MORTGAGE BANKERS ASSOCIATION®
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Ms. Gwen Muse-Evans
Vice President, Chief Risk Officer
for Credit Portfolio Management
Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, DC 20016

Ms. Meg Burns
Senior Associate Director
Office of Housing and Regulatory Policy
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Mr. Keith Becker
Vice President, Single Family Credit Policy
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102-3110

Dear Gwen, Keith and Meg:

The Mortgage Bankers Association (MBA) and the Consumer Mortgage Coalition (CMC) appreciate the opportunity to offer our views with regard to lender-placed insurance guidelines and coverage/deductible requirements. We understand that both GSEs are working to develop new policies and procedures in the near term.

We request the opportunity to meet to further discuss our suggestions on this important matter. Vicki Vidal, AVP of Loan Administration, MBA, will contact you shortly about your availability to meet. Vicki Vidal may be contacted at (202) 557-2861 or vvidal@mortgagebankers.org or Anne Canfield, Executive Director, CMC, may be reached at 202-617-2101, or at anne@canfieldassoc.com. We look forward to discussing new LPI policies with you.

Sincerely,

Stephen A. O'Connor
Senior Vice President of Public Policy and Industry Relations
Mortgage Bankers Association

Anne C. Canfield
Executive Director
Consumer Mortgage Coalition

cc: Mr. Ezzard Alves, Vice President, Risk Policy, Fannie Mae
Mr. David Bohley, Director, Industry Relations, Fannie Mae
Mr. Matt Miller, Insurance Policy Director, Freddie Mac
Mr. John Breeding, Insurance Policy Manager, Freddie Mac
Mr. Kirk Willison, Senior Director, Government and Industry Relations
Ms. Maria Fernandez, Associate Director, FHFA

Freddie Mac and Fannie Mae – Lender-placed Proposal

Suggested Practices and Additional Enhancements

This lender-placed insurance (LPI) servicing proposal from the Mortgage Bankers Association (MBA)[1] and the Consumer Mortgage Coalition (CMC)[2] describes a suggested approach for the industry, as well as new enhancements to servicer activities related to the LPI process for Fannie Mae and Freddie Mac loans. It also outlines areas of concern with Fannie Mae's Announcement SVC-2012-04. This proposal was drafted by members of the mortgage industry for consideration by Freddie Mac, Fannie Mae, and FHFA for the servicing of GSE-backed residential mortgage loan portfolios. We welcome the opportunity to explore the proposal, our stated concerns, and possible solutions with the GSEs and FHFA.

The objectives of this proposal include:

1. Increasing the value proposition to Freddie Mac, Fannie Mae, and borrowers that will reduce the costs of LPI insurance protection.
2. Enhancing the borrower's experience and improving efforts to encourage the use of voluntary insurance coverage.
3. Increasing flexibility of the LPI program to allow for variable deductible and coverage amounts dependent upon critical indicators of risk.

We make the following proposals and identify certain areas of concern:

Lender-placed Insurance Coverage Amount:

As stated in a letter to Fannie Mae from MBA dated April 6, 2012 (attached), the industry is concerned with a policy that would require lower lender-placed insurance coverage on borrowers that are delinquent. This reduction in coverage on delinquent borrowers is problematic because delinquent borrowers would not receive the benefit of full coverage. Moreover, the GSEs would not be fully covered in the event of foreclosure. A reduction in coverage imposed on delinquent borrowers leaves servicers, the GSEs, and borrowers exposed to losses when the unpaid principal balance (UPB) is less than the replacement cost coverage previously provided by the borrower. Placing insurance at UPB will cause claims to be settled on an actual cash value basis and in the event of a near or total loss would not yield sufficient funds to repair the property. Moreover, segregating coverage amounts by loan status (current vs. delinquent or loans in forbearance plans, trial period plans, etc.) could lead to claims of discrimination by providing less insurance protection for severely delinquent borrowers. Other costs

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

[2] The Consumer Mortgage Coalition is a trade association of national mortgage lenders, servicers and service providers.

concerns also surface as borrowers move in and out of delinquency or a loss mitigation plan. As a result of these concerns, we respectfully urge that the GSEs and FHFA not condition insurance coverage on delinquency or loss mitigation status.

