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Comments of the Center for Economic Justice to the

NAIC Creditor-Placed Insurance Model Drafting Working Group

Regarding Revisions to Sections 12 and 13

June 20, 2016

The sections at issue – 12 and 13 – deal with the abusive kickback mechanisms from LP insurers to lender/servicers which have inflated premiums resulted in investigations by state insurance departments and subsequent prohibitions by the New York Department of Financial Services, the Florida Office of Insurance Regulations and Fannie Mae and Freddie Mac. As discussed in our earlier comments, the model should be revised to prohibit the practices in 12D and, to protect borrowers from abuses resulting from the reverse competition in LPI markets, prohibit the lender/servicer from having any financial interest in the placement of LPI other than the protection of the vehicle or property servicing as collateral for the loan.

The industry comments on these sections – AIA, NAMIC and ABIA – ask regulators to maintain the status quo of LPI kickbacks, despite the revelations in the NY and FL investigations and settlements, the Fannie and Freddie prohibitions, the dozens of LPI lawsuits detailing the massive kickbacks from LPI insurers to lender/servicer paid by through LPI charges by lender/servicers to borrowers (with resulting settlements totaling in the billions of dollars) and common sense.

The industry arguments are fact-free and contrary to the evidence. Moreover, it is unclear what actual expertise these paid lobbyists have on the issues at hand. I have worked on credit-related insurance issues as a regulator and expert witness since 1991 and on lender-placed insurance (LPI) since 1994 when I was Associate Commission at the Texas Department of Insurance. I have testified before the NAIC, Congress and state insurance department on LPI markets and rates. I have provided expert reports in over two dozen LPI class actions and have been recognized as an expert on LPI by the courts. For example, in the Williams vs. Wells Fargo case, the court found me qualified as an expert "per adventure." Finally, we have provided evidence to support our analysis – in contrast, the industry offers only argument.

Section 12:

Section 12A reflects the clear understanding that, as discussed in prior comments, the LPI premium is charged by the insurer to the lender/servicer ("creditor") who is the policyholder and who is the entity responsible for the payment of premium. The LPI charge by the lender/servicer to the borrower is not an insurance premium, as evidenced by the fact that no borrower paid a premium to an LPI insurer, no LPI coverage was cancelled due to non-payment by the borrower of the LPI charge and no refund was paid by an insurer to a borrower.

The current LPI model appears to equate LPI with consumer credit insurance in terms of permitted practices. But unlike consumer credit insurance, with LPI, the LPI charge by a lender/servicer to a borrower is not an insurance premium. The fact that LPI charges to borrowers by servicers are not insurance premiums is clearly shown by contrast with insurance premium charges to borrowers for optional, voluntary insurance, such as credit insurance. The table below shows the differences between LPI and credit life insurance which demonstrate why LPI charges by the servicer to borrowers are not insurance premiums.

Criteria to Determine Whether a Charge is an Insurance Premium

Criteria	CPI	Credit Life
Who pays premium to insurance company?	Creditor/Servicer	Borrower
Is coverage canceled if borrower fails to make required payment?	No	Yes
To whom is refund paid if coverage is canceled?	Servicer	Borrower
Commercial Lines Insurance?	Yes	No
State Insurance Regulation?	Creditor/Servicer Not Regulated by Insurance Department	Creditor Regulated as Licensed Insurance Agent by Insurance Department

Understanding that a charge for CPI by a creditor to a borrower is not an insurance premium is important for developing a model law that, one, clearly separates creditors from insurers, and, two, recognizes the relevant jurisdictional authorities over creditor and insurers, respectively. Stated differently, and referencing a point made in earlier comments by the AIA, insurance regulators have no authority over the charges a creditor or servicer makes to a borrower in connection with the loan agreement.

Section 12D and 12E permit unlawful and abusive kickbacks, as graphically evidenced by the New York Department of Financial Services LPI investigation, the settlements between the NY DFS and LPI insurers and the Florida Office of Insurance Regulation and LPI insurers and the dozens of LPI litigations against servicers and LPI insurers which have resulted in settlements valued at billions of dollars.

As discussed in earlier comments, insurance tracking is a servicer responsibility and not reasonably or permissibly included in LPI insurance rates. Insurance tracking arises from a requirement of the lender for the borrower to maintain insurance on the vehicle or property serving as collateral for the loan. The lender/servicer tracks insurance to ensure the borrower is complying with loan requirements and to order/place LPI as needed. The fact that tracking is a requirement of the lender/servicer and not the insurer is demonstrated by the requirements in federal law and regulation upon servicers in federal law and regulation. The fact that tracking is a cost borne by the lender/servicer – and not reasonably part of the insurance premium – is further evidenced by the fact investors/owners pay servicers a fee which includes insurance tracking.

