The following questions require the carrier to submit an open ended response rather than a comply/exception.

Reference	Requirement	Response
8.1.1.1	**Qualification:** Indicate Lender Placed Insurer's current A.M. Best Company rating.	
8.1.1.2	**Qualification:** Indicate Lender Placed Insurer's estimated annual aggregate loss ratio for Fannie Mae's entire portfolio excluding any allowance for incurred but not reported.	
8.1.1.3	**Qualification:** How many FTE's are currently in your Lender Placed Insurance division?	
8.1.1.4	**Qualification:** How many residential properties are currently covered by one (1) of your Lender Placed Insurance products?	

Reference	Requirement	Response
8.1.1.5	**Qualification:** Please list all of your relevant industry certifications.	
8.1.1.6	**Qualification:** What is your total Lender Placed Insurance revenue? Please express this number in dollar and a percentage of your total insurance revenue.	
8.1.1.7	**Qualification:** For how many customers do you provide Lender Placed Insurance? Please list your 10 largest Lender Placed Insurance customers by number of policies.	
8.1.1.8	**Qualifications:** Do you provide insurance directly, or do you use preferred insurance carriers? If you use preferred insurance carriers who are the preferred carriers with which you work and what are their AM Best or comparable ratings? If you do not use preferred carriers, who are your preferred reinsurers?	
8.1.1.9	**Operations:** Are there any exclusions listed in Attachment E that your standard policy does not exclude?	
8.1.1.10	**Operations:** Submit an Attachment of your master insurance policy. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_48110_MasterPolicy]"	
8.1.1.11	**Transition:** Provide a description and any proposed solutions to optimize and improve the Lender Placed Insurance process over time once it reaches a steady state.	
8.1.1.12	**Transition:** Detail any data or reports that Lender Placed Insurer will make available to Fannie Mae and Servicer during the transition.	
8.1.1.13	**Transition:** Describe how the governance model will be implemented (See Section: 4.6).	
8.1.1.14	**Technology:** What IT systems and software do you plan on using to deliver Lender Placed Insurance? Please provide a description of all systems and software, if the software is third party or developed in-house, and if third party the length of your current licensing agreement.	
8.1.1.15	**Technology:** Do you have or plan on providing a client self-service portal that Fannie Mae would have access? If so, what functions is Fannie Mae capable of preforming through this portal?	
8.1.1.16	**Technology:** What is the size of your current IT staff?	
8.1.1.17	**Partners:** Is your claims processing handled in house or outsourced to a third party? If outsourced, which company	

Reference	Requirement	Response
	handles your claims processing?	
8.1.1.18	**Partners:** Please list all partner or affiliate companies that were used to obtain pricing for this RFP proposal and what services they plan on providing.	
8.1.1.19	**Reporting:** Describe how KPIs and CPIs will be tracked and the reporting requirements will be implemented (See Section 4.4).	
8.1.1.20	**Governance:** Detail the staffing plan and account management team that will serve Servicers and Fannie Mae (e.g., Name, Title, Location, and Role).	
8.1.1.21	**Alternative Solution:** Please describe any alternative solutions or ideas that you think would help Fannie Mae to achieve the goals as stated in this RFP.	
8.1.1.22	**Alternative Solution:** What solutions can you offer to help reduce demand for Lender Placed Insurance?	

5. Insurance Tracking

Providers of insurance tracking services ("Insurance Trackers") are expected to provide a common set of services and meet a common set of business and performance requirements. The scope of the tracking and administrative services to be provided will include at least the following activities:

- Monitor status of homeowner's Voluntary Insurance to confirm that it is in-force and in accordance with Fannie Mae Guidelines
- Request and confirm homeowner certificates of insurance
- Notify homeowners of any Voluntary Insurance deficiencies and attempt to correct
- Secure the placement of Lender Placed Insurance in accordance with Fannie Mae Guidelines
- Work with homeowners to avoid placement of Lender Placed Insurance or to secure Voluntary Insurance even after Lender Placed Insurance has been placed
- Provide Insurance Tracking and verification customer service to homeowners, Servicers and Fannie Mae to include state-of-the-art call center operations
- Perform in compliance with Performance and Reporting requirements described below (Section 5.4)
- Maintain books of record necessary to manage the scope of services covered in this RFP to include issuing accurate reports to Fannie Mae and its Servicers as described below

In the sections below Fannie Mae defines the services and products to be expected from an Insurance Tracker (the Insurance Tracking service requirements). **The Insurance Tracker may be an affiliate of a Lender Placed Insurance company but must bid the price of Lender Placed Insurance separately from Insurance Tracking services.** Under the terms of this procurement, the prices submitted for neither line of business (i.e., Lender Placed Insurance or Insurance Tracking) may subsidize the other. Prior to responding to this RFP, Insurance Trackers shall review these requirements closely to determine if they can meet these requirements.

5.1 Fannie Mae Voluntary Insurance Tracking Requirements

Fannie Mae has specific policy requirements regarding Voluntary Insurance that are described in detail below.

5.1.1 *General Policy Requirements*

Reference	Requirement	C/E	Exception
1.1.1.1	Provide and maintain a system to track and monitor Voluntary Insurance products described in Section 5.2 for all Fannie Mae loans.		
1.1.1.2	Obtain insurance policy documentation and update Servicer's system as it pertains to each policy in accordance with Fannie Mae Guidelines, Part II, Chapter 2, Section 209: Evidence of Insurance (Attachment B).		
1.1.1.3	Ensure the required Voluntary Insurance coverage is in place and meets Fannie Mae requirements as defined by the Fannie Mae Guidelines (Attachment B). If proof of acceptable Voluntary Insurance cannot be verified, proceed to attempt to contact homeowner to obtain evidence of insurance as defined by the Fannie Mae Guidelines, Part II, Chapter 6: Lender-Placed Property Insurance. If evidence of insurance cannot be obtained after following the contact procedures, direct the Lender		

