Beyond Auto . . .

Lender-Placed Home Insurance

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1

What is it?

- Similar to a homeowners policy
- Less coverage (Coverage A and B only)
  - No personal property coverage
  - No liability coverage
- Coverage is limited to the outstanding loan balance
- The lender (not the homeowner) is the named insured

2

Who buys this?

• A Lender purchases a policy to cover uninsured properties in its portfolio.

• Homeowners are required to maintain insurance on the home as part of the loan requirements.

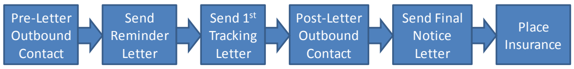
• Lenders track their loans to identify which properties are uninsured.

• After the letter cycle, if the homeowner is still uninsured, coverage is forced upon the property.

3

Who dictates the letter cycle?

- Dodd-Frank requires two letters (30 days apart). Coverage can be placed 15 days after second letter.
- A similar standard created by the NAIC exists for lender-placed auto insurance.



Example Cycle

Who pays for it?

- The lender pays premium to the insurer for each force-placed policy.
- The effective date of the policy is the date that previous coverage expired.
- The lender charges the homeowner for the cost of the force-placed coverage.
- The lender-placed coverage is typically cancelled within a year.

Is This Like the Residual Market?

Similar

- Lender-placed insurance is often an option of last resort and provides minimum required coverage.
- Lender-placed insurance often covers high-loss-cost risks.

Different

- Lender-placed policies cover physical damage – not liability.
- Residual market insurance is “forced” by law, while lender-placed coverage is “forced” by contract.
- Lender-placed insurance is a voluntary product (for the lender) to buy. Companies develop their own program, compete against each other. It is regulated by the state, as opposed to defined by the state.

How do you rate it?

Classification Considerations

- Underwriting
  - Anyone, anywhere
  - Constant turnover of book
  - Geographic spread of risk
- Program Design
  - Degree of choice
  - Premium payer
- Operational
  - Value of collecting additional data should outweigh the cost

7

Why all the regulatory attention?

- The average premium is typically much higher than a homeowners policy (with less coverage)
- Lender-placed insurance is a commercial product (sold to lenders), but it insures the homes of people who may be struggling financially
- Backdated policies
- Ignorance of coverage
- Lack of geographic classification
- Commissions

• Ultimately, lender-placed insurance requires actuarial involvement, just like auto or homeowners insurance.

8

Questions?

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9