

**SUPPLEMENTARY INFORMATION:****I. Statutory and Regulatory Background**

The Federal Home Loan Bank Act (Bank Act) confers upon insured depository institutions that meet the statutory definition of a "Community Financial Institution" (CFI) certain advantages over non-CFI insured depository institutions in qualifying for Federal Home Loan Bank (Bank) membership, and in the purposes for which they may receive long-term advances and the collateral they may pledge to secure advances.<sup>1</sup> Section 2(10)(A) of the Bank Act and § 1263.1 of FHFA's regulations define a CFI as any Bank member the deposits of which are insured by the Federal Deposit Insurance Corporation and that has average total assets below a statutory cap.<sup>2</sup> The Bank Act was amended in 2008 to set the statutory cap at \$1 billion and to require the Director of FHFA to adjust the cap annually to reflect the percentage increase in the CPI-U, as published by the DOL, for the prior year.<sup>3</sup> For 2012, FHFA set the CFI asset cap at \$1,076,000,000, which reflected a 3.4 percent increase over 2011, based upon the increase in the CPI-U between 2010 and 2011. *See* 77 FR 14366 (Mar. 9, 2012).

**II. The CFI Asset Cap For 2013**

As of January 1, 2013, FHFA has increased the CFI asset cap from \$1,076,000,000 to \$1,095,000,000, which reflects a 1.8 percent increase in the unadjusted CPI-U from November 2011 to November 2012. The new amount was obtained by rounding to the nearest million, as has been the practice for all prior adjustments. Consistent with the practice of other Federal agencies, FHFA bases the annual adjustment to the CFI asset cap on the percentage increase in the CPI-U from November of the year prior to the preceding calendar year to November of the preceding calendar year, because the November figures represent the most recent available data as of January 1st of the current calendar year.

In calculating the CFI asset cap, FHFA uses CPI-U data that have not been seasonally adjusted (*i.e.*, the data have not been adjusted to remove the estimated effect of price changes that normally occur at the same time and in about the same magnitude every year). The DOL encourages use of unadjusted CPI-U data in applying "escalation" provisions such as that governing the

CFI asset cap, because the factors that are used to seasonally adjust the data are amended annually, and seasonally adjusted data that are published earlier are subject to revision for up to five years following their original release. Unadjusted data are not routinely subject to revision, and previously published unadjusted data are only corrected when significant calculation errors are discovered.

Dated: March 21, 2013.

**Edward J. DeMarco,**

*Acting Director, Federal Housing Finance Agency.*

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**FEDERAL HOUSING FINANCE AGENCY**

[No. 2013-N-05]

**Lender Placed Insurance, Terms and Conditions**

**AGENCY:** Federal Housing Finance Agency.

**ACTION:** Notice; input accepted.

This Notice sets forth an approach to address certain practices relating to lender placed insurance that the Federal Housing Finance Agency (FHFA) considers contrary to prudent business practice, to appropriate administration of Fannie Mae and Freddie Mac (the Enterprises) guaranteed loans, and which expose the Enterprises to potential losses as well as litigation and reputation risks. While FHFA plans a broader review of issues relating to the market for lender placed insurance, that includes receiving input from government and private sector parties, the practices that are addressed here are considered sufficiently distinct as to merit early action by the Agency acting as Conservator for the Enterprises.

**Background**

The FHFA oversees the operations of Fannie Mae and Freddie Mac. The Enterprises are in conservatorships, and, as Conservator, FHFA has statutory obligations in its conduct of the conservatorships, including preserving and conserving assets.<sup>1</sup> The Enterprises have diverse relationships with seller-servicers, ranging from loan originations to the administration of properties in default. These relationships are governed by their seller-servicer guides and, in certain cases, by individual contracts. Part of the administration by servicers of the interests of the

Enterprises relate to the maintenance of properties.