Reference	Requirement	C/E	Exception
	Placed Insurer to place the required insurance.		
1.1.1.4	Attempt to contact the homeowner's insurance agent until contact has been made or three (3) calls attempts have been made prior to sending a notification to a Lender Placed Insurer to place a Lender Placed policy. These calls to the homeowner's insurance agent shall be made in addition to Insurance Tracker's lettering cycle to the homeowner. Attempts to contact the insurance agent shall be noted in Insurance Tracker's system.		
1.1.1.5	Upon issuance of a policy by a Lender Placed Insurer, the Insurance Tracker shall make at least three (3) additional attempts to contact homeowner by letter and one (1) attempt to contact the homeowner by phone.		
1.1.1.6	Verify all homeowner notifications include information explaining the ramifications of the failure to obtain voluntary coverage, including the potential expense of a Lender Placed Insurance policy, and that the policy scope of coverage may differ from a voluntary policy.		
1.1.1.7	Provide, in writing, insurance options offering homeowners the opportunity to obtain a voluntary policy with competitive rates instead of a Lender Placed Insurance policy.		
1.1.1.8	Create and maintain (with Servicer's approval) letters and forms for all insurance processes and products related to voluntary Insurance Tracking.		
1.1.1.9	Ensure that all written inquiries from attorneys representing homeowners or other legal related inquiries are forwarded to Servicer within (5) five business days after receiving the inquiry.		
1.1.1.10	Cancel all forms of voluntary and Lender Placed Insurance upon notification of change in ownership that loan is in a Real Estate Owned ("REO") status.		
1.1.1.11	Provide a P.O. Box for correspondence and required documentation received via regular mail and a physical address for correspondence received via overnight mail. Review all insurance-related documentation and enter policy details in Insurance Tracker's system within five (5) business days of receipt.		
1.1.1.12	Retain a copy of all correspondence for at least seven (7) years or as required by applicable laws.		
1.1.1.13	Maintain a website or other system for Servicer's staff to view and retrieve all insurance related documentation and correspondence that is received on behalf of Servicer as well as access to all letters sent on behalf of Servicer.		

Reference	Requirement	C/E	Exception
1.1.1.14	Maintain an updated, on-line Client Servicer Manual, which includes all agreed upon procedures between Servicer, Fannie Mae, and Insurance Tracker. Insurance Tracker shall document all changes within five (5) business days of approved updates.		
1.1.1.15	Make insurance related images available to Servicer upon request.		
1.1.1.16	Maintain insurance policy documentation and data security as required by the Fannie Mae Guidelines, Part II, Section 209.03: Data Files in Lieu of Policies (Attachment B).		

5.1.2 *Homeowner Call Center Requirements*

The Insurance Tracker shall setup a call center so that homeowners may ask questions about insurance requirements and submit any necessary insurance information over the phone and fax.

Reference	Requirement	C/E	Exception
1.2.1.1	Establish and maintain a dedicated toll free phone number for Fannie Mae homeowners with Insurance Tracking related issues.		
1.2.1.2	Establish and maintain a toll-free fax number to receive documents necessary for insurance processing. Insurance Tracker shall image faxes upon receipt and process them within one (1) business day.		
1.2.1.3	Establish and maintain a P.O. Box and physical mailing address to receive insurance related correspondence and documentation.		
1.2.1.4	Create and maintain a mutually agreed to service manual ("Servicer Manual") that provides detailed information regarding Insurance Tracker's day-to-day processing and procedures, customer service scripting, Fannie Mae's required protocols, Performance Indicators, and an overview of Insurance Tracker's products.		
1.2.1.5	Document all approved updates to the Servicer Manual and forward to Fannie Mae and Servicer within five (5) business days of update.		
1.2.1.6	Provide customer support in compliance with the Servicer Manual and all applicable federal, state and local laws, regulations, ordinances and requirements.		
1.2.1.7	Provide English and Spanish speaking homeowner support through Insurance Tracker's call center representatives.		
1.2.1.8	Maintain hours of operation for the customer service		

Reference	Requirement	C/E	Exception
	department at the minimum, Monday - Friday, 8 A.M. to 6 P.M. ET and agreed upon holidays.		
1.2.1.9	Servicer may, in its sole discretion, modify the hours of operation upon notice. Servicer will provide thirty (30) calendar days of notice if the change is due to changes to Fannie Mae business requirements or geographical locations. In the event of a natural or manmade disaster notice may be within twenty four (24) hours of the event.		
1.2.1.10	Notify homeowners calls are being recorded as required by applicable laws. Ensure recordings are available to Fannie Mae or Servicer for at least sixty (60) days from the date the call is received.		
1.2.1.11	Ensure that call center representatives are fully trained in Insurance Tracker's products with annual testing and certification.		
1.2.1.12	Provide Telecommunication Device for the Deaf ("TDD") services or other related services to support hearing impaired homeowners contacting Insurance Tracker's call center representatives.		
1.2.1.13	Ensure any Interactive Voice Response ("IVR") unit, has options that are not multilayered and any voice recognition feature has an option for both voice recognition and keypad entry.		
1.2.1.14	Provide a courtesy follow-up phone call to a homeowner or third party within two (2) business days of Insurance Tracker being notified of the fax to inform the homeowner or third party that his/her fax was not received.		
1.2.1.15	Track and monitor the number of calls homeowners receive in a month. For all homeowners with more than three (3) calls in a month, Insurance Tracker shall research the cause for the multiple calls and conduct additional training to staff and provide feedback to Fannie Mae and Servicer as needed.		

5.1.3 *Homeowner Website Requirements*

The Insurance Tracker shall provide a user-friendly website to encourage users to update insurance information online in order to reduce the costs of insurance verification.

Reference	Requirement	C/E	Exception
1.3.1.1	Provide frequently asked questions ("FAQs") section and provide homeowners the ability to securely update insurance information on Insurance Tracker's website.		

Reference	Requirement	C/E	Exception
1.3.1.2	Provide the ability for homeowners to update insurance information and the ability to attach a copy of an insurance policy or correspondence on Insurance Tracker's secure website.		
1.3.1.3	Provide homeowners the ability to request help and or respond to a previous call from the Insurance Tracker through the website.		