Fannie Mae is a government-sponsored enterprise that purchases mortgages originated by others. Fannie Mae is the largest single owner of mortgages in the United States and contracts with mortgage servicers to service tens of millions of mortgage loans that Fannie Mae owns. Fannie Mae pays a fee to mortgage servicers for each mortgage loan serviced. In addition, when a mortgage owned by Fannie Mae goes into default and the mortgaged property is foreclosed, Fannie Mae pays any outstanding LPI premium due on the defaulted loan to the servicer. In a 2012 request for proposal[1] for insurance tracking and LPI, Fannie Mae also describes the problem with unreasonable expenses included in LPI premium charges:

> After extensive internal review, Fannie Mae believes that current Lender Placed Insurance costs are not market competitive and can be improved through unit price reductions and fee transparency to the benefit of both the taxpayers and homeowners.
>
> Current Situation
>
> Fannie Mae's current Lender Placed Insurance situation is as follows:
>
> 1. Homeowners are required to maintain voluntary hazard insurance on Fannie Mae insured properties.
>
> 2. Lender Placed Insurance must be acquired by mortgage Servicers when a property is no longer eligible for Voluntary Insurance, or when the Servicer cannot obtain proof of adequate Voluntary Insurance from the homeowner, irrespective of whether or not that homeowner is current or delinquent on the loan.

[1] The complete request for proposal is in Appendix D.

3. The cost of Lender Placed Insurance is higher than the cost of voluntary hazard insurance. Homeowners are billed for the Lender Placed Insurance premiums. However, if the homeowner does not pay the premium (for example, if the property has already been vacated), then Servicers pass on the premium costs to Fannie Mae.

4. Servicers are responsible for providing tracking services, per Fannie Mae Guidelines. Many large Servicers have chosen to outsource the Insurance Tracking and associated administrative process to third parties, the largest of which are affiliated with Lender Placed Insurers.

5. Lender Placed Insurers often pay commissions/fees to Servicers for placing business with them. The cost of such commissions/fees is recovered in part or in whole by the Lender Placed Insurer from the premiums, which the Servicers pass on to Fannie Mae.

6. The existing system may encourage Servicers to purchase Lender Placed Insurance from Providers that pay high commissions/fees to the Servicers and provide tracking, rather than those that offer the best pricing and terms to Fannie Mae. Thus, the Lender Placed Insurers and Servicers have little incentive to hold premium costs down. **In addition, Fannie Mae is often paying twice for Insurance Tracking services; once via the servicing fee that Fannie Mae pays to Servicers, and again via the Lender Placed Insurance premiums, since those premiums may include or subsidize the costs of tracking services (to the extent that insurers are providing such services)**. (Emphasis added)

In appropriate Circumstances, Lender Placed Insurance is necessary and important to the preservation of Fannie Mae assets. However, much of the current Lender Placed Insurance cost borne by Fannie Mae results from an incentive arrangement between Lender Placed Insurers and Servicers that disadvantages Fannie Mae and the homeowner.

The NY DFS has investigated LPI markets and practices more intensively than any other insurance department and has promulgated a regulation to address the abuses in those markets. The NY DFS has clearly defined insurance tracking and prohibited the costs of insurance of tracking from inclusion in LPI rates.

The unfairness of including insurance tracking in LPI rates is further evidenced by the fact that if no borrower failed to maintain required insurance – and, consequently, there is no need for LPI to be placed – the requirements and expenses for insurance tracking would remain because insurance tracking is a requirement of the lender/servicer to service its loans and because insurance tracking is necessary for a servicer to pay voluntary insurance premiums from a borrower's escrow account in a timely fashion. The unfairness and unreasonableness of including insurance tracking in LPI rates is further evidenced by the fact that if only one borrower out of, say 1 million borrowers in a lender/servicer's portfolio failed to maintain required insurance, that single borrower would be charged an amount to cover the tracking costs of the entire portfolio.

