Lender Placed Insurance (LPI)

➢ Borrowers are required by their mortgage instruments to maintain homeowner’s insurance. If a borrower allows that coverage to lapse, or the bank deems it insufficient, the lien holder can “force-place” insurance coverage following a series of notifications mandated by the Real Estate Settlement Procedures Act (RESPA).

➢ Lender placed policies are generally about double, but are sometimes significantly greater than the cost of existing policies, and often provide less coverage.

➢ State regulators, individually and through the NAIC, have held public hearings and entered into multiple settlements over alleged abusive practices in the LPI space. Additionally, several states have announced plans to issue new regulations in this area.

Background

LPI, also known as “creditor-placed” or “force-placed” insurance, is an insurance policy placed by a bank or mortgage servicer on a home when the homeowners’ own property or hazard insurance has lapsed or is deemed insufficient. Borrowers can fail to maintain required coverage for a variety of reasons: cancellation, withdrawal by the existing insurer, or simple oversight.

Recent media coverage has focused on rates charged for LPI and asked whether insurers and lenders are making “excess” profits. In addition to being more expensive than owner selected policies, LPI policies generally do not cover personal items or owner liability; a borrower who does not pay the LPI premium could be at risk of foreclosure. LPI providers contend their rates need to be higher because they have no opportunity to properly underwrite properties, but their loss ratios are significantly lower than other homeowner’s insurance policies.

Because LPI is selected to look out for the lender’s interest rather than the borrower, concerns have been raised over “reverse competition,” where a lender chooses coverage provider and amount, but consumers are obligated to pay, which can in turn drive up premium prices if insurers are competing by offering banks and mortgage servicers a share in their profits.

Key Points

● Through public hearings, rate regulation, and settlements, State regulators are actively using their authorities to protect LPI consumers.

● In August of 2012, the NAIC’s (C) and (D) Committees held a joint public hearing to learn more about LPI products, pricing, and effects on consumers. The Committees continue to study the issue.

● State regulators are working with Federal banking and housing regulator colleagues to further investigate LPI practices within our respective jurisdictions.