5.1.4 *Transfer In/Acquisition of Additional Loans by Servicer*

In the instance that a Servicer chooses to accept additional loan servicing responsibilities the following requirements need to be followed by the Insurance Tracker.

Reference	Requirement	C/E	Exception
1.4.1.1	Load a loan transfer file as a result of a service transfer-in/acquisition into Insurance Tracker's system upon receipt.		
1.4.1.2	Analyze the data in the loan transfer file to identify any discrepancies (i.e. collateral codes do not match premiums, policy coverage amounts exceed minimum and maximum thresholds, missing data, etc.) upon uploading the file into Insurance Tracker's system.		
1.4.1.3	Begin the Lender Placed Insurance lettering and call cycles for loans without active Voluntary Insurance after the loan transfer file upload.		

5.1.5 *Transfer Out/Removal of Loans by Servicer*

In the instance that a Servicer chooses to transfer loan servicing responsibilities the following requirements need to be followed by the Insurance Tracker.

Reference	Requirement	C/E	Exception
1.5.1.1	Notify insurances companies to update the mortgagee clause with the new Servicer's information and address upon notification of a service transfer.		
1.5.1.2	Notify the Lender Placed Insurer that the loans are being transferred off the Servicer's platform and that Lender Placed Insurance shall be canceled.		

5.2 Requested Insurance Tracking

Tracking services shall be provided for the following Insurance products as described in detail below.

5.2.1 *Hazard Insurance Tracking*

Reference	Requirement	C/E	Exception
2.1.1.1	Ensure that all voluntary hazard Insurance policies comply with Fannie Mae Guidelines, Part II, Chapter 2: Hazard Insurance (Attachment B).		
2.1.1.2	Notify the homeowner by mail if a separate Wind Insurance policy is required.		

5.2.2 *Flood Insurance Tracking*

Reference	Requirement	C/E	Exception
2.2.1.1	Ensure all voluntary flood Insurance policies comply with Fannie Mae Guidelines, Part II, Chapter 3: Flood Insurance (Attachment B).		
2.2.1.2	Notify homeowners by mail that a property is in an SFHA, in whole or in part and if Flood Insurance is required.		

5.3 Performance and Reporting

5.3.1 *Performance Indicators*

Insurance Trackers are expected to consistently supply high levels of service to Fannie Mae and its Servicer community. The purpose of this section is to clearly define the service levels to which the parties commit.

Performance Indicators are the metrics that are to be monitored, measured, and reported by Insurance Trackers to Fannie Mae and the Servicers. As described in the table below, only Key Performance Indicators will be applied to Insurance Tracking. These Performance Indicators enable all parties to objectively track the areas where the Insurance Tracker is performing at a level that is meeting or below expectations.

	Key Performance Indicator (KPI)	Critical Performance Indicator (CPI)
Description	Fannie Mae sets a minimum performance level that the Insurance Tracker is required to meet. Failure to meet this service level results in an Executive meeting	No CPI's for Insurance Tracking
Reporting Frequency	Monthly	N/A
Amounts at Risk	N/A	N/A
Action for Failure to Achieve Minimum Service Level	Executive meeting between Fannie Mae and the Insurance Tracker (See Section 4.6.1)	N/A

Each Performance Indicator includes the following fields:

Field	Definition
ID	Numerical abbreviation of the Performance Indicator (e.g., Insurance KPI1)
Name	Name of the Performance Indicator

Field	Definition
Definition	Short description of the Performance Indicator
Measurement Period	Time period over which the Performance Indicator is tracked (e.g., once a week, once a month)
Minimum Service Level	Lowest level of performance the Insurance Tracker can achieve without failing the Performance Indicator
Data Source	Basis of information from which the Performance Indicator is measured
Calculation	The detailed steps that are carried out to arrive at the Performance Indicator metric. This field also includes detailed examples of sample calculations

Acceptance of KPIs by an Insurance Tracker carries with it the requirement to capture and report periodically the level of performance delivered against the KPI standards. When service drops below minimum levels this KPI report shall be accompanied by a description of management efforts to improve performance as well as a root cause analysis to ensure failures are resolved and the risk of future failures is mitigated.

5.3.2 *Key Performance Indicators*

Reference	Requirement	C/E	Exception
3.2.1.1	Insurance Tracker shall provide insurance services in accordance with the Key Performance Indicators (KPIs). KPIs identify certain metrics, similar to CPIs, which are viewed as important to measuring the efficiency and effectiveness of the Services and evaluating Insurance Tracker's performance. KPIs are NOT subject to Performance Credits, but are still contractual commitments by Insurance Tracker. Each KPI shall include: a) Name of the Performance Indicator b) A description of the Performance Indicator c) A formula that outlines how the Insurance Tracker performance shall be calculated d) The data sources from which data Insurance Tracker performance statistics shall be obtained e) A minimum service level of which failure to reach results in a breach of the KPI		
3.2.1.2	**ID:** Tracker KPI1 **Name:** Insurance Tracking Calls Answer Speed **Definition:** Speed of answer on inbound customer service call **Measurement Period:** Calendar Month **Minimum Service level:** 95% of calls answered within 30 seconds **Data Source:** Insurance Tracker shall complete Attachment I to indicate a proposed data source **Calculation:** Insurance Tracker shall complete Attachment I with a proposed calculation methodology		
3.2.1.3	**ID:** Tracker KPI2 **Name:** Call Center Abandonment Rate **Definition:** Number of phone calls made to the Insurance		

Reference	Requirement	C/E	Exception
	Tracker's call center that are abandoned by the customer before speaking to an agent **Measurement Period:** Calendar Month **Minimum Service Level:** 3% or less **Data Source:** Insurance Tracker shall complete Attachment I to indicate a proposed data source **Calculation:** Insurance Tracker shall complete Attachment I with a proposed calculation methodology		
3.2.1.4	**ID:** Tracker KPI3 **Name:** Correspondence Forwarding Speed **KPI:** Elapsed time to forward to appropriate Servicer any compliance or regulatory-related correspondence (all such correspondence to be treated as urgent) **Minimum Service Level:** 95% of correspondence forwarded within one (1) business day **Data Source:** Insurance Tracker shall complete Attachment I to indicate a proposed data source **Calculation:** Insurance Tracker shall complete Attachment I with a proposed calculation methodology		
3.2.1.5	**ID:** Tracker KPI4 **Name:** Monthly Management Report Delivery Speed **Definition:** Elapsed time between the 10th of the calendar month and time in which Fannie Mae confirms they have received the monthly management report **Measurement Period:** Calendar Month **Minimum Service Level:** 100% of reports delivered within two (2) calendar days **Data Source:** Insurance Tracker shall complete Attachment I to indicate a proposed data source **Calculation:** Insurance Tracker shall complete Attachment I with a proposed calculation methodology		
3.2.1.6	Insurance Tracker shall propose any additional relevant KPIs in Attachment I.		

