

RESPONSE TO FHFA NOTICE NO. 2013-N-05

FEDERAL HOUSING FINANCE AGENCY



ALTERNATIVE LENDER PLACED INSURANCE SOLUTIONS

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COVER LETTER

Thank you for soliciting feedback from both government and private sector parties to FHFA Notice No. 2013-N-05. We commend the FHFA in exploring alternative solutions to the current Lender Placed Insurance industry model.

Marsh & McLennan Companies is the global team of professional services companies whose deep expertise and commitment to lasting partnerships protect and enhance clients' vital assets. As a part of Marsh & McLennan Companies, Marsh is a world leader in delivering risk and insurance services and solutions and Guy Carpenter is the world's premier risk and reinsurance intermediary. We work with our clients to **Define** their risks, **Design** solutions to finance and administer these identified risks, and **Deliver** excellent service throughout the year. Marsh is not an insurance provider, and thus will be submitting a creative proposal that outlines a number of alternative solutions that would:

- Generate improvements in the total economic cost associated with lender placed insurance for the GSEs (Government-Sponsored Enterprise).
- Have the potential to reduce the overall associated insurance costs to mortgagors.
- Reduce the current reputational risk associated with lender placed insurance practices on GSEs and the financial institutions who are originating and servicing mortgages on behalf of the GSEs

Our response will center on approaches where Marsh and Marsh & McLennan Companies will bring the vast resources and global expertise we have available to the lender placed insurance marketplace. The alternative solutions presented, arranged by Marsh & McLennan

Companies, involves the coordination of capacity from multiple insurers on a blanket quota-share basis, layered basis, or utilization of alternative risk financing and reinsurance structures. By implementing any of these programs, the GSEs will be able to provide the following to the American homeowner:

- Millions in premium savings passed back to homeowners.
- Additional savings around ease of administration, lowering servicing fees to homeowners.
- Implementation of risk management techniques to benefit communities via lower insurance costs which allows more latitude in modifying mortgage terms.

These alternatives to traditional track and place lender placed insurance will provide GSEs with the greatest opportunity to make a major impact on driving out additional costs. We believe Marsh & McLennan Companies is the right risk management partner to design these programs as we have the market knowledge and expertise. Marsh places over \$9 billion in global property premium, \$3.2 billion in US property premium, represents over 80% of Fortune's top 25 financial institutions, and has over 2,000 financial institution clients.

Since 2009, Marsh and McLennan Companies has contributed thought leadership in the area of Lender Placed Insurance, and provided guidance on potential alternative strategies. In March 2009, Brian Dupperault, the prior CEO of Marsh and McLennan Companies, met with Director James Lockhart, Chairwoman Sheila Blair of the FDIC, and Representatives Carolyn Maloney and Paul Kanjorski, and proposed pooling insurance market resources and capacity to drive market competition —

with the ultimate aim of reducing costs on individual homeowners. By reducing the cost of Lender Placed Insurance, the aim was to reduce the likelihood of foreclosure on homeowners by reducing the overall cost burden to homeowners.

The 2009 proposal outlined additional benefits to:

- Homeowners.
- Mortgage servicers.
- Taxpayers.
- MBS Securities (Enhancing values – to the benefit of the GSEs/marketplace).

In March 2012, Marsh also contributed to the Fannie Mae (FNMA) request for proposal (RFP). The solutions presented in the Marsh RFP to FNMA ranged from:

- Creating a market based quota share or a shared and layered insurance solution – opening market to US and Global Insurers – and using independent trackers.
- Alternative risk financing structure – program direct to FNMA/GSEs providing FNMA/GSEs with access to the global reinsurance market.

Since 2012, we have had the opportunity to speak to Financial Institution clients, and who are equally motivated to address reputational risks associated with LPI, reduce costs, and streamline the traditional/legacy framework for Lender Placed Insurance which has been dominated by a small number of insurance carriers.

We look forward to the opportunity to meet with the FHFA and the GSEs to discuss our proposed programs. Thank you again, and we look forward to your response.

MARSH & MCLENNAN COMPANIES' SOLUTIONS

In addition to the current strategy being employed by the GSEs with changes being implemented by the FHFA, there are several alternative solutions to consider. Marsh's alternative solutions outlined will result in greater administrative and cost efficiencies in the long term, as well as improved transparency and accountability.

Alternative Solutions

Marsh proposes that the GSEs either offer their servicers the opportunity to secure the equivalent of Lender Placed Insurance on a blanket basis, or the GSEs directly access the insurance and reinsurance marketplace for equivalent coverage. These alternative program solutions, arranged by Marsh & McLennan Companies, involve the coordination of capacity from multiple insurers by Marsh, and multiple reinsurers or alternative capital markets by Guy Carpenter.