Lender placed (or forced place) insurance involves the imposition of property and casualty insurance on a property that does not have the coverage required by their mortgage instruments. This commonly occurs due to lapse of voluntary insurance coverage for non-payment of premium. The absence of coverage triggers notifications to borrowers advising them of the need to provide proof of adequate coverage and warning that, in the absence of this proof, insurance will be forced placed, possibly at higher rates and with diminished coverage.

Protection of property values is important to homeowners, communities, and to the Enterprises. At the same time, provision of such insurance products at an appropriate cost is of concern as well. Reportedly, premiums for lender placed insurance are generally double those for voluntary insurance and, in certain instances, significantly higher. FHFA recognizes that some greater risks are involved with lender placed insurance and that lender placed insurance carriers do not have the opportunity to underwrite the properties they insure, however, the multiples involved may not reflect claims experience and other measures. Loss ratios for lender placed insurance are significantly below those for voluntary hazard insurance and some states already have required or have considered rate reductions of 30 percent or more.

The Enterprises, operating in conservatorship and supported by taxpayers, may be affected by such costs where a servicer pays the higher premiums and is unable to recoup the cost from the homeowner or at a foreclosure sale, and the expense is passed along to the Enterprise for reimbursement.

In the wake of the financial crisis, demands for lender placed insurance have risen and, as a result, so have Enterprise expenses related to such coverage. Concerns about lender placed insurance costs, compensation, and practices have been raised by the National Association of Insurance Commissioners, state regulators, the Consumer Financial Protection Bureau, state attorneys general, and consumer organizations. Generally, the focus has centered on excessive rates and costs passed onto borrowers, as well as commissions and other compensation paid to servicers by carriers.

In order to keep lender placed insurance costs to the Enterprises as low as possible, practices that provide

<sup>1</sup> See 12 U.S.C. 1424(a), 1430(a).

<sup>2</sup> See 12 U.S.C. 1422(10)(A); 12 CFR 1263.1.

<sup>3</sup> See 12 U.S.C. 1422(10); 12 CFR 1263.1 (defining the term *CFI asset cap*).

<sup>1</sup> The duties and authorities of the Conservator are set forth primarily at 12 U.S.C. 4617.

incentives for or do not deter higher costs should be avoided.

### Approach to Certain Lender Placed Insurance Practices

For mortgages that the Enterprises purchase or guarantee, FHFA anticipates that the Enterprises will put in place restriction on lender placed insurance practices enumerated below. Before any such restrictions take effect, FHFA seeks input from the public and interested parties for 60 days from the publication of this Notice. After considering input received, FHFA will determine what elements of the restrictions may or may not be maintained, amended or revised in its direction to the Enterprises. Four months subsequent to the receipt of such input, and in consultation with the Conservator, Fannie Mae and Freddie Mac will provide aligned guidance to sellers and servicers, including implementation schedules related to these particular lender placed insurance practices.<sup>2</sup>

The specific practices related to lender placed insurance that FHFA has determined pose risks to the Enterprises or run contrary to the duties of the Conservator and for which actions are specified are practices where there are concerns regarding conflicts between parties to the insurance agreement, including:

1. *Certain Sales Commissions.* The Enterprises shall prohibit sellers and servicers from receiving, directly or indirectly, remuneration associated with placing coverage with or maintaining placement with particular insurance providers.

2. *Certain Reinsurance Activities.* The Enterprises shall prohibit sellers and servicers from receiving, directly or indirectly, remuneration associated with an insurance provider ceding premiums to a reinsurer that is owned by, affiliated with or controlled by the sellers or servicer.

### Input

FHFA invites input from any person with views on the planned practice limitations set forth above. FHFA also invites input on enhancing the transparency and consumer and investor protections related to lender placed insurance as well as regarding other practices that may operate to the detriment of the Enterprises operating in conservatorships. Further, FHFA is interested in whether there is data or information that would run contrary to

<sup>2</sup> Actions by the Enterprises only affect loans that they purchase or guarantee; their seller-servicer guides have no effect on practices of insurers except for dealings with the Enterprises.

the intended results sought by FHFA. Finally, FHFA is interested in the amount of time and difficulties associated with altering contracts between contractors and Enterprise servicers as would result from the planned approach.