5.3.3 *Reporting Requirements*

Fannie Mae's Servicers require Insurance Trackers to submit standardized reports on a regular basis. The reports will be of two types: Operational Reports (primarily daily or weekly) and Management Reports (primarily monthly).

The former will focus on operational details (e.g., number of properties covered prior day vs. number of coverage requests received prior day) to ensure that day-to-day programmatic requirements are being met. The latter focus on financial performance and Key Performance Indicators that enable Servicers to monitor service level performance. Specific uses of reports include: (a) measurement of contract compliance; (b) regulatory and other external reporting; (c) tactical and strategic planning; and (d) comparison of performance between and among Insurance Trackers.

Insurance Trackers that respond to this RFP must provide a full range of sample operational and management reports with summary information as to the intended use of such reports. In addition, Insurance Trackers must describe how the KPI's and the associated minimum service levels will be reported in order to monitor service level performance. See section 5.3 for additional details.

Reference	Requirement	C/E	Exception
3.3.1.1	**Operational Report**: Submit a weekly Voluntary Insurance maintenance file to Servicer. This file shall include all the prior week's insurance/loan updates.		
3.3.1.2	**Operational Report:** Submit a weekly Voluntary Insurance provider file to Servicer. This file shall include all the Lettering Program Leads utilized to provide Voluntary Insurance including the insurer name, any associated insurer code(s), and its address for correspondence. This file must incorporate all insurance related products tracked.		
3.3.1.3	**Operational Report:** Track and monitor the number of calls homeowners receive in a month. For all homeowners with more than three (3) calls in a month, Insurance Tracker shall research the cause for the multiple calls and conduct additional training to staff and provide feedback to Servicer as needed. Insurance Tracker shall provide Servicer a monthly summary of results.		
3.3.1.4	**Operational Report**: Provide daily/weekly operational reports to Servicer.		
3.3.1.5	**Data Request**: Provide Servicer access to all Insurance Tracker's call recordings between homeowners and call center representatives.		
3.3.1.6	**Management Report:** Provide monthly and year-to-date management reporting on all call center statistics.		
3.3.1.7	**Management Report**: Provide Insurance Tracker's standard monthly management reports to the Servicer. Provide samples of monthly management reports as an attachment with this RFP to Fannie Mae. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_5337_ManagementReport"		
3.3.1.8	**Management Report**: Provide Servicer a monthly Performance Indicator report detailing the performance metrics of all KPIs in Sections 5.3.2.		
3.3.1.9	Upon request Insurance Tracker shall provide any reports generated for a Servicer to Fannie Mae within five (5) business days.		

5.4 Pricing and Payment Terms

5.4.1 *Insurance Tracking Pricing*

Reference	Requirement	C/E	Exception
4.1.1.1	Insurance Tracker shall provide pricing for tracking the		

Reference	Requirement	C/E	Exception
	Fannie Mae loans portfolio (Attachment A) in the Insurance Tracking Price sheet (Attachment H). Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_Attachment H"		
4.1.1.2	Pricing shall be calculated based on the price per loan tracked.		
4.1.1.3	Quoted pricing shall include all supply overhead and phone expenses.		
4.1.1.4	Insurance Tracking rates shall not increase within a year of contract signing.		

5.4.2 *Payment Terms*

Reference	Requirement	C/E	Exception
4.2.1.1	Insurance Tracker shall issue invoices to the Servicer by the 5th of the month and include detailed reporting of the number of loans tracked the previous month.		

5.5 Governance

Key Performance Indicators for loan tracking and associated administrative services are set forth in Section 5.4.1. Fannie Mae expects that Insurance Tracker(s) that track Fannie Mae loans will provide periodic performance data to Fannie Mae in a mutually agreed-upon format. Such data will be at the customer level (i.e., by Servicer) as well as aggregated for all Fannie Mae loans for which the Insurance Tracker(s) provide loan tracking services. Although, Fannie Mae expects full transparency from Insurance Trackers, all day to day interactions, performance accountability, and operational control will reside with Fannie Mae's Servicers.

Reference	Requirement	C/E	Exception
5.1.1.1	If two or more Insurance Tracker KPIs (Section 5.4.1) fail to meet the minimum service level then at least two of the Insurance Tracker's executives will host a meeting at Servicers premises to offer an explanation of the service level failures and to propose a potential solution. Servicer will not be responsible for reimbursing the executives travel expenses for this meeting.		
5.1.1.2	Insurance Tracker will host semi-annual site visits of Insurance Tracker premises for the Servicer.		
5.1.1.3	Insurance Tracker will provide a semi-annual business review to Servicer.		