Item 12B2 provides for payments of "commissions" to servicer-affiliated agents. This practice has been prohibited by the NY and FL departments and by Fannie Mae and Freddie Mac because the practice has been shown to clearly be a kickback from LPI insurers to lender/servicers that inflated LPI premiums and, subsequently, LPI charges by the lender/servicer to the borrower. As part of an extensive investigation, the NY DFS found:

> Some lenders and/or mortgage servicers have affiliated insurance agencies or brokers that receive commissions from force-placed insurers for services the agencies or brokers purportedly provide. To the extent those agencies or brokers provide any services, most of those services are not ones that insurance agencies or brokers typically provide."[2]

There is no role or activity for a servicer-affiliated servicer in the placement of LPI. Lender/servicers obtain LPI either through a request for proposal process in which the LPI vendors propose a set of outsourced services with the provision of LPI or through the use of a managing general agent who administers an LPI program on behalf of LPI insurers. Once the LPI master policy is in place, there is no "procurement" or "production" of LPI – the LPI coverage is issued under the master policy as directed by the lender/servicer as a result of its insurance tracking activities – just as payment of voluntary premiums from a borrower's escrow results from insurance tracking performed by the lender/servicer.

12E which arbitrarily "caps" so-called "commissions" to lender/servicer-affiliated agents should be deleted since the "cap" should be zero – any payment of "commissions" to servicer-affiliated agents must be prohibited.

[2] Consent Order, par. 4 at p. 3.

Items 12D(2) and 12D(3) are also kickbacks that must be prohibited. As stated in earlier comments, the model law must prohibit the lender/servicer from having any financial interest in the placement of LPI other than the protection of the vehicle or property servicing as collateral for the loan. Absent such a blanket prohibition against kickbacks, the market power of the lender/servicer – whose business the LPI insurers compete for – will lead to LPI insurers competing for lender/servicer business on the basis of kickbacks and considerations to the lender/servicer paid for by borrowers charged for LPI by the lender/servicer. The evidence for the abusive results of this reverse competition is clear and disturbing – LPI loss ratios half of voluntary insurance loss ratios for similar coverage and payments by LPI insurers to lenders/creditors of massive portions of insurance premium through cash payments or free or below-cost services unrelated to the provision of LPI.

Item 12D2 is an invitation to kickbacks because it permits the LPI insurer to charge an inflated premium and then kickback the excessive portion to the lender/servicer. The use of captive reinsurance arrangements is simply a variation of this concept – a practice that has been prohibited by the NY DFS, the FL OIR, Fannie Mae and Freddie Mac.

Item 12D3 is also an egregious kickback mechanism. The NY DFS investigation and settlements with LPI insurer's state:

> "ASIC pays some mortgage servicers what it characterizes as the servicers' "qualified expenses" related to force-placed insurance. These payments are typically an amount capped at a percentage of the premium force placed on the servicer's portfolio and appear to be substitutes for commissions; ASIC typically pays the "qualified expenses" only to servicers that do not have affiliated insurance agencies or brokers." [3]

Further, the premise behind "qualified expense reimbursement" is absurd. The model provides for "expense reimbursements" for

> -- paying to the creditor of amounts intended to reimburse the creditor for its expenses incurred incidental to the creditor-placed insurance program (such as costs of data processing, mail processing, telephone service, insurance tracking, billing, collections and related activities);

This provision reflects a massive misunderstanding of the nature of LPI policy acquisition by the LPI insurer and the placement of LPI coverage under the LPI master policy. The items listed are all responsibilities of the lender/servicer pursuant to its loan agreement with borrowers and its administrative agreement with investors/owners of the loans (if the LPI policyholder is the servicer). Insurance tracking is a portfolio-wide lender/servicer

[3] Consent Order, par. 16 at p. 7.

responsibility, the expenses for which should be borne by the interest rate charge of the lender and/or the servicing fee paid by investors/owners to the servicer. Allowing the LPI insurer to "reimburse" the lender/servicer for insurance tracking-related expenses is clearly a kickback as evidenced by the following. Suppose that a lender/servicer contracts out for janitorial services in its facilities (just as a lender/servicer contracts out for insurance tracking with the LPI insurer). The lender/servicer is willing to pay either $900 for the janitorial service or $1,000 with a $100 rebate. The only reason the lender/servicer would opt for the higher price with rebate is if the lender/servicer was passing along the janitorial service charge to a third party – like a borrower. What would be the justification for the janitorial service paying a $100 expense reimbursement – to cover the expenses of electricity and trash bags provided by the lender/servicer for the janitorial service to perform the outsourced activities? This is absurd, but no more so than an LPI insurer paying an "expense reimbursement" to a lender/servicer for expenses the lender/servicer would have otherwise incurred if the lender/servicer had performed the activities in-house instead of outsourcing the activities.

