On the Hill

Consumer Bureau Announces Rules on Forced-Placed Insurance

Fannie Mae also continues consideration of new forced-placed process.

Last week, the Consumer Financial Protection Bureau released new regulations intended to restrict and control forced-placed insurance.

Under the proposed rules, mortgage servicers' ability to impose forced-placed coverage with insurers will be limited. The mortgage servicers will need to have a "reasonable basis" to expect that a consumer lacks the needed insurance before purchasing a new policy. Servicers must make this decision on a case-by-case basis, and they have to notify borrowers before initially taking out the forced-placed policies and annually before renewing the policy.

If such "reasonable basis" is not demonstrated, the mortgage servicer will have to terminate the forced-place policy within 15 days and issue a refund for any premium collected.

The financial services industry has for many months expected the CFPB to issue regulations related to forced-placed insurance, though the development is not without some controversy. Though the Dodd-Frank Act, which created the CFPB, specifically excludes the "business of insurance" from CFPB's jurisdiction, it has been widely expected that the CFPB would attempt to regulate forced-place insurance by targeting the mortgage servicers who do fall under the CFPB's jurisdiction.

In a related development, the Federal Housing Finance Agency is reviewing a proposal by Fannie Mae to institute a process requiring mortgage servicers to only offer forced-placed insurance with a consortium of pre-selected carriers. This requirement would only apply to mortgages backed by Fannie Mae.

Reports indicate that, in return for belonging in this consortium, the companies would agree to charge 30%-40% less than current premiums.

It is unknown at this time when the agency might rule on Fannie Mae's proposal.

The CFPB continues its very aggressive push for a greater role in financial services regulation. Also, recently the agency announced it is exploring whether it has any authority over retirement savings and investments.

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