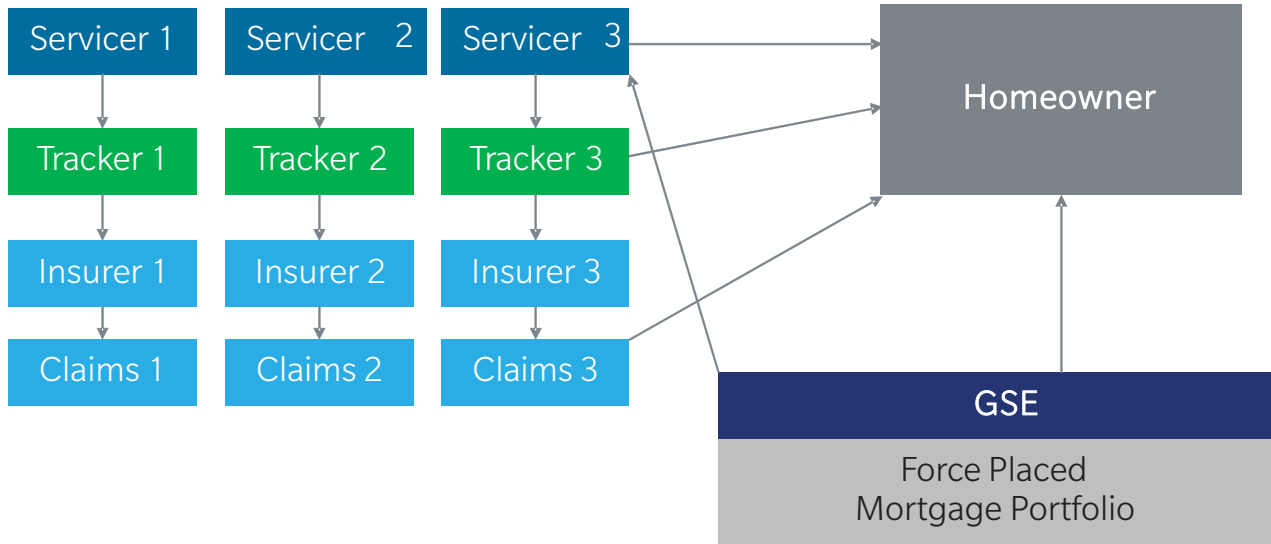
Benefits

- Creates sustainability of coverage by eliminating for the GSEs and their servicers reliance upon a small number of Insurers.
- Improves claims and administrative servicing by allowing multiple insurers to use their best in-house claims personnel in a large-scale event as well as

provide a single access point for day-to-day claims via an agreed-upon insurer or an aligned third party claims administrator.

- These alternative program solutions will help keep citizens in their homes through significant savings. Homeowners will benefit from:
 - Millions in premium savings alone passed back to homeowners.
 - Savings around ease of administration, lowering servicing fees to homeowners.
 - Implementation of risk management techniques to benefit communities via lower insurance costs which allows more latitude in modifying mortgage terms.
- Marsh and Guy Carpenter's costs for the alternative program solutions - for consulting with the GSEs, negotiating the coverage, rates, and capacity with the syndicated quota-share or excess of loss program insurers will be paid for by the participating insurers via an agreed-upon and transparent percentage of the premiums OR via agreed fees with the GSEs or their servicers depending on the alternative program structure selected.

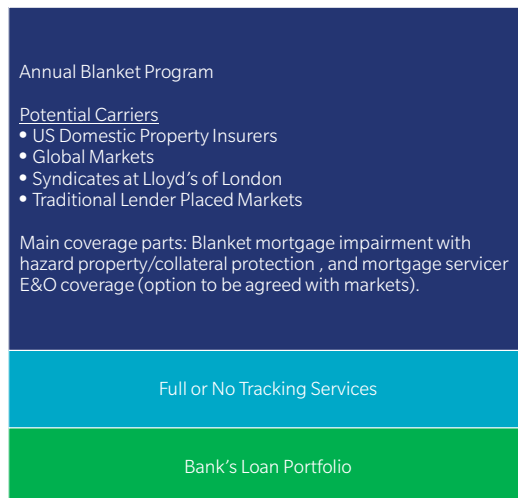
Current State



GSEs have little control over servicer’s choice of insurer, resulting in higher rates, inconsistent rates, and lack of administrative control. Even with the revision to the preferred LPI providers with set, yet differing rates, the opportunity still exists for negative arbitraging that hurts homeowners and the GSEs.

Alternative Solution # 1: “Blanket 365 Mortgage Impairment/ LPI Program with or without Tracking”

Summary Future State: Blanket program coverage is negotiated on a portfolio basis reducing total cost – premium either recognized on portfolio basis (No tracking), or a per location basis (with tracking). Servicers assume the up front initial cost of the portfolio program – insurance costs are charged back to GSEs based on historical activity (no tracking), or actual activity (with tracking). Homeowners are not charged for Force Placed premiums. GSEs benefit from lower total premiums, consistent rates, and more administrative control. Syndicated capacity is more stable and allows for more carriers to participate.



