LENDER FORCE-PLACED INSURANCE LITIGATION.

AND THE FILED RATE DOCTRINE IN FLORIDA.

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Dennis J. Wall, *Defenses to Claims Based on Lender Force-Placed Insurance Practices*, 51 Tort Trial & Insurance Practice Law Journal 911 (American Bar Association Spring 2016);

Dennis J. Wall, *They Probably Have to Treat You in Good Faith and Deal Fairly With You: Lender Force-Placed Insurance in the Case Law*, American Bar Tips Business Litigation Committee Newsletter (Spring, 2016);

Dennis J. Wall, *Prosecuting and Defending Force-Placed Insurance Cases*, 35 Insurance Litigation Reporter 221 (May 2013);
AND ABOUT THAT DEFENSE CALLED THE FILED RATE DOCTRINE

And forthcoming in Fall 2018

From Lexis Nexis

Dennis J. Wall, *Filed Insurance Rates do Not Belong to the Federal Government. They Belong to the States.*

**NEW APPLERMAN CURRENT CRITICAL ISSUES IN INSURANCE (LEXISNEXIS, forthcoming Fall 2018).**
YOU FIND LENDER FORCE-PLACED INSURANCE or “LFPI” IN LOANS EVERYWHERE.

◦ Most people agree in their loan contract documents to pay for force-placed insurance.

◦ They just may not be aware of it.

◦ The borrowers pay the premiums on LFPI.
MOST LOANS REQUIRE COLLATERAL.

1. Collateral.

2. Protect the Collateral, buy insurance to protect the collateral. If we do not maintain the insurance to protect the collateral, then our lender has a contractual right to understandably place insurance by force to protect the collateral.

3. And the borrower pays the premium. So it is accurate in this sense to say that force-placed insurance really means “force-placed insurance premium”. The borrower is forced to pay the insurance premium on LFPI.
AND WE AGREE TO LFPI IF ....

IF:

A. WE DO NOT MAKE THE LOAN PAYMENTS, OR

B. WE DO NOT KEEP INSURANCE IN PLACE.

STANDARD PROCEDURE IN FANNIE MAE AND FREDDIE MAC MORTGAGE FORMS.
BUT THERE ARE THINGS THAT ARE GENERALLY NOT A PART OF OUR LOAN AGREEMENTS.

We generally do not agree to pay for add-ons, meaning we generally do not agree to pay the additional price for such things as:

• Kickbacks.

• Tracking services to track whether insurance is in place to protect the collateral.

• Reinsurance premiums paid to lenders’ affiliates and subsidiaries.

• Agents’ fees for nonexistent agent services.

• Premiums which are really penalties, not charges for insurance.
FOCUS ON LFPI = FOCUS ON FORENSIC INVESTIGATION.

WHAT THE PARTIES TESTIFIED.

WHAT THE DOCUMENTS DISPLAYED.

NOT WHAT THE ATTORNEYS ARGUED.
WHERE THE INFORMATION WAS MADE AVAILABLE TO THE PUBLIC.

The information is made available by Courts and their unsealed files:

• Exhibits to pleadings.
• Officially reported and officially unreported judicial decisions.
• Depositions.
• Interrogatory answers.
• Affidavits and declarations.
• Allegations in complaints and answers.
SECRECY STIPULATIONS.

Some of the story is deliberately kept a secret by stipulations and other agreements in all of the lawsuits which have been investigated during the past 5 years.

Enough of the information has been made public to allow the observations presented here of the business practices at issue in the lawsuits, including the LFPI practices widely alleged in the cases.

Ordinarily it is too difficult to pursue an investigation of the available sources except through the force of litigation.
LFPI CASES: THE COMPLAINTS.

LFPI lawsuits are not successful when they present allegations seeking damages on account of, or otherwise challenging, lenders’ contractual rights to place insurance on borrowers by force, at the borrowers’ expense.

LFPI lawsuits therefore survive motions to dismiss by filing complaints which instead allege “add-ons” not authorized by the loan contract. They seek damages for the increase in LFPI premiums allegedly added to the plaintiff borrower’s-homeowner’s monthly mortgage payment.
TWO CRUCIAL FEATURES OF LFPI.