FHFA will accept public input through its Office of Housing and Regulatory Policy (OHRP), no later than May 28, 2013, as the agency moves forward with its deliberations on appropriate action. Communications may be addressed to Federal Housing Finance Agency, OHRP, Constitution Center, 400 Seventh Street SW., Ninth Floor, Washington, DC 20024, or emailed to [LPInput@fhfa.gov](mailto:LPInput@fhfa.gov). Communications to FHFA may be made public and posted without change on the FHFA Web site at <http://www.fhfa.gov>, and would include any personal information provided, such as name, address (mailing and email), and telephone numbers.

Dated: March 25, 2013.

**Edward J. DeMarco,**

*Acting Director, Federal Housing Finance Agency.*

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**BILLING CODE 8070-01-P**

## FEDERAL RESERVE SYSTEM

### Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB

**AGENCY:** Board of Governors of the Federal Reserve System.

**SUMMARY:** Notice is hereby given of the final approval of a proposed information collection by the Board of Governors of the Federal Reserve System (Board) under OMB delegated authority, as per 5 CFR 1320.16 (OMB Regulations on Controlling Paperwork Burdens on the Public). Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instrument(s) are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

### FOR FURTHER INFORMATION CONTACT:

Federal Reserve Board Clearance Officer, Cynthia Ayouch, Division of

Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202) 452-3829. Telecommunications Device for the Deaf (TDD) users may contact (202) 263-4869, Board of Governors of the Federal Reserve System, Washington, DC 20551. OMB Desk Officer, Shagufta Ahmed, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street NW., Washington, DC 20503.

Final approval under OMB delegated authority to revise the following report: *Report title:* Capital Assessments and Stress Testing information collection. *Agency form number:* FR Y-14A/Q/M.

*OMB Control number:* 7100-0341.

*Effective Dates:* March 31, 2013 and June 30, 2013.

*Frequency:* Annually, semi-annual, quarterly, and monthly.

*Reporters:* Large banking organizations that meet an annual threshold of \$50 billion or more in total consolidated assets (large Bank Holding Companies or large BHCs), as defined by the Capital Plan rule (12 CFR 225.8).<sup>1</sup>

*Estimated annual reporting hours:* FR Y-14A: Summary, 50,160 hours; Macro scenario, 1,860 hours; Counterparty credit risk (CCR), 2,292 hours; Basel III/Dodd-Frank, 600 hours; and Regulatory capital, 600 hours. FR Y-14 Q: Securities risk, 1,200 hours; Retail risk, 1,920 hours; Pre-provision net revenue (PPNR), 75,000 hours; Wholesale corporate loans, 6,720 hours; Wholesale commercial real estate (CRE) loans, 6,480 hours; Trading risk, 41,280 hours; Basel III/Dodd-Frank, 2,400 hours; Regulatory capital, 4,800 hours; and Operational risk, 3,360 hours; and Mortgage Servicing Rights (MSR) Valuation, 864 hours; Supplemental, 960 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,216 hours. FR Y-14M: Retail 1st lien mortgage, 153,000 hours; Retail home equity, 146,880 hours; and Retail credit card, 91,800 hours. FR Y-14 Implementation and On-Going Automation: Start-up for new respondents, 79,200 hours; and On-going revisions for existing respondents, 9,120 hours.

*Estimated average hours per response:* FR Y-14A: Summary, 836 hours; Macro scenario, 31 hours; CCR, 382 hours; Basel III/Dodd-Frank, 20 hours; and

<sup>1</sup> The Capital Plan rule applies to every top-tier large BHC. This asset threshold is consistent with the threshold established by section 165 of the Dodd-Frank Act relating to enhanced supervision and prudential standards for certain BHCs.