Reference	Requirement	C/E	Exception
5.1.1.4	Insurance Tracker will provide Servicer with a single global point of contact with ultimate decision-making authority and responsibility for the overall Servicer – Insurance Tracker relationship.		
5.1.1.5	Insurance Tracker to provide escalation procedures that Servicer, and Lender Placed Insurer would employ for any issues both in a steady-state and during transition. The procedures shall, at a minimum, include: i. Escalation contacts (name, title, role, email and phone numbers) ii. Time intervals for escalation iii. Levels of escalation		
5.1.1.6	Insurance Tracker, at Servicer's request, will meet with Servicer management to discuss, at a minimum, the following: i. Open issues ii. Operating performance and KPIs iii. Process productivity iv. Changes in tracking requirements v. Billing requirements		

5.6 Transition Plan

The Insurance Tracker is responsible for providing a transition plan as an attachment. The transition plan shall detail the timing associated with:

- Moving loans to the new tracking structure
- Implementing the specified reporting
- Tracking KPIs
- Executing the specified governance model

The transition plan attachment is also the area where any improvements to the Lender Placed Insurance processes in the steady state shall be proposed. The transition plan shall include, but not be limited to the requirements listed below.

Reference	Requirement	C/E	Exception
6.1.1.1	Insurance Tracker must provide a detailed plan on how it intends to implement the proposed services. Insurance Tracker must clearly outline Fannie Mae responsibilities, Servicer responsibilities, and Insurance Tracking agent responsibilities in each phase of the implementation. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_5611_TransitionPlan"		

5.7 General Questions

The following questions require the carrier to submit an open ended response rather than a comply/exception.

Reference	Requirement	Response
7.1.1.1	**Qualification:** Describe your current tracking system capabilities and limitations.	
7.1.1.2	**Qualification:** How many loans do you currently track?	
7.1.1.3	**Qualification:** How many FTE's are currently in your Insurance Tracking division?	
7.1.1.4	**Qualification:** How many residential properties are currently being monitored by your Insurance Tracking division?	
7.1.1.5	**Qualification:** Please list all of your relevant industry certifications.	
7.1.1.6	**Qualification:** What is your total revenue of your Insurance Tracking division?	
7.1.1.7	**Qualification:** For how many customers do you provide Insurance Tracking? Please list your 10 largest Insurance Tracking customers by number of loans.	
7.1.1.8	**Transition:** Provide a description and any proposed solutions to optimize and improve the Insurance Tracking process over time once it reaches a steady state.	
7.1.1.9	**Transition:** Detail any data or reports that Lender Placed Insurer will make available to Fannie Mae and Servicer during the transition.	
7.1.1.10	**Transition:** Describe how the governance model will be implemented (See Section: 5.6).	
7.1.1.11	**Transition:** Do you currently bundle other services with Insurance Tracking (e.g., tax)? If so, explain how such services would be unbundled from tracking if requested.	
7.1.1.12	**Technology:** What IT systems, technology, and software do you plan on using to deliver Insurance Tracking? Please provide a description of all systems and software, if the software is 3rd party or developed in-house, and if 3rd party the length of your current licensing agreement.	
7.1.1.13	**Technology:** What is the size of your current IT staff?	
7.1.1.14	**Operations:** Do you provide cover the claims cost if there is a mistake in the tracking process that results in a coverage lapse?	
7.1.1.15	**Partners:** Please list all partner or affiliate companies that were used to obtain pricing for this RFP proposal and what services they plan on providing.	

Reference	Requirement	Response
7.1.1.16	**Reporting**: Describe how KPIs will be tracked and the reporting requirements will be implemented (See Section 5.3).	
7.1.1.17	**Governance**: Detail the staffing plan and account management team that will serve Servicers and Fannie Mae (e.g., Name, Title, Location, Role).	
7.1.1.18	**Alternative Solution:** What other products and services could you recommend (e.g., non-Insurance Tracking products/services) that would help Fannie Mae to achieve the goals as stated in this RFP?	
7.1.1.19	**Alternative Solution:** What tracking techniques do you propose in order to limit demand for Lender Placed Insurance?	

6. Voluntary Insurance Lettering Program

Fannie Mae wishes to encourage homeowners to utilize voluntary insurance whenever possible. To accomplish this, Fannie Mae is seeking information to assess Provider's capabilities to conduct a targeted lettering program to contact homeowners who are currently utilizing Lender Placed Insurance and provide them with a rate quote for Voluntary Insurance. Respondents to this section ("Lettering Program Lead") will be responsible for structuring the program, obtaining the necessary Voluntary Insurance quotes, sending letters to homeowners, and processing the responses.

6.1 Program Requirement

The following are the general requirements related to the Voluntary Insurance Lettering Program.

6.1.1 *General Requirements*

Reference	Requirement	C/E	Exception
1.1.1.1	Lettering Program Lead shall integrate with Servicers' and Trackers' systems to gather data of all homeowners who are utilizing Lender Placed Insurance.		
1.1.1.2	Lettering Program Lead shall create a Voluntary Insurance quote that can be provided to homeowners who are currently utilizing Lender Placed Insurance based on the information gathered from Servicers and Insurance Trackers.		
1.1.1.3	The Voluntary Insurance quote offered by the Lettering Program Lead must be market competitive for a policy of a similar type and risk.		
1.1.1.4	The Voluntary Insurance quote offered by the Lettering Program Lead shall be commercially reasonable based on policy type and risk characteristics.		
1.1.1.5	Lettering Program Leads shall devise a lettering cycle to best reach homeowners with Lender Placed Insurance to notify them of the benefits and savings from switching to a Voluntary Insurance policy.		
1.1.1.6	If a homeowner chooses to sign up for Voluntary Insurance the Lettering Program Lead shall take the necessary steps to cancel the homeowners Lender Placed Insurance and provide a voluntary policy to the homeowner.		
1.1.1.7	Lettering Program Leads must follow all applicable federal, state and local laws, regulations, ordinances and requirements when contacting homeowners and offering Voluntary Insurance.		
1.1.1.8	Maintain insurance policy documentation and data security as required by the Fannie Mae Guidelines, Part II, Section 209.03: Data Files in Lieu of Policies (Attachment B).		

Referenc e	Requirement	C/E	Exception
1.1.1.9	Ensure that all Fannie Mae, Servicer, and Homeowner data is securely protected and that such protections apply to any data potentially transmitted to third party voluntary insurance firms.		

