



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER INSURANCE

June 12, 2014

RULING LETTER: CN-2014-179-D

TO ALL INSURERS, AUTHORIZED REPRESENTATIVES, GENERAL AGENTS, MANAGERS AND PRODUCERS THAT WRITE AND OFFER PROPERTY INSURANCE AND RATING ORGANIZATIONS

"SERVICING GUIDE ANNOUNCEMENT NO. SVC-2013-27" APPLICABLE TO LENDER-PLACED INSURANCE POLICIES

Dear Sirs and Madams:

On December 18, 2013, the Federal National Mortgage Association ("Fannie Mae") issued a "Servicing Guide Announcement" (SVC-2013-27) that is applicable to lender-placed insurance policies obtained by banks or servicers on mortgage loans guaranteed by Fannie Mae.

Lender-placed policies (also known as "force-placed" or "creditor placed") are a kind of hazard insurance obtained by banks or servicers on properties that secure mortgage loans.¹ Essentially, a policy may be considered to be "lender-placed," when the mortgagor did not select insurance and the bank or servicer obtains the policy on behalf of the borrower.

The provisions of the Servicing Guide Announcement (hereinafter, "SGA") are applicable to new policies and renewed policies and went into effect on June 1, 2014. The SGA contains parameters related to the reasonability of the cost of lender-placed policies, the insurers who may write such policies, and a certificate of compliance required by Fannie Mae for the placement of the policies.

According to the SGA, in the case of lender-placed policies, beginning on June 1, 2014, no commission may be paid, including contingent commissions or fees, to the mortgage loan bank or servicer or to any entity or individual (individual and corporate authorized representatives, insurance producers, employees, agents, etc.) that are

¹ The definition of "lender-placed" or "force-placed insurance" is in 12 C.F.R. §1024.37.

affiliated² with such bank or servicer. The prohibited commissions or fees include any kind of incentive compensation, regardless of whether such is identified as a commission, fee or bonus or other payment issued by an insurer based on the loss ratio.

Furthermore, the SGA also prohibits the insurer who writes the lender-placed policy from being affiliated with the bank or servicer that solicits the policy. That is to say, beginning on June 1, 2014, it is prohibited for a bank or servicer to obtain a lender-placed policy with an affiliated insurer. This prohibition is extensive to captive insurers or reinsurance agreements with an affiliated entity of the bank or servicer.

The SGA requires banks or servicers to submit to Fannie Mae a certification of compliance (Form 582-“Lender-placed Insurance Compliance Certification”) in which they indicate that they comply with Fannie Mae requirements related to lender-placed policies.

Finally, we remind you that in addition to the SGA, there are other federal regulations that are applicable to lender placed policies, including regulations that contain specific requirements regarding the notification that must be made for a bank or servicer to obtain a policy without the borrower’s consent. However, the Office of the Commissioner of Insurance is empowered to regulate the policies for residential properties (including lender-placed policies) and approve forms and rates. Therefore, even when a policy is selected or placed by the bank or servicer or an affiliated entity, the form and the rates are subject to our approval.

Strict compliance with this Ruling Letter is hereby required.

Very truly yours,

SIGNED

Ángela Weyne-Roig
Commissioner of Insurance

² The SGA contains the following definition for affiliated entity: 1) An entity owned or controlled, in whole or in part, by the bank or servicer including, but not limited to, a subsidiary of the bank or servicer; 2) an entity that owns or controls, in whole or in part, the bank or servicer; or 3) an entity that is under common ownership or control with the bank or servicer.