Alternative Solution #2: Blanket 365 Program with Tracking – Split Mortgage Impairment and Force-Placed

Summary Future State: Blanket Lender Placed Insurance/Hazard program coverage is negotiated on a portfolio basis reducing total cost – using same approach as outlined in Alternative Solution #1. Blanket coverage is limited to hazard property collateral protection. In Alternative Solution #2, bank/servicers continue with standalone Mortgage Impairment coverage which addresses insurance market approach to offering Mortgage E&O coverage separately to Lender Placed Insurance Hazard coverage, and meets current GSE requirements for Mortgage Impairment coverage costs to be retained by servicers/treated separately to Hazard Lender Placed Insurance.



Alternative Solution 1 and 2 Benefits

- The use of insurer capacity on either a quota share, or primary and excess basis allows insurers to participate on the program based on their risk appetite, resulting in lower overall rates.
- Some insurers only offer excess property coverage. Offering excess layers of coverage to insurers will bring more insurers to the table, which will increase competition, resulting in lower overall rates.
- The use of multiple insurers on the same program eliminates the dependency on any one insurer.
- If one insurer chooses to exit from the program, Marsh can negotiate with other insurers to step in and provide the needed capacity.
- Allows for the use of insurers around the globe.
- Provides flexibility around limits purchased.

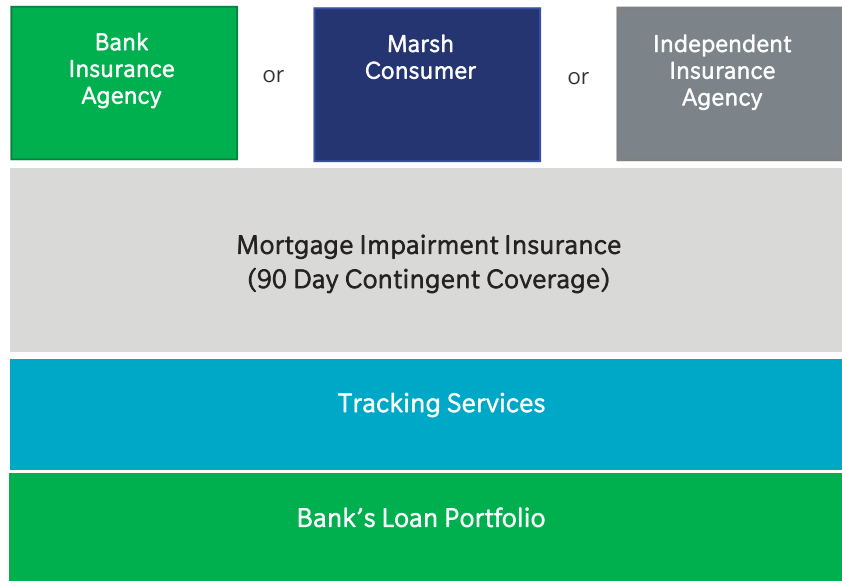
Alternative Solution #3: “Track and Provide Market Competitive Options”

If Borrower does not elect coverage within a certain period of time and/or no escrow funds are available, the servicer (within GSE guidelines) would elect and bill the GSE for policy secured.

Property Hazard/Contents/GL Insurance Quotes are Generated from Four Carriers in the Commercial Marketplace



Rather than force placing insurance on the borrower, four market competitive quotes are provided and the borrower has 30 days to bind coverage or produce evidence of insurance
Process could be facilitated by bank Agency, Marsh Consumer or an Independent Agency



Mortgage Impairment is in place protecting the bank (servicer) & GSE collateral for 90 days

Tracking identifies borrower out of compliance

Alternative Solution #4: Alternative Risk Financing Structure

Marsh and Guy Carpenter will explore with the FHFA and the GSEs the ability to create alternative risk financing structures.

Benefits

- Increased global capacity for Lender Placed Insurance (LPI).
- Allows for the GSEs to control process by being the buyer of the insurance.
- GSEs and Marsh negotiate pricing based upon Lender Placed Insurance portfolio performance.
- Efficient purchasing of excess reinsurance in the global arena from traditional and non-traditional LPI insurers.

Increase Global Reinsurance Capacity

- Increase traditional reinsurance capacity using i-aXs modeling of LPI portfolios. i-aXs® is a revolutionary platform that allows clients to better collaborate with their brokers and make quicker business decisions about risk.
- Aim to increase LPI insurance market access to global reinsurance, increasing overall capacity and market competition.
- Principal benefit to GSEs and Servicers would be increased alternatives to currently available LPI insurance capacity.

