

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

February 27, 2013

Mr. Edward J. DeMarco
Acting Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Acting Director DeMarco:

I am writing to express my concerns, and request additional information, regarding the Federal Housing Finance Agency's (FHFA) recent decision to prohibit Fannie Mae from moving forward with a plan that reportedly would have reduced the cost of force-placed insurance and saved money for both borrowers and taxpayers. This plan may have achieved cost savings by instituting provisions to ensure the competitive pricing of force-placed insurance coverage, which is property insurance that Fannie Mae servicers purchase when a borrower's voluntary market insurance coverage lapses.

As you know, the issue of force-placed insurance has long been a focus for those of us in Congress, like me, who have been concerned with the issue of broad-based mortgage servicing reform. Evidence suggests that force-placed insurance can cost up to ten times more than voluntary homeowners insurance, and that these excessive insurance costs increase the debt owed by borrowers and thereby impose unnecessary losses on guarantors such as the Government Sponsored Enterprises (GSEs) you are charged with conserving.¹ Additionally, mortgage servicing experts point out that servicers regularly receive either commissions or reinsurance contracts from insurers offering force-placed insurance coverage, giving both parties an incentive to expand the use and price of such coverage.²

Given these problems with the current provision of force-placed insurance, and ongoing concerns about maximizing the returns to taxpayers while the GSEs are in conservatorship, I request the following additional information regarding FHFA's decision to halt Fannie Mae's plan:

- An explanation of the specific reasons why FHFA rejected Fannie Mae's proposal, including the documents that form the basis of the Agency's view, and a description of how FHFA's decision is beneficial to taxpayers and borrowers;

¹ "The Consumer Financial Protection Bureau Should Rein in Mortgage Servicers' Use of Force-Placed Insurance." National Consumer Law Center and Center for Economic Justice. May 2012
<http://www.nclc.org/images/pdf/regulatory_reform/ib-force-placed-insurance.pdf>

² Ibid.

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- A list of FHFA's contacts with outside stakeholders who informed the Agency's decision; and,
- An outline of FHFA's plan, if any, on how to proceed with force-placed insurance reform as the GSEs move forward and clear guidance as to how Fannie Mae or Freddie Mac may propose plans for FHFA's review of these policies in the future.

I look forward to your response to this request, and to working with you more broadly on reform of the GSEs moving forward.

Sincerely,

A handwritten signature in black ink that reads "Maxine Waters". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

MAXINE WATERS
Ranking Member

cc: The Honorable Steve A. Linick, Inspector General, Federal Housing Finance Agency