CEJ's Proposed Language

In prior comments, we provided suggested language for revisions to the model addressing the kickback problem and the stated goal of separation of creditor and insurer.

4. Separation of Creditor and Insurer

A. A creditor shall have financial interest in the placement of creditor-placed insurance other than the protection of the property serving as collateral for the loan, including, but not limited to the following prohibited arrangements:

1. A creditor-placed insurance insurer or its affiliate shall not provide free or below-cost services unrelated to the provision of creditor-placed insurance to the creditor or its affiliate, including but not limited to insurance tracking, loss draft, new loan boarding, payment of voluntary insurance premium and escrow-related activities;
2. A creditor-placed insurance insurer or its affiliate shall not pay a commission or fee to any producer affiliated with the creditor;
3. A creditor-placed insurance insurer or its affiliate shall not make cash payments to a creditor or its affiliate, other than payments of premium refunds, for expense reimbursement or any other reason;
4. A creditor-placed insurance insurer or its affiliate shall not enter into a reinsurance arrangement or agreement with any affiliate of a creditor; and
5. A creditor-placed insurance insurer or its affiliate shall not issue creditor-placed insurance to any creditor affiliated with the creditor-placed insurer.

B. Creditor-placed insurance policy forms, rate manuals, rating rules shall not contain any provisions regarding charges by the creditor to debtors.

C. Authority and jurisdiction regarding requirements for notification related to absence or required insurance or charges for creditor-placed insurance by creditor by the creditor shall be with the agency or agencies responsible for oversight of the creditor with the exception of activities performed by persons licensed or overseen by the Commissioner of Insurance.

Drafting note: Such separation of regulatory authority may not be needed in states where insurance and banking regulation is within a single agency.

5. Premium Charges by Insurer to Creditor

A. Premium charges by a creditor placed insurance insurer shall be made according rates files and approved by the Commissioner.

B. Schedule rating is permitted subject to the following requirements:
   1. The schedule rating criteria are filed and approved by the Commissioner;
   2. The maximum change in base rates due to scheduled rating is plus or minus ten percent;'
   3. The schedule rating criteria may not include factors that could reasonably be included as rating factors in the insurer's rating manual, including, but not limited to source of loans, geographic distribution of loans, method of determining coverage amount, percentage of loans with escrow for insurance and average delinquency rate.

6. Charges by Creditor to Debtor

A. A creditor shall not establish unreasonable requirements for voluntary insurance necessary to protect the creditor's interest in the property serving as collateral for the loan.

B. A creditor shall not charge a debtor any amounts for creditor-placed insurance before meeting the notification requirements of Section X.

C. A creditor may, but is not required to, charge a debtor for creditor placed insurance placed on the property collateralizing the borrower's loan. Such charge may not exceed the premium amount paid by the creditor to the creditor-placed insurance insurer for the coverage, with the following exception;
   1. A creditor may retroactively charge for no more than 60 days coverage from the date of lapse of voluntary insurance until the date of the first notice of absence of required insurance by the creditor to the borrower.

D. A creditor shall charge a debtor an amount for coverage only for the period for which the debtor did not have required insurance in place.

E. A creditor shall not charge a borrower any amount for coverage for any period in which
   1. The borrower has acceptable voluntary insurance in force;
   2. The date the collateralized property is repossessed, unless the property is returned to the debtor within ten (10) days of the repossession;
   3. The date of loss for an event rendering the collateralized property to be a total loss; or
   4. The date the debt is completely extinguished

F. A creditor is prohibited from charging a debtor any amount for creditor-placed insurance that creates a balloon payment at the end of the credit transaction or extends the credit transaction's maturity date.

7. Notifications to Debtors

A. If a state or federal regulatory agency has established notification requirements for a creditor related to creditor-placed insurance, those requirements shall preempt the remainder of this section.

B. [Insert notice requirements similar to those required by the CFPB]

Response to Industry Comments

ABIA, AIA and NAMIC continue to argue for the status quo with fact-free assertions contrary to available evidence. AIS and NAMIC's arguments are perfunctory and are fully addressed above.