6.1.2 *Requested Voluntary Insurance Products*

Referenc e	Requirement	C/E	Exception
1.2.1.1	Lettering Program Lead shall offer voluntary hazard insurance to homeowners with lender placed hazard insurance. Hazard insurance must comply with federal, state, local laws, regulations, requirements and ordinances as well as Fannie Mae Guidelines, Part II, Chapter 2: Hazard Insurance (Attachment B).		
1.2.1.2	Lettering Program Lead shall offer voluntary flood insurance to homeowners with lender placed flood insurance. Flood insurance must comply with federal, state, local laws, regulations, requirements and ordinances as well as Fannie Mae Guidelines, Part II, Chapter 3: Flood Insurance (Attachment B).		

6.2 Performance and Reporting

Fannie Mae will require Lettering Program Lead to submit standardized reports on a regular basis. Fannie Mae requests that Lettering Program Leads respond to this RFP with a full range of sample operational and management reports with summary information as to the intended use of such reports.

Referenc e	Requirement	C/E	Exception
2.1.1.1	Lettering Program Lead shall provide monthly management reports to Fannie Mae, which at a minimum include: • Number of letters sent by state • Conversion ratio of Lender Placed Insurance to Voluntary Insurance by state • Average price of voluntary insurance offered by state		

6.3 Pricing and Payment

Reference	Requirement	C/E	Exception
3.1.1.1	The Voluntary Insurance Lettering Program will be provided at no cost to Fannie Mae. Fannie Mae will not dictate the terms of payment among the various parties involved in the program (e.g., Lettering Program Lead and Voluntary Insurance Providers) as long as the program meets the requirements stated in this section, particularly as it relates to the insurance cost requirement stated in section 6.1.1.4.		

6.4 Governance

Reference	Requirement	C/E	Exception
4.1.1.1	Lettering Program Lead will provide Fannie Mae with a single global point of contact with ultimate decision-making authority and responsibility for the overall Fannie Mae – Lettering Program Lead relationship.		
4.1.1.2	Lettering Program Lead to provide escalation procedures that Fannie Mae, Servicer, Insurance Tracker, and Lender Placed Insurer would employ for any issues both in a steady-state and during transition. The procedures shall, at a minimum, include: i. Escalation contacts (name, title, role, e ii. mail and phone numbers) iii. Time intervals for escalation iv. Levels of escalation		
4.1.1.3	Lettering Program Lead, at Fannie Mae's request, will meet with Fannie Mae management to discuss, at a minimum, the following: i. Open issues ii. Operating performance iii. Process productivity iv. Changes in program requirements		

6.5 Transition Plan

The Lettering Program Lead is responsible for providing a transition plan as an attachment. The transition plan shall detail the timing associated with:

- Integrating with Servicers and Insurance Trackers systems
- Creating, testing, and optimizing letter cycle
- Implementing reporting
- Executing the specified governance model

The transition plan attachment is also the area where any improvements to the processes in the steady state shall be proposed. The transition plan shall include, but not be limited to the requirements listed below.

Referenc e	Requirement	C/E	Exception
5.1.1.1	Lettering Program Lead must provide a detailed plan as an attachment on how it intends to implement the proposed services. Lettering Program Lead must clearly outline the responsibilities of Fannie Mae, Servicer, Insurance Tracker, Lender Placed Insurer, Voluntary Insurer and Lettering Program Lead in each phase of the implementation. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_6511_TransitionPlan"		

6.6 General Questions

The following questions require the carrier to submit an open ended response rather than a comply/exception.

Referenc e	Requirement	Response
6.1.1.1	**Qualification:** Describe in detail any efforts currently undertaken by the Provider to reduce Lender Placed Insurance and encourage Voluntary Insurance. If there is a program similar to the one described in Section 6, please provide attachments describing how it works and any empirical data highlighting its success. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_6611_PastExperience"	
6.1.1.2	**Product**: Lettering Program Lead shall submit an attachment with their standard voluntary hazard insurance policy. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_6612_VoluntaryPolicy"	
6.1.1.3	**Product**: Lettering Program Lead shall submit an attachment with their standard voluntary flood insurance policy. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_6613_FloodPolicy"	
6.1.1.4	**Operations:** Provide an attachment that describes in detail how the Voluntary Insurance Lettering Program would operate. Attachment shall be submitted to the Attachments section of Fannie Mae's E-Sourcing Tool and titled "[Provider Name]_6614_Operations"	
6.1.1.5	**Reporting:** Describe how any Voluntary Insurance rates quoted to homeowners will be benchmarked against market averages to verify market competitiveness. Furthermore, indicate how such information will be reported to Fannie Mae.	
6.1.1.6	**Reporting**: Describe how reporting requirements will be implemented.	

Reference	Requirement	Response
6.1.1.7	**Security:** If you must contract with a third party voluntary insurance firm to offer rate quotes describe what information you would have to provide that third party and what steps will be taken to protect all Fannie Mae, Servicer, and Homeowner data.	
6.1.1.8	**Governance:** Describe how the governance model will be implemented.	
6.1.1.9	**Alternative Solution:** Provide a description of any alternative solutions to decrease Lender Placed Insurance and increase Voluntary Insurance.	

7. Glossary

1. **Critical Performance Indicator:** A calculated metric that indicates Provider performance and is tied to a minimum service level. Similar to a Key Performance Indicator, except failure of a critical Performance Indicator results in a performance credit.

2. **DP-3 Policy Form:** An insurance policy form which provides an 'all risk' or 'open perils' coverage, which covers all damages unless specifically excluded in the language of the policy itself.

3. **Evidence of Insurance Coverage:** Evidence of Insurance coverage is defined in the Fannie Mae Guidelines Part II, Chapter 2, Section 209: Evidence of Insurance (Attachment B).

4. **Expected Service Level:** The level of performance that Fannie Mae expects a contractor to reach and sustain over the period of the agreement.

5. **Extended Coverage Endorsements (ECE):** Extension of coverage available under the standard fire policy that covers events such as windstorm, civil commotion, smoke, aircraft and vehicle damage, and explosion.

6. **Fannie Mae Guidelines:** Refers to the Fannie Mae Servicer *Guide* that contains the standard requirements for servicing all Fannie Mae-owned or Fannie Mae-securitized mortgages (Attachment B).