LPI Sidecar Facility

- Develop a business plan for — and if accepted by capital markets — launches a sidecar facility accessing ILS capacity bringing capital market capacity to the LPI reinsurance market.
- Facility could be accessed by any LPI reinsurers and insurers.

- Increase overall LPI/Force-Placed market capacity reducing costs.

Blanket/ Direct GSE Portfolio Solution:

- Blanket risk transfer solution, using either traditional or alternative risk transfer mechanisms, to be accessed directly by the GSEs.
- Program structure would directly insure the GSEs for their exposures resulting from uninsured physical hazard perils on a blanket basis due to lack of mortgagor insurance, with the aim of eliminating the need for traditional LPI/Force-Placed insurance secured by mortgage servicers.
- Solution addresses:
 - Shifting the financial burden from mortgagors.
 - Eliminates the reputational risks associated with LPI for mortgage servicers/Banks.
 - Addresses the needs of the GSEs to insure their interest in outstanding mortgages which are not insured.
 - Total economic cost to the GSEs is reduced for protecting their interest on a portfolio basis.

Additional Capabilities – Difficult Claims Advocacy, Catastrophe Response Teams, and Compliance Audit

Marsh has a multidisciplinary team of property claim specialists, claim consultants, coverage advocates, forensic accountants, and engineers with substantial experience designing, implementing, and performance managing large claim programs for many of the world's largest businesses. Marsh would provide claim advocacy service post large scale catastrophe events in assistance to the GSEs and/or their servicers.

Furthermore, Marsh can partner with the GSEs to design performance metrics that will hold insurers to

the highest claim service and reserving standards and, using Marsh proprietary audit technology, review selected samples of the claim portfolio to measure the insurer's performance against those standards. If material deviations from those standards are identified, or if serious coverage issues arise, the claim practice will advocate on behalf of the GSEs and the homeowners with the senior claim officers at those insurers.

In addition, Marsh would provide services to the GSEs that would allow for audit of the servicers, trackers, and insurers as deemed appropriate by Fannie Mae to ensure that the quoted rates are being used and that no other fees, commissions or other compensation is being included.

Marsh is confident we can structure and place all of the above alternative solutions on behalf of the GSEs. Our confidence is based on our strong experience and successes in placing Lender Placed insurance programs and our financial institution industry expertise.

Marsh's Expertise

Marsh is a world leader in delivering risk and insurance services and solutions to its clients. From its founding in 1871 to the present day, Marsh has provided thought leadership and innovation for clients and the insurance industry — introducing and promoting the concept and practice of client representation through brokerage, the discipline of risk management, the globalization of insurance and risk management services and many other innovative tools and service platforms.

Marsh has an established client support infrastructure that includes dedicated practices for both industry and risk. We combine our Risk Practices with Industry Specialization (as illustrated below), allowing our teams to provide clients with focused expertise, and to deliver insurable and non-insurable risk solutions. From an industry perspective, we have a dedicated Global Financial Institutions ("FI") Practice. From a risk perspective, we have our Property Practice. Key groups are further described on the following page.

Undisputed Industry Leader

VALUE TO FHFA/GSE

- We understand your business and the risks you face.
- Offer relevant risk identification and quantification tools.
- Provide robust proprietary industry and risk specific benchmarking.
- Utilize dedicated specialists for complex and catastrophic claims.
- Provide professional guidance, productive expertise, and innovative ideas.



Global Property Fast Facts

- 750+ professionals worldwide.
- 750+ professionals.
- \$9+ billion premium.
- 79% of the Fortune 100 and 66% of the Fortune 250.
- 20,000+ placements annually for 2,500 clients.
- Is the number one broker for the leading Property insurers.

Claims & Risk Consulting Fast Facts

- Largest brokerage claim operation in the US, staffed with over 230 advocates.
- Over 45 dedicated Property Claims Advocates across the US.
- Senior Claims Relationship Manager and Liaison Officer program with all major insurers.
- Network of 300+ dedicated risk consultants in 34 cities across the US.
- Work hand-in-glove with Marsh brokerage teams to provide comprehensive analysis and solutions.
- Deep Technical Expertise:
 - Experience and expertise across industries.
 - Understanding of governance and compliance issues.
 - Risk modeling and analytics.
 - Management drivers and best practices.

FI Industry Practice Fast Facts

- Established more than 30 years ago as our first industry practice.
- Has a dedicated Center of Excellence.
- Services approximately 2,000 financial institutions clients (200 domestic asset management firms) with over \$1.4 billion in FI premium into the US marketplace.
- Has the following market share:
 - 90 percent of Fortune's top 10 FIs.
 - 80 percent of Fortune's top 25 FIs.
 - 80% of Fortune's top 25 U.S. bank holding companies.
 - 58% of the top 50 asset management firms ranked by assets under management.
 - 26 of the top 100 Mutual Funds (40 Act Funds).



MARSH & MCLENNAN
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