



Hawaii Credit Union League

Your Partner For Success

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Good

Testimony to the Senate Committee on Commerce, Consumer Protection, & Health
Wednesday, February 10, 2016

Testimony in Opposition to SB 2745, Relating to Force-Placed Insurance

To: The Honorable Rosalyn Baker, Chair
The Honorable Michelle Kidani, Vice-Chair
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 63 Hawaii credit unions, representing over 800,000 credit union members across the state. We are opposed to SB 2745, Relating to Force-Placed Insurance.

Currently, approximately 50 credit unions offer mortgages.

Force-placed insurance is something that would happen only if a borrower cancels their homeowners' insurance policy. Force-placed insurance would be a matter of last resort, and is not something the lender wants to do. The financial institution makes no profit from force-placed insurance.

We oppose this bill because it is not necessary. Under Regulation X of the Real Estate Settlement Procedures Act (RESPA), it is required that a notice be sent to the borrowers at least 45 days before a lender can charge a borrower for force-placed insurance. Without receiving evidence of insurance within 30 days of the 45 day notice, another notice is required to be sent to the borrower. On the 46th day, the lender can force-place insurance with notice sent to the borrower. Therefore, the 6 months proposed by SB 2745 is in conflict with federal regulation.

Thank you for the opportunity to provide comments.



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To: Honorable Rosalyn Baker, Chair
Honorable Michelle Kidani, Vice Chair
Senate Committee on Commerce, Consumer Protection and Health

From: Mark Sektnan, Vice President

Re: SB 2745 - Relating to Force-Placed Insurance
PCI Position: Oppose

Date: Wednesday, February 10, 2016
9:30 AM, Room 229

Aloha Chair Baker, Vice Chair Kidani and Members of the Committee:

The Property Casualty Insurers Association of America (PCI) is opposed to SB 2745 which would set strict restrictions on lender placed insurance.

In Hawaii, PCI member companies write approximately 42.7 percent of all property casualty insurance written in Hawaii. PCI member companies write 44 percent of all personal automobile insurance, 65.2 percent of all commercial automobile insurance and 75 percent of the workers' compensation insurance in Hawaii.

Lender placed insurance is placed on the property by the lender, not the insurer. The insurer's contract is with the lender, not the homeowner, and it is the decision of the lender to place this insurance on the property in question. The insurance is not placed unless the mortgage holder has violated the terms of the contract with the lender and failed to maintain homeowners' insurance.

Lender placed insurance plays an important part in the United States housing market by providing protection to homeowners, lenders, and investors when a borrower fails to maintain insurance on the collateral for a loan. This type of insurance is typically treated as "specialty insurance" because it generally involves a large premium and/ or a special, unique or unusual risk." Typically a large financial institution pays a large premium for a number of properties they want insured in the event one or many homeowners lapse their homeowner's coverage. The unique or unusual risk with lender placed insurance is that insurers generally do not "underwrite" the large number of properties they are required to cover under the master policy, so there is no data available for insurers to assess the properties covered ahead of time. Stated differently, lender placed insurance cover properties "as is." Consider the following hypothetical: Homeowners X's insurance policy lapses on Monday, and the home catches fire early Tuesday morning. Under this scenario, a lender placed insurance must cover those damages.

According to SB 2745, "lender placed homeowners insurance has been the focus of recent attention due to allegations that lenders are charging homeowners high premiums when the homeowners could purchase the same insurance for much less." As discussed above, the rationale for higher premiums for lender placed insurance is based on the fact that there is no insurance underwriting and properties are covered "as is." The best way for a homeowner to ensure they are paying reasonable rates on their property insurance is to maintain their own policy, as they are required by the mortgage contract. Furthermore, outside of the regulatory oversight, it is important to note that lender placed insurance is contractually agreed upon by the lender and borrower, and thus a breach of contract type of action is available from both parties.

For these reasons, PCI requests that **SB 2745** be held in committee.

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 09, 2016 4:07 PM
To: CPH Testimony
Cc: tabraham08@gmail.com
Subject: *Submitted testimony for SB2745 on Feb 10, 2016 09:30AM*

SB2745

Submitted on: 2/9/2016

Testimony for CPH on Feb 10, 2016 09:30AM in Conference Room 229

| Submitted By | Organization | Testifier Position | Present at Hearing |
|--------------|--------------|--------------------|--------------------|
| Troy Abraham | Individual | Support | No |

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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