ABIA, in its June 2, 2016 letter seeks to "rebut" the testimony provided by Bob Hunter and myself. Putting aside the fact that Mr. Hunter and I are actual experts in LPI issues with both regulatory and expert witness experience, the ABIA arguments are literally gibberish. The NAIC and state insurance regulators have allowed and even encouraged the kickback culture of LPI markets for two decades, reinforced by the abusive 1996 creditor placed model law. With the exception of NY, FL and CA, state insurance departments have still not taken action to stop the kickbacks and abuses in LPI markets. And while it is profoundly disappointing that the industry trades seek to continue the abusive kickback culture of LPI markets, their paid lobbying is not surprising. However, revisions to the NAIC LPI model are a critical test for state insurance regulators. It is one thing for the industry trades to make absurd claims; it is far different for insurance regulators to accept these false claims and codify consumer abuses in a model law. The NAIC's action on this LPI model law is a litmus test of state insurance regulators' ability to understand and property regulate LPI markets.

ABIA now claims that there are two types of insurance tracking – one type performed by lender/servicers for "tracking the loan portfolio" and one type performed by LPI insurers for their "exposure and risk management." This is a false description – despite ABIA's extensive use of bold underlined text. As explained above, insurance tracking is a requirement of the lender/servicer by virtue of its loan agreement requirements for insurance and administrative agreements with investors/owners. There can be no serious argument that insurance tracking is necessary for a lender/servicer to monitor when a borrower's voluntary insurance is due and issue payment from the borrower's escrow account to the voluntary insurer. And there can be no serious argument that is not a function of the LPI insurer, not an "exposure management" activity of the LPI insurer and not a reasonable cost to include in LPI rates.

As explained and demonstrated in prior comments, the LPI insurer performs its exposure and risk management on the basis of characteristics of the lender/servicer portfolio and not on the basis of individual property characteristics. The attached scheduled rating worksheet is evidence of this fact – the underwriting does not involve any individual property information, but relied on characteristics of the servicer and the loan portfolio. This is clearly logical – unlike a voluntary insurer who underwrites individual properties and, consequently, can manage its risk exposure through such individual underwriting, the LPI insurer does not underwrite individual properties and cannot manage its exposure through individual risk underwriting. The LPI insurer manages its risk exposure by evaluating the characteristics of a loan portfolio associated with a greater or less likelihood of LPI placements – location of the loans, types of loans.

Further evidence demonstrating the inaccuracy of the ABIA assertion is the fact that, again unlike a voluntary insurer, today's set of insured properties may or may not be tomorrow's set of insured properties because the LPI insurer issue coverage for any property in the portfolio if evidence of required insurance is lacking. Significant portions of today's insured properties may disappear in a few months as borrowers obtain required insurance and as new properties become insured under the LPI master policy as borrowers lose coverage.

The ABIA argument is essentially that keeping track of the coverage issued is insurance tracking. That is factually incorrect because the activities associated with insurance tracking are distinct from maintain a record of coverages issued and premiums charged. By the ABIA logic, State Farm engages in insurance tracking because it keeps track of policies issued and premiums charged.

The ABIA claims "insurance tracking" is required for the insurer to perform the following:

- Aggregation risk;
- Probable maximum losses;
- Needed reinsurance purchases;
- Capital that needs to be held to pay claims should a catastrophe occur;
- Capital and reinsurance required by regulators; and
- Capital and reinsurance necessary for ratings agencies to provide insurance company rating information to prospective insureds.

These activities obviously do not depend on tracking of individual properties because these activities are functions of the aggregate risk exposure of the loan portfolios insured. Stated differently, none of these activities require individual coverage information. Rather, these activities required information on the characteristics of the loan portfolio, as evidenced by the attached scheduled rating worksheet.\

ABIA then claims the following are insurer responsibilities:

The following activities relate directly to insurance tracking:

- Processing all correspondence related to an existing homeowner's policy.
- Populating insurance data into the tracking system (either the tracker's or the servicer's system).
- Mailing three letters required by regulations issued by the Consumer Financial Protection Bureau (CFPB) to borrowers to determine whether required homeowner's coverage is in place. (Note that CPI insurers were sending these letters to borrowers well before the regulatory requirement was put in place, as a means to avoid false placements of CPI.) These letters are on the servicer's letterhead only because it helps borrowers recognize that the letters relate to their mortgage loan, but the letters enhance the *CPI insurer's* ability to determine whether CPI needs to be placed, so the expenses associated with the "letter cycle" are appropriate for inclusion in insurance tracking costs.
- Maintaining call centers to service customers who have questions in response to the notice letters.

ABIA makes the astonishing claim that the requirements of lenders/servicers to send three notice letters to borrowers before charging the borrowers of LPI are an insurer's responsibility – despite the fact that these are statutory and regulatory requirements of lender/servicers! ABIA notes that these letters are sent on the lender/servicer's letterhead – which clearly demonstrates the activity is a requirement of the lender/servicer – but makes the absurd argument that this is only done for borrower convenience.

