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Consumer Groups Decry FHFA Billion Dollar Force-Placed Insurance Giveaway

(Washington, D.C.) -- Advocates at the Consumer Federation of America, the National Consumer Law Center, the Center for Economic Justice, Consumer Watchdog, the Neighborhood Economic Development Advocacy Project and the Center for Responsible Lending strongly oppose the decision of the Federal Housing Finance Agency (FHFA) – the federal regulator that oversees Fannie Mae and Freddie Mac – to halt Fannie Mae's recent efforts to reduce the cost of force-placed insurance (FPI) for taxpayers and borrowers by over $1 billion a year.

Force-placed insurance is property insurance that mortgage servicers impose on homeowners whose insurance policies lapse or are cancelled. FPI policies typically cost at least twice as much as standard homeowners insurance, despite providing far less coverage. FPI premiums are excessive as demonstrated by very low benefit ratios – the ratio of claims paid to premiums received by the insurer – of only 21% over the period 2004 through 2011. This compares to a benefit ratio for standard homeowners insurance of 63% over the same period. With the economy in recession and slow recovery, the amount of FPI sold has skyrocketed over the past several years from less than $1 billion in 2004 to $3.5 billion in 2011.

Earlier this year, Fannie Mae announced a plan to purchase FPI directly from a consortium of insurance companies at an estimated 40% discount to prices currently charged by the largest insurers – QBE and Assurant – which together control the $3.5 billion a year FPI market. Over the past several years, the two insurers wrote over 99% of force-placed policies. Fannie Mae's plan would save taxpayers and borrowers over $1 billion a year.

Fannie Mae, consumer organizations and some state insurance regulators have criticized the structure of the force-placed insurance market because force-placed insurers pay substantial kickbacks to mortgage servicers– in the form of commissions, captive reinsurance schemes and below-cost services –often by overcharging homeowners who ultimately pay for the FPI charges.

Fannie's plan would benefit taxpayers and borrowers. Taxpayers would benefit because Fannie would pay far less than it currently does for FPI and would pass those savings on to taxpayers. Borrowers would benefit because they would pay a price for FPI more closely related to the cost of providing the product and not the current price often inflated by kickbacks from insurers to mortgage servicers.

"While Fannie Mae clearly understands that the current structure of the force-placed insurance market is one based on reverse competition where prices rise to allow bigger kickbacks to lenders as the primary means for competing for the lucrative force-placed business, FHFA – which says more 'competition' will fix it – clearly does not," said Bob Hunter, director of insurance at the Consumer Federation of America and an expert on FPI.

Fannie Mae has studied the FPI market for years and issued a request for proposals early last year for cost-effective approaches to providing FPI. After many months of study and dialogue with insurers willing to provide the FPI at a far lower price than Assurant and QBE, Fannie Mae was moving to implement the plan before the Federal Housing Finance Agency halted the program, citing a need to take a "measured approach."

"Fannie Mae has done the due diligence necessary to ensure that homeowners and taxpayers would benefit," said Birny Birnbaum, executive director of the Center for Economic Justice and an expert on FPI. "The FHFA action maintains the status quo of massive overcharges to borrowers and taxpayers."

"Fannie Mae's original decision would have helped homeowners, taxpayers, and investors avoid unreasonable over-charges for homeowners insurance," added National Consumer Law Center attorney Andrew Pizor. "FHFA's decision harms nearly everyone while preserving unfair practices in the mortgage servicing and insurance industries."

Supplementary Materials

Overview of Lender-Placed Home Insurance, August 2012 available at:
http://www.cej-online.org/BirnbaumLPIPresentation1208.pdf

The Consumer Financial Protection Bureau Should Rein in Servicers' Use of Force-Placed Insurance, May 2012 available at:
http://www.nclc.org/images/pdf/regulatory_reform/ib-force-placed-insurance.pdf

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The Consumer Federation of America (CFA) is an association of nearly 300 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.
www.consumerfed.org

The Center for Economic Justice is an advocacy and education center dedicated to representing the interests of low-income and minority consumers as a class on economic justice issues.
www.cej-online.org

Consumer Watchdog is a non-profit, non-partisan organization with offices in California and Washington, D.C. and for twenty five years has led the effort to implement and enforce California's insurance reform law, known as Proposition 103. **www.consumerwatchdog.org**

Since 1969, the nonprofit **National Consumer Law Center® (NCLC®)** has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. **www.nclc.org**

NEDAP is a resource and advocacy center based in New York City. Founded in 1995, NEDAP works with community groups and low-income New Yorkers to promote community economic justice and to eliminate discriminatory economic practices that harm communities and perpetuate inequality and poverty.
www.nedap.org

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.
www.responsiblelending.org/