NAIC Lender-Placed Insurance
Annual Summer Meeting

Presented by

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Lender-Placed (LPI) Insurance Myths

Misconceptions include:

- Cost of LPI is 10X of standard coverage
- Policy Protects only the Lender's interest
- Coverage is forced on the Borrower
- LPI causes default

LPI Premium Factors

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- All risks taken – no selection or underwriting
- Automatic issuance commitment to servicer and investor
  - Fannie/Freddie Servicing Guides require "Continuous Coverage"
- Residential insurer of last resort in all states
  - Residual Markets generally have underwriting restrictions
- Nearly 60% of exposure is in hurricane prone states
  - Nearly 100% Exposure Growth in these states during last 4 years
- Heavy percentage of properties are vacant
  - No coverage restrictions if property vacant
- Many properties have poor loss history or in high physical risk areas and cannot be insured by standard or residual markets

Increased risk makes LPI more expensive than standard coverage

National average is less than 2X the prior standard premium

How is the Borrower's Interest Covered?

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- Policy Is Dual interest and Replacement Cost
- Policy is placed at the last known amount of coverage chosen by the Borrower and Agent
- This is the best available indication of the replacement cost of the insurable improvements to the property
- Borrowers can change the coverage amount if they believe it is not correct
- Ensures replacement cost settlement to the Borrower on all losses

LPI is not Forced on the Borrower

Outreach Timetable

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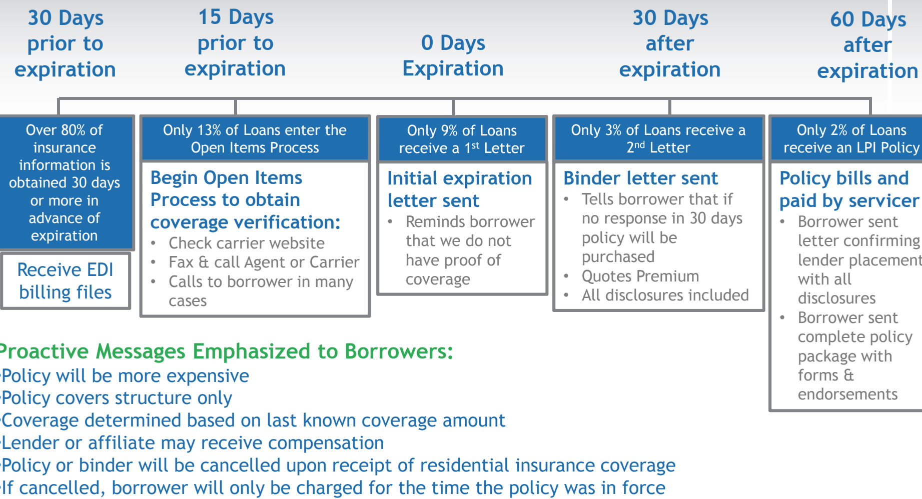

LPI Is Not The Cause of Increased Loan Defaults

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- 84% of current LPI policies on delinquent loans placed more than 12 months prior to default, or after loan was already in default
- Current delinquency rates have driven up LPI placements to nearly 3%
- Anticipate placement rates will revert to historic level of less than 2% after mortgage crises abates

LPI Market Has Contracted Due to the Inherent Risks

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- Prior to Hurricane Andrew in 1992 more than 10 LPI insurers active in the national market
- After Andrew many pulled out, including Progressive, TransAmerica and Cigna
- After storms in 2004 and 2005, many additional lender-placed insurers exited, including ACE, Safeco and Zurich
- Uncontrollable property exposure caused major carriers to exit
- Two major and a few smaller providers remain
- No significant barriers to entry

Lender-Placed Insurance Final Thoughts

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- LPI fills a very small but vital role
- Always the coverage of last resort
- Rates are higher by necessity
- We anticipate market will return to normal placement rates of less than 2% of total loans

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