As stated earlier, it is disappointing but not unexpected that ABIA would ignore the documented abuses in LPI markets and seek to roll back the prohibitions implemented by NY, FL, Fannie Mae and Freddie Mac. It is quite another thing for state insurance regulators to accept these patently false assertions. State insurance regulators have an opportunity to demonstrate competence in LPI oversight and consumer protection and correct 20-year old mistakes. We ask you to do so. Failing to do so will call into question state regulator's ability to regulate credit-related insurance, generally, and LPI, specifically.

Rule 7: Schedule Rating

The Schedule Rating Plan recognizes differences in loan portfolios and lending institutions that are not reflected in the base rates. The modified base rate is calculated by multiplying the base rate by (1 + total schedule rating factor). The total schedule rating factor is the total of all schedule rating debits and credits applied pursuant to this section.

All items below must be completed for each lending institution

1. Financial Strength ______ ± 10%
   (Rating Agency Grade: High/Medium/Low)
2. Tracking Procedures ______ ± 10%
   (Sophistication of insurance tracking system. Insured's procedures to verify borrower compliance with insurance requirements.)
3. Amount of Insurance Basis ______ ± 10%
   (Percentage of Replacement Cost Value)
4. Average Value of Homes in Portfolio ______ ± 10%
   (Insured home values (average of in-force business))
5. Quality of Loan Portfolio ______ ± 10%
   (Mix of Government secured/conventional loans in portfolio. Delinquency ratio of portfolio)
6. Operating Efficiency ______ ± 10%
   (Percentage of insurer's expenses which represent insured affiliate commissions and service standards such as initiating, mailing and ceasing borrower warning letters, insurance placement / cancellation, inbound / outbound customer care calls, system setup / maintenance, etc.)
7. Concentration of Exposure in High Risk Areas ______ + 10%
   (Percentage of properties within 5 miles of coastal waters for the following states:
   AL, DE, FL, GA, HI, LA, MD, MS, NC, NJ, NY, SC, TX, VA)

The combined maximum allowable is ±25%.

- Client underwriting files shall maintain documentation to support schedule rating debits and credits, and any debits and credits applied shall be based on such documentation as of the effective date of the same.
- Schedule rating review shall occur at policy anniversary date, unless significant changes occur which materially impact the current schedule rating outcome. Changes to schedule rating debits/credits apply prospectively only.
- The final schedule rating factor consists of the sum of the individual rate modification elements identified above, capped by the maximum allowable debit (+25%) and the maximum allowable credit (-25%).

Refer to the Rate Modification Procedures, Schedule Rating Review Guidelines (RM-QAPP-1), and instructions on how to complete the Rate Modification Worksheet (RM, QAPP-2).

G. SCHEDULE RATING PLAN

In recognition of the unique risk characteristics of each mortgagee, the rates may be modified in accordance with the following schedule to reflect characteristics of the risk not contemplated in the base rates.

The maximum rate modification is (+) or (-) 25%.

1) Criteria	Range of Modification Debit		Credit
a) Quality of Loan Underwriting	+ 20%	to	- 20%
(1) Quality of Underwriting			
(2) Source of Real Estate Loans – Direct and Indirect			
(3) Overall Delinquency Ratio			
(4) Average Loan to Value			
b) Quality of Loan Portfolio	+15%	to	-15%
(1) Mix - Government and Conventional			
(2) Mix – Fixed and Variable			
(3) Escrowed for Payment of Insurance			
c) Transactional Efficiency Systems Compatibility, Data Quality/Accuracy, Automation, Reconciliation Capabilities, Service Standards	+ 10%	to	- 10%
d) Management Experience	+10%	to	-10%

2) The credits or debits shall be summed and, if applicable, capped by the maximum modification to determine the schedule rate modification.
3) All schedule credits and all schedule debits shall be based on evidence that is contained in the file at the time the schedule credit or debit is applied.
4) The effective date of any schedule credit or debit shall not be any date prior to our receipt of the evidence supporting the credit or debit.
5) Any modification developed under this plan shall be for the term of the policy, subject to company review. If the modification proves to be inequitable because of materially changed conditions, a new modification based upon such changed conditions shall be established. The new modification will apply to all new and renewal certificates effective on or after the date of such change.
6) To be eligible, a minimum policy premium of $1,000 applies.