7. **Force Placed Insurance (FPI):** In the context of this RFP, the same as Lender Placed Insurance.

8. **Insurance Tracker:** Provider responsible for tracking homeowners Voluntary Insurance, and when Voluntary Insurance cannot be found notifying the Servicer and Lender Placed Insurer.

9. **Key Performance Indicator:** A calculated metric that indicates Provider performance and is tied to a minimum service level. Failure of a Key Performance Indicator can result in an executive meeting.

10. **Key Performance Indicators (KPIs):** A measure used by an organization to evaluate an activity that is considered critical to operational success. For purposes of this RFP, KPIs do not have Performance Credits associated with them.

11. **Lender Placed Insurance (LPI):** Purchased by a lender from a specialized insurance company to cover the value of the lender's interest in a property in the event of damage caused by hazards not covered by homeowner-purchased Voluntary Insurance (if any).

12. **Letter of Map Amendment (LOMA):** A FEMA-issued document that officially removes a property from a SFHA.

13. **Lender Placed Insurer:** The provider of lender placed insurance to the homeowner.

14. **Letter of Map Revision (LOMR):** A FEMA-issued modification to an effective Flood Insurance Rate Map (FIRM), or Flood Boundary and Floodway Map (FBFM), or both. LOMRs are generally based on the implementation of physical measures that affect the hydrologic or hydraulic characteristics of a flooding source and thus result in the modification of the existing regulatory floodway, the effective Base Flood Elevations (BFEs), or the Special Flood Hazard Area (SFHA).

15. **Lettering Program Lead:** Provider responsible for managing the Voluntary Insurance Lettering Program.

16. **Loss Ratio:** The total aggregate premiums over the total claims paid for over the life of a Lender Placed Insurance policy.

17. **Minimum Service Level:** The level of performance below which is unacceptable to Fannie Mae and may result in performance credits paid to Fannie Mae by the Provider.

18. **National Flood Insurance Program:** A program created in 1968 through the National Flood Insurance Act (P.L. 90-448). The program enables property owners in participating communities to purchase insurance from the government against losses from flooding.

19. **Performance Credit:** A financial amount paid by the Provider directly to Fannie Mae following a failure of a CPI.

20. **Performance Indicator**: A calculated metric that indicates Provider performance and is tied to a minimum service level. There are two types of Performance Indicators: Key Performance Indicators and Critical Performance Indicators.

21. **Proof of Loss**: This form is used by the policyholder to make their statement of the amount claimed and then signed and sworn along with details of the Loss.

22. **Provider:** A bidder of any section of this RFP.

23. **Real Estate Owned (REO):** Owned by Fannie Mae after a foreclosure with the common case being that the amount owed is higher than the current market value of this property.

24. **Service Level Agreements (SLAs):** A negotiated agreement between two parties, where one (1) is the customer and the other is the service Provider. The SLA records a common understanding about services, priorities, responsibilities, guarantees, and warranties.

25. **Servicer:** Representatives of Fannie Mae who are responsible for collecting, monitoring and reporting loan payments in addition to handling property taxes, insurance escrows, and other related activities.

26. **Special Flood Hazard Area (SFHA):** Identified by FEMA as a high-risk flood area that every property owner is expected to purchase flood insurance. This area is often referred to as the 100 year flood plain since in any given year the probability of flood damage to properties is one (1) percent.

27. **Tracking Services:** Monitoring a loan to ensure that it has proper insurance that meet Fannie Mae guidelines.

28. **Voluntary Insurance:** Refers to hazard insurance purchased by a homeowner (in contrast to Lender Placed Insurance that is purchased by a lender).

8. Appendix and Attachments

8.1 General

8.1.1 *Attachment A Fannie Mae Portfolio*

An excel document that contains details about Fannie Mae's portfolio by zip code

8.1.2 *Attachment B Fannie Mae Guidelines*

The current Fannie Mae Guidelines document, which is subject to periodic updates

8.2 Lender Placed Insurance

8.2.1 *Attachment C Insurance Pricing Sheet*

The excel template where Providers will submit their pricing for Lender Placed Insurance by product type and state

8.2.2 *Attachment D Insurance Performance Indicator Calculations*

A template where Providers will document their proposed methodology to calculate performance indicators

8.2.3 *Attachment E Acceptable Insurance Exclusions*

Fannie Mae acceptable insurance exclusions

8.2.4 *Attachment F Definitions of Insurance Tiers by County*

Definitions of Insurance Tiers by county to calculate pricing

8.2.5 *Attachment G FEMA Flood Guidelines*

FEMA Flood guidelines, which outline Flood zones for pricing

8.3 Insurance Tracking

8.3.1 *Attachment H Tracking Pricing Sheet*

The excel template where Providers will submit their pricing for Tracking Services

8.3.2 *Attachment I Tracking Performance Indicator Calculations*

A template where Insurance Trackers will document their proposed methodology to calculate performance indicators

Public Hearing before the Florida Office of Insurance Regulation Regarding a Rate Filing for Force-Placed Insurance by Praetorian Insurance Company

July 3, 2012

Testimony of Birny Birnbaum
On Behalf of the Center for Economic Justice

Appendix C

News Articles Regarding QBE Acquisition of Balboa

Looking for Workers' Comp Markets? Search
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View this article online: http://www.insurancejournal.com/news/international/2011/02/04/183275.htm

BofA Sells Balboa Insurance Portfolio to Australia's QBE

Bank of America agreed to offload its Balboa insurance portfolio to Australia's QBE Insurance for more than $700 million, the latest in a string of asset sales by the U.S. lender as it recovers from the global credit crisis.

Bank of America, which last year sold stakes in BlackRock and China Construction Bank to help meet government bailout-aid repayments, said QBE would assume all of Balboa's $1.2 billion in insurance liabilities.

Shares in QBE, Australia's largest insurance group, jumped 7.7 percent after it announced the deal, their biggest one-day gain in three years.

