National Association of Professional Surplus Lines Offices, Ltd.

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Brady R. Kelley
Executive Director

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Ms. Margaret Burns
Senior Associate Director
Federal Housing Finance Agency
400 7th Street, SW Washington, DC 20024

Ms. Maria Fernandez
Associate Director
Federal Housing Finance Agency
400 7th Street, SW Washington, DC 20024

Dear Ms. Burns and Ms. Fernandez:

The National Association of Professional Surplus Lines Offices (NAPSLO) appreciates the opportunity to respond to the Federal Housing Finance Agency's (FHFA) notice relating to lender placed insurance.

NAPSLO is the national trade association representing the surplus lines industry and the wholesale distribution system. Our membership consists of approximately 400 brokerage member firms, 100 company member firms and 200 associate member firms, all of whom operate over 1,500 offices representing approximately 15,000 to 20,000 individual brokers, insurance company professionals, underwriters and other insurance professionals in the 50 states and the District of Columbia.

In its notice published in the *Federal Register* on March 29, FHFA seeks input on two specific proposals relating to "certain sales commissions" and "certain reinsurance activities." NAPSLO appreciates FHFA's request for input on specific practices and the general transparency with which the FHFA is progressing on this issue. We believe it is appropriate for FHFA to look into these issues and believe that involving the industry is crucial to ensuring the lender placed insurance works as is intended.

In addition to the specific issues raised, FHFA invited input on "other practices that may operate to the detriment of the enterprises operating in conservatorships." In this regard, NAPSLO is particularly concerned about a lack of understanding surrounding the differences between the admitted and nonadmitted insurance markets, and the important role that nonadmitted insurers already play in lender placed insurance. Our concern stems from servicing guidelines released by Fannie Mae in the spring of 2012 that prohibited banks from placing insurance with nonadmitted insurance carriers.

In April 2012, we voiced our concerns to Fannie Mae as they contemplated their servicing guidelines. Specifically, we noted the critical importance of evaluating and understanding the difference in the risk profile, catastrophe exposure and property values when comparing the pricing of admitted and nonadmitted policies. Because nonadmitted carriers provide such coverage only when the admitted market cannot or will not, the properties covered by surplus lines policies tend to be those with higher risk profiles and catastrophe exposures, which results in a higher premium than lower risk exposures. As such it is incorrect to assert that surplus lines premiums are unequivocally more expensive than admitted carrier premiums; rather, the surplus lines premium is commensurate with the underlying risk exposure.

Further, and equally important, is the fact the nonadmitted market exists to provide coverage when the admitted market is unwilling or unable to provide it. The nonadmitted insurance market's role as a "safety valve" for the insurance industry is critical to providing consumer solutions. Any prohibition, interruption or limitation of nonadmitted industry's ability to provide lender placed insurance will significantly reduce the insurance options for the insured.

Regarding the pending Notice, we encourage you to carefully consider the proposal in light of our comments. It is critical to avoid any unintended consequences or limitations this Notice may have on the ability of a broker to be remunerated.

A significant portion of the lender placed coverage is currently written by the nonadmitted market and we believe our industry can be a valuable asset in the continuing discussions regarding lender placed insurance. We strongly encourage you to seek additional information and conduct a more complete assessment of the risk profiling and pricing distinctions between the admitted and nonadmitted markets. NAPSLO would appreciate any opportunity to provide a more thorough understanding of the nonadmitted insurance market as it relates to this issue and as the FHFA continues to analyze lender placed insurance.

Sincerely,

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