



# FHFA directs GSEs to restrict force-placed insurance practices

**Limitation of practices may squeeze lenders, taxpayers**

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November 5, 2013 10:40AM

Mortgage giants are prohibiting servicers from being reimbursed for expenses associated with captive reinsurance arrangements.

The **Federal Housing Finance Agency** announced Tuesday that it has directed **Fannie Mae** and **Freddie Mac** to restrict forced-placed insurance practices, which is a follow up from a notice the agency published in March regarding its views on such practices.

The notice cited concerns that the practices expose the government-sponsored enterprises to potential losses as well as litigation and reputation risks.

“One of our primary responsibilities as conservator of Fannie Mae and Freddie Mac is to preserve and conserve their assets on behalf of taxpayers,” stated FHFA current acting director Ed DeMarco.

He added, “This directive is intended to reduce their costs as we consider additional measures.”

FHFA established a regulatory working group consisting of federal and state agencies to ensure that all parties with an interest and role in the subject of force-placed insurance are engaged in all discussions.

The FHFA’s actions to restrict such practices are a direct result of the views of the entities in the working groups and more than 30 replies from consumer advocates in response to the notice.

The GSEs will provided aligned guidance to sellers and servicers to prohibit these practices, including implementation schedules.

Some industry experts believe this decision by the FHFA will ultimately be a more process-driven issue.

“It doesn’t change the requirement for insurance, but changes how lenders handle situations where it is lacking,” explained **Cato Institute** financial regulation studies director Mark Calabria.

He added, “Ultimately, anything force-placed will have to be priced in a manner that reflects what the borrower could have found on their own, so that will squeeze lenders fees somewhat.”

Additionally, the restriction in force-placed insurance could also hit taxpayers if there’s a lapse in insurance and the enterprises hold the loan, Calabria concluded.