When lender-placed coverage is required, the preferred approach is to use the Replacement Cost Value (RCV) when determining the insured coverage amount. RCV is recommended as the preferred approach for lender-placed insurance coverage for securing the loan for the following reasons:

- Compliance: Replacement cost requirements are a consideration for insured amounts at origination and should be applied in the servicing of the loan.
- Consumer Centric: RCV protects the borrower's equity in the home in the event of substantial or total loss.
- Community Support: RCV avoids neighborhood blight, compared to only using UPB, as insurance proceeds are available for the needed repairs to maintain the condition of the home rather than just payoff the loan obligation. RCV avoids encouraging urban flight from economically distressed areas largely due to declining conditions.

Replacement Cost Calculation: An authorized approximation for replacement cost will be the use of the borrower's last known voluntary coverage amount.

Acceptable LPI Deductible:

It is believed that tiered deductibles for lender-placed hazard and wind coverage could be utilized to help minimize costs to borrowers and investors based on readily available loan conditions.

Three-tiered deducible program for occupied properties:

- For LPI coverage amounts equal to or less than $250,000, the deductible should be at least $1,000.
- For LPI coverage amounts greater than $250,000, the deductible should be at least $2,500.
- For LPI coverage amounts greater than $500,000, the deductible should be at least $5,000.

Vacant properties warrant an additional review as the change in occupancy status creates a change in risk. A vacant property creates a greater risk and, therefore, exposure to loss to the servicer and investor. In the voluntary insurance market, vacancy typically results in the cancellation of the voluntary hazard insurance policy. Therefore, it would justify a higher deductible to reduce insurance costs while still providing borrowers protection of their equity.

- For all vacant and abandoned properties, a minimum deductible of $5,000 is recommended.

Mortgage servicers are usually notified when properties are indicated as vacant and abandoned and that information is currently made available to insurance tracking service providers. The implementation of this change in deductible amount will be manageable to program and implement for a quick value proposition.

When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be at least 2 percent of the face amount of the policy.

We agree that the GSEs should not change their flood insurance coverage or deductible requirements for a mortgage loan secured by a property located in a SFHA.

Borrower Notification/Warning Letter Cycle:

The proposed letter cycle would comply with the Dodd-Frank Act requirements as follows:

- All letters will be sent via First Class mail.
- All letters will include conspicuous disclosure that the LPI may be more expensive and offer reduced coverage compared to voluntary homeowner's policies.
- The first warning letter will be sent when the servicer becomes aware of insufficient voluntary insurance or a lapse and will reiterate the mortgage obligation of maintaining insurance at all times. The LPI process, including how the borrower can avoid it, will be fully disclosed.
- The second warning letter will be sent at least 30 calendar days after the first letter.
- The LPI placement letter will be sent no sooner than 15 days after the second warning letter.

Acceptable Insurance Carriers:

The use of filed and admitted insurance programs is preferred when such programs are readily available. However, there is a need for surplus line programs to insure hard-to-place risks, such as stand-alone wind coverage or hazard coverage, for example, when lenders/servicers have heavy concentrations of coastal risks in their loan portfolios.

Servicers are not qualified and, therefore, should not be required to determine or opine on whether the premium rates of a selected vendor are competitively priced or commercially reasonable. Ultimately, the state insurance regulators should determine reasonableness.

Borrower Refunds:

Lender-placed premium refunds will be issued to borrowers' accounts within 15 days of receipt of acceptable evidence of insurance from the carrier, agent, or borrower.

Insurance Tracking and Automatic Protection:

Hazard insurance tracking and insurance administration are interdependent and, therefore, are not appropriate to separate. The net result has protections for all parties that are superior to alternatives.

- Lender-placed warning letters and subsequent phone calls disclose insurance products and program conditions and are not general borrower correspondence.
- LPI providers include an "automatic coverage endorsement," which provides instantaneous coverage at any time and for any reason that voluntary coverage terminates. This feature

assures that no uncovered losses arise during the time it takes for the servicer to become aware of a coverage lapse or during the notice and placement cycle. This feature benefits both the servicer and GSEs.

Acceptable Lender-placed Costs:

The MBA and CMC do not agree with Fannie Mae's implication that component parts of the premium are readily identifiable, nor do we agree with implications that it is unreasonable to expect reimbursement of the premium paid for lender-placed insurance. Servicers are entitled to and should expect to receive reimbursement for the full amount advanced to secure the mortgaged property with insurance. No exclusion or deduction from premiums, which have been filed or authorized by the various state insurance regulators, is warranted. The MBA and CMC urge Fannie Mae, Freddie Mac, and FHFA to engage in thorough dialogue with the industry on this issue.

