New York Probes Home Insurers

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New York's Department of Financial Services has been probing banks and insurance companies for allegedly obtaining excessive fees on homeowners' policies that they force borrowers to pay for when their insurance lapses, said people familiar with the matter.Superintendent Benjamin M. Lawsky in the fall of 2011 dispatched formal letters to insurers and subpoenas to insurance agents and insurance brokerages run by several large banks to gather information on their practices, the people said.The concern is that banks are unfairly forcing borrowers to take on an overly expensive new policy, said the people. Banks routinely require borrowers to carry homeowners insurance, to protect the house that serves as collateral to the mortgage. The issue is whether bank-affiliated agencies and brokerages are earning fees for doing little to no work, at the expense of homeowners.The probe also is looking into possible conflicts of interest among the banks, their affiliated insurance agents and insurance companies.The department sent about 10 letters to units of insurers Assurant Inc. and Balboa Insurance Group, which is now owned by QBE Insurance Group Ltd., which are the biggest sellers of the insurance in the U.S.The department sent subpoenas seeking information on fees and business practices to units of more than 15 licensed insurance agents and brokers that are affiliates or units ofBank of America Corp., Citigroup Inc., J.P. Morgan Chase & Co. and Wells Fargo & Co."We provided the requested information and continue to fully cooperate with the DFS," said a spokeswoman for Wells Fargo."We have complied with the requests made by the NYDFS and are continuing to work with them," a Citigroup spokesman said.Representatives from Bank of America and J.P. Morgan Chase didn't immediately respond to requests for comment. QBE couldn't immediately be reached for comment.An Assurant spokesman said he couldn't immediately comment on this regulatory development. The company's financial filings state that Assurant gives consumers repeated opportunities to line up their own insurance policy once they are notified that their prior coverage has lapsed, before a new policy is issued. "We initiate an extensive communication process," the filing states.Consumer advocates say they have seen some instances in which the policy cost nine times as much as the one it replaced. An Assurant spokesman said the company's policies typically cost 11Ž2 to two times the policies they replace. He said the prices are higher because the insurers take on responsibility for the properties sight unseen, and many of the properties are vacant.Borrowers let their homeowners' policies lapse for many reasons. Some are financially strapped and skip a payment to save money for other purposes, not understanding the bank will replace the policy. Some miss payments by accident, industry executives said.Mr. Lawsky's interest in the matter raises the heat on the banks and could lead to tighter restrictions on banks' ability to earn big fees from the activity, people familiar with the matter said.Mr. Lawsky's office previously has recommended practices for mortgage servicers to adhere to in administering such policies, known as "forced-place" insurance. The recommendations included prohibiting mortgage servicers from buying such policies from affiliates of the servicer and requiring that the policies be priced fairly.Mr. Lawsky's department's investigation is ongoing, said a person familiar with the matter.