Fund managers said the purchase would bolster QBE's U.S. operations, while investors were relieved the company was not planning a big capital raising to fund the deal as feared.

QBE's deal-hungry chief executive, Frank O'Halloran, has made more than 75 acquisitions in 10 years to expand into 50 countries. QBE acquired U.S. underwriting agency ZC Sterling Corp for $575 million in 2008.

"We will continue with our current strategy of growth by acquisition," said O'Halloran, who joined QBE in 1976 and has led the company for 13 years. His stake in the company is worth more than $200 million at current prices.

The deal with Bank of America follows a string of takeovers involving Australian insurers. Life insurer Tower Australia in December agreed to a $1.2 billion offer from shareholder Dai-ichi, while AMP Ltd has made a $13 billion bid for AXA Asia Pacific.

Bank of America said QBE would assume all of Balboa's liabilities in exchange for an equivalent amount of cash and other assets through a reinsurance transaction.

QBE entered into a 10-year distribution agreement with the bank for lender-placed insurance and real estate owned programs and certain voluntary consumer insurance products under the deal.

"They get access to distribution and hence the profits from the underwriting in return for taking on the

current book and paying $700 million," said Peter Vann, portfolio manager at Constellation Capital Management.

Bank of America said last year it planned to sell Balboa as part of asset sales to raise $3 billion to complete its repayment of U.S. government bailout funds. It has since raised the funds, joining the list of U.S. banks repaying money received under the government's Troubled Asset Relief Program.

It said the transaction was expected to result in a gain and it would retain Balboa's net tangible equity of $1.7 billion, which would be redeployed as the Balboa insurance liabilities expire.

QBE said it expected the annualized gross earned premium and net earned premium from the distribution agreement to be around $1.5 billion and $1.3 billion, respectively.

"The underlying business doesn't seem to be tracking as well as hoped, but they have plugged that gap through this acquisition," said Mark Nathan, portfolio manager at Arnhem Investment.

QBE will fund the deal through new short-term bank facilities and expected profits for 2011 and a dividend underwriting arrangement, quashing speculation on Thursday it was planning a $1 billion capital raising.

CYCLONE COSTS

QBE also flagged a net profit of around $1.28 billion for 2010, in line with market expectations but 17 percent below last year. It estimates costs from Australian floods in January and this week's Cyclone Yasi to rise to about $200 million.

O'Halloran said the preliminary estimate of damage from Queensland's Cyclone Yasi this week was around $100 million, while flooding and severe weather across Australia's east in January would cost it about $100 million. This was on top of about $45 million for Queensland floods in late 2010.

However, its insurance profit margin was forecast at 15 percent, below the company's guidance of 16 percent to 18 percent.

(Additional reporting by Victoria Thieberger in MELBOURNE and Adrian Bathgate in WELLINGTON; Editing by Mark Bendeich and Vinu Pilakkot)

IJ Ed. Note: The figures given are in U.S. dollars; the Australian dollar is currently worth around 1.5 percent more than the US dollar.

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Bank Of America To Sell Balboa Insurance Unit To Australia's QBE - Update

2/3/2011 11:14 PM ET
(RTTNews) - Bank of America Corp. (BAC:News) said Thursday that it has agreed to sell its Balboa Insurance unit to Australia's largest insurer QBE Insurance Group Ltd. (QBEIF.PK: News ,QBE.AX: News) for an upfront cash payment of about $700 million in addition to future payments.

Balboa is a property and life insuranceprovider that was part of Countrywide Financial, the troubled California lender that was acquired by Bank of America-Merrill Lynch in 2008.

The transaction, subject to regulatory approvals, is expected to be completed in mid-2011. Bank of America noted that the sale is consistent with its strategy to focus on businesses that directly serve customers and clients around the world while continuing to strengthen its balance sheet.

Under terms of the deal, QBE will assume substantially all of the insurance liabilities of Balboa of about $1.2 billion in exchange for QBE acquiring an equivalent amount of cash and other assets through a reinsurance transaction with Balboa.

QBE will also acquire certain other assets of the Balboa business and will extend ongoing employment to those associates supporting these businesses. In addition, QBE and Bank of America have entered into an initial ten year distribution agreement for lender-placed insurance and real estate owned programs as well as certain voluntary consumer insurance products.

Bank of America said the transaction is expected to result in a one-time after-tax gain and benefit its Tier 1 common capital, including a reduction in goodwill and other intangibles. The company said it will retain the remaining net tangible equity of about $1.7 billion of Balboa, which is expected to be available for redeployment over the next two years as the Balboa insurance liabilities expire.

In a separate statement, QBE said that the upfront payment to Bank of America of $700 million for the distribution rights and the portfolio transfer will be substantially amortized in the first three years.

The company noted that the distribution rights payment will initially be funded through new short-term bank facilities that are planned to be replaced later by Tier 2 debt securities acceptable to regulators and ratings agencies.

The company estimates the annualised gross earned premium and net earned premium from the distribution agreement to be around $1.5 billion and $1.3 billion respectively. The company also said it expects the annualised insurance profit margin before tax will be slightly higher than that currently achieved on its worldwide net earned premium and within the range of 15 to 20 percent of net earned premium.

(RTTNews) - Frank O'Halloran, the Chief Executive of QBR Insurance said, "The distribution agreement with Bank of America in the US and the portfolio transfer provide QBE with a

specialist personal lines portfolio which is complementary to the Sterling National business acquired in 2008."

O'Halloran added, "QBE's business in the U.S. will now be made up of five major segments, namely, lender placed and voluntary homeowners, contents and motor primarily through financial institutions (GWP of US$2.1 billion), specialty insurance programmes (US$1.5 billion), crop insurance (US$1.2 billion), regional agency and broker (US$1.3 billion) and reinsurance (US$0.5 billion)."

BAC closed Thursday's regular trading session at $14.43, up $0.19 or 1.33 percent on a volume of 145.77 million shares.

In Friday's regular trading on the Australian Securities Exchange, QBE.AX is trading at A$17.78, up A$0.84 or 4.96 percent on a volume of 6.22 million shares.

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