LPI Coinsurance:

Lender-placed insurance master policies shall not contain a coinsurance penalty clause or any other provision that yields the same result as a coinsurance penalty clause. Therefore, if the objective of the GSEs is to receive sufficient recovery to replace a damaged structure, the insurance needs to be placed at replacement cost value.

Establishing an Escrow Account for Non-escrowed Borrowers:

For first lien loans on the servicer's primary servicing system, if the borrower desires to maintain his or her voluntary policy, the servicer will offer an escrow account and advance the premium due on the voluntary policy if the borrower: (a) accepts the offer of the escrow account; (b) provides a copy of the invoice from the voluntary carrier; (c) agrees in writing to reimburse the escrow advances through regular escrow payments; (d) agrees to escrow and repay both the advanced premium and to pay for the future premiums necessary to maintain any required insurance policy; (e) agrees the servicer shall manage the escrow account in accordance with the loan document and with state and federal law; and (f) the voluntary policy has not expired or is within the voluntary policy's reinstatement grace period as indicated on the invoice.

Advancing Deductibles:

The MBA and CMC are concerned with Fannie Mae's Announcement SVC 2012-04, which required servicers to advance deductible amounts if the borrower was unable to complete the repairs and was financially unable to pay the deductible. This determination will be difficult to make as servicers generally do not have knowledge of the borrower's repair decisions. Moreover, in the event of another catastrophic loss, such as Hurricane Katrina, the ability for small servicers to advance the deductibles on a large population, even with expedited reimbursement by the GSEs, would be financially and operationally taxing.

As drafted in Fannie Mae's SVC 2012-04 Announcement, there was no discussion of the servicer's responsibility to collect reimbursement from the borrower for the funds Fannie Mae ultimately advances. We, therefore, presume that Fannie Mae would seek collection separately or consider such advances as a cost of doing business. We believe that such Fannie Mae advances are loans to the borrower as they are not escrow charges or advances. It is important to note that insurance proceeds do not flow through the tax and insurance escrow account, are not covered by RESPA, and thus the advance of a deductible (which is merely a reduction of the insurance proceeds) cannot be treated as a collection of a tax and insurance escrow advance.

If the GSEs desire to fund borrower deductibles to facilitate repairs, we would like to work with Fannie Mae and Freddie Mac to determine the proper policy for establishing the loan, collection, coding and remittance.

Insurance Claims and Remittances:

We are concerned with Fannie Mae's SVC 2012-04 Announcement which appears to impose liability on the servicer for reimbursing the GSEs for a loss of claim due to a claim filing beyond the deadline established in a voluntary insurance policy. It is unclear in that announcement whether such liability is imposed regardless of the servicer's knowledge of damage. Given that servicers do not always have knowledge of loss, access to the property to establish knowledge, and only perform inspections according to Fannie Mae/Freddie Mac reimbursement/policy schedule, a strict liability provision is problematic and inappropriate. It is critical that any policy developed by the GSEs apply liability only when (a) the servicer has actual knowledge of damage; (b) such knowledge is obtained during the timeline to file a claim and with sufficient time to file a claim and the servicer fails to do so.

Remitting Outstanding Insurance Loss Drafts:

Servicers would remit to Freddie Mac or Fannie Mae any insurance loss draft proceeds held on the account within 30 days from the date a loan is liquidated through foreclosure or a deed-in-lieu. Servicers would not apply any unused insurance proceeds for other servicing expenses that are not related to insurance claims management. All unused insurance funds are to be forwarded to Freddie Mac or Fannie Mae. If bills or invoices for repairs are received by the servicer following remittance of loss draft proceeds, such bills or invoices will be sent to the GSEs for payment.

Should Fannie Mae or Freddie Mac submit a proof of loss for an insurable claim after the loan has been liquidated through foreclosure or a deed-in-lieu, and such claim results in a loss draft paid to the servicer, the servicer shall wire Freddie Mac or Fannie Mae the funds within 10 business days after receipt by the servicer.

Reporting to Freddie Mac, Fannie Mae, or Affiliated Property Recovery Firm:

Claim data and/or information requested by Freddie Mac or Fannie Mae, or affiliated companies that relate directly to the notice of loss, shall be provided within five business days or otherwise provided with an explanation and expected date for submission as requested. The three business days suggested in Fannie Mae Announcement SVC 2012-04 is problematic, especially in situations where multiple losses are experienced at one time, such as losses resulting from a hurricane.