

Texas Department of Banking

Press Release

Commissioner James Releases Notice to State Bankers on Homeowners Insurance

Date: October 7, 2002

Currently, Texas citizens are experiencing dramatic increases in property insurance premiums. At closing transactions and loan renewals, you and your mortgage customers have had to contend with the impact of increased premiums, reduced coverage terms, reduced availability, and higher monthly house payments.

Recently, the Texas Department of Insurance initiated a Cease and Desist Order against Farmers Insurance Group and the Texas Attorney General initiated a deceptive pricing lawsuit against the same company. Both actions relate to Farmers' activities in homeowners' insurance. As a result of these disagreements, Farmers has stated its intent to cease writing homeowners' insurance in Texas beginning November 11, 2002. Farmers is estimated to currently insure approximately 20% of the residential market in Texas, which equates to about 700,000 policy holders. Monthly, approximately 58,000 Farmers homeowners' policies will need to be placed with another carrier.

Absent a resolution to the legal issues prior to November 11, 2002, you, as a lender, should engage in additional customer contact and service to ensure that residential properties securing loans in your portfolio, or that you are servicing, are appropriately insured at all times. Safe and sound lending practices dictate that all loans secured by improved real estate should be adequately insured.

I encourage you to immediately institute a monitoring program to identify and work with current customers that will be affected by Farmers' withdrawal from the Texas market. In addition, your confirmation of adequate insurance coverage should begin early in the process of underwriting new mortgage loans. Any delay in addressing Farmers' stated intent of withdrawing from Texas could cause an imprudent lapse of coverage and/or availability and pricing problems for your customers.

Bankers are referred to the Texas Department of Insurance website (www.tdi.state.tx.us) for further information about Farmers. Questions about this notice can be directed to Deputy Commissioner Gayle Griffin at 512-475-1300.