- **LFPI:**

1. Ordinarily protects the lenders and not the borrowers; and

2. Is always paid by borrowers although it is always placed by lenders.
LFPI PRACTICES CHANGED AS PART OF THE GREAT RECESSION TOO . . .

.... From producing protection to producing revenue.

As one lender’s attorneys argued in an LFPI Court case, it is in a lender’s best economic interest to receive more revenue than repayment of the principal balance of the loan. “A lender wants a performing loan or asset, not immediate repayment.”

Reply in Support of Defendants' Motion to Dismiss, quoted by the Court in McKenzie, No. C-11-04965 JCS, 2012 WL 5372120, *11-*12 (N.D. Cal., October 30, 2012)( Spero, USMJ). Although this is a lawyer’s argument, it does not establish a fact; rather, it is cited here for the viewpoint it expresses.
WE HAVE LOOKED AT THE LFPI PRACTICES. NOW WE BEGIN TO LOOK AT THEIR RESULTS.

- Thirteen major banks, including both depository and investment banks, issued $2 Trillion in residential mortgage backed securities between 2005 and 2008.
- The total settlements, actual and projected amounts combined, between the Big 13 Banks and agencies of the United States in mortgage-securities-related claims and cases, was actual and projected combined, was approximately $120 Billion.
- That amount represents 2% of the revenue generated in that line of business between 2005 and 2008.

One lender-servicer according to its corporate representative’s deposition testimony received commissions on $400,000.00 in LFPI aggregate premium each year between 2008 and projected for 2011.


The total of that amount for that period of 4 years is $1.6 Billion.
That same lender was paid 11% commissions by the force-placed insurance carrier during that time.

Eleven percent (11%) of $1.6 Billion is $176 Million.

To summarize what we know:

One force-placed insurance carrier’s commissions to one lender’s captive insurance agent in the four years from 2008 through 2011, according to the publicly available deposition testimony of the captive agent’s corporate representative and other witnesses.
THE AMOUNT OF REINSURANCE PREMIUMS AT ISSUE IN LFPI PRACTICES.

No publicly available pleadings, testimony, or documentary evidence, periodicals or books located.

HOWEVER an application for attorney’s fees in an LFPI case contained the representation to the Court that the lender (a different one from the one mentioned earlier) received “more than $600 million” in “quota-share reinsurance agreements” revenue between January 1, 2008 and October 4, 2013.

*See Document Number 59, page 15, filed on Sept. 6, 2013 in Salvatore Saccoccio (S.D. Fla. Case No. 13-cv-211107-FAM).*

The average of these reinsurance premiums using these figures would have been over $100 Million per year, for one lender.
BACKDATING, EXCESSIVE POLICY LIMITS AND OTHER UNNECESSARY INSURANCE.

• Backdating.
• Excessive Policy Limits.
• Other Unnecessary Insurance.

Insufficient numbers of pleadings, testimony, and documentary evidence from which to gauge amounts.
A TRIO OF FACT PATTERN EXAMPLES:

No. 1:
Example of unnecessary insurance.

$1,575.00 charged on a HELOC or Home Equity Line of Credit with a zero balance.

A TRIO OF FACT PATTERN EXAMPLES: No. 2: Example of alleged unnecessarily high policy limit.

FPI policy with a policy limit of $253,600.00. Annual premium of $5,049.00. Original loan amount was $159,000.00. That was the only amount the homeowner borrowed.

A TRIO OF FACT PATTERN EXAMPLES: No. 3.

Two binders of FPI flood insurance:

1. A 90-day binder with a premium of $893.00 for a policy limit of $250,000.00.

2. Another 90-day binder, this one with a premium of $780.90, again with a policy limit of $250,000.00.

The original amount of the homeowner’s loan was $115,371.00.

The unpaid balance was approximately $113,000.00.

MANY ALLEGED CAUSES OF ACTION IN LFPI CASES.

Some are Common Law causes of action. Some are statutory claims, under Federal and State statutes.

The most frequently alleged claim or cause of action in LFPI cases is breach of contract.
BREACH OF CONTRACT: WHEN SUCCESSFUL.

Breach of contract cause of action generally successful in withstanding motions to dismiss* in LFPI cases when alleged against a lender or those standing in the shoes of the lender.

*Remember that none of these cases has been found which went to trial.
PERHAPS THE MOST INTERESTING FEDERAL STATUTORY CLAIM: TILA.

The most interesting basis for a Federal statutory claim in LFPI cases is arguably under the Truth-in-Lending Act, or “TILA,” and its attendant Regulation Z. The overall purpose of the statute and of the regulation is to require clear disclosure of the terms of the legal obligation between a debtor and a creditor.

Even before the amendments introduced by the Dodd-Frank Act, TILA required certain disclosures in a transaction such as a residential home loan. The creditor must disclose the credit’s finance charges, the amount financed, annual percentage rates, and insurance premiums among other things, before the credit is extended.

TILA AND LFPI.

◦ When insurance is placed by force without authorization and in violation of the loan contract – such as where the insurance premium allegedly includes kickbacks – the great majority of Courts require disclosure under TILA, even before the Dodd-Frank amendments took effect.

◦ They denied and continue to deny motions to dismiss the TILA claims.
PRESENTER’S PREDICTION:
TILA CLAIMS ARE THE WAVE OF THE FUTURE IN LFPI CASES.

The reasons are found in the Truth-in-Lending Act.

First, original jurisdiction in Federal District Courts. Concurrent jurisdiction in State Courts.


Second, where a given disclosure was required as a matter of law, the only remaining fact question is whether the disclosure was sufficiently made.
Third, individuals with comparatively small damages claims in LFPI cases can recover actual damages plus what amount to statutory penalties within a range of “not less than $400 or greater than $4,000.”


(In a class action, the statute provides that there is “no minimum recovery” for each class member, and the maximum recovery by a class is “the lesser of $1,000,000 or 1 per centum of the net worth of the creditor”. 15 U.S.C.A. § 1640(a)(2)(B).)
“[I]n the case of any successful action,” the plaintiff in a TILA case may also recover “the costs of the action, together with a reasonable attorney’s fee as determined by the court”. [Emphasis added.]

TILA actions may be brought within one year from the date of the occurrence of the violation, \textit{except . . . .}

The Dodd-Frank Act introduced a new limitation period for certain alleged violations of TILA of *three* years “beginning on the date of the occurrence of the violation.”


- SO, “BEGINNING ON THE DATE OF THE OCCURRENCE OF THE VIOLATION ....”
- “THEN” vs. *NOW*. 
A CAUSE OF ACTION UNDER A STATE STATUTE IN AN LFPI CASE.


• Three elements: (1) “deceptive act or unfair practice;” (2) causation, and (3) actual damages.

• Allegations of conduct different from and in addition to conduct authorized by contract.
FDUTPA REACHES LFPI PRACTICES.

Defendants in the case law include mortgage servicers and lenders. No perceived limitations.

Examples of allegations withstanding motions to dismiss under FDUTPA in LFPI cases similar to grounds advanced under other States’ Deceptive and Unfair Trade Practices Acts:

• “commission arrangement”;
• “failing to seek competitive bids on the open market”;
• “backdating policies”;
• taking “kickbacks”.

_E.g., Degutis, 978 F. Supp. 2d 1243, 1264-65 (M.D. Fla. 2013); Martorella, 931 F. Supp. 2d 1218, 1223-24 (S.D. Fla. 2013)._
DECEPTIVE AND UNFAIR TRADE PRACTICES ACTS ARE IN A CATEGORY OF CONSUMER PROTECTION STATUTES.

Accordingly, they authorize recovery of attorney’s fees in addition to actual damages.

“Proportionality” of fees to recovery is not required.

$5,626.00 award; $62,000.00 attorney’s fees: Bull Motors, LLC v. Borders, 132 So. 3d 1158, 1159-60 (Fla. 3d DCA 2013)(not an LFPI case).

Lodestar enhancement available.
SECRECY STIPULATIONS IN LFPI CASES.

Typical secrecy stipulations in litigation including LFPI litigation provide that parties mark “CONFIDENTIAL” materials.

Discovery under these secrecy stipulations has no shelf life, meaning no life beyond the particular case. Parties and nonparties such as expert witnesses will only use that material in the pending case. At the end of the case, they will all destroy or return all such material.
NET EFFECT ON KNOWING WHAT IS IN THE PUBLIC COURT FILE …. 

Shh! It’s a secret.

Although default presumption is openness of Court records.
MORE LFPI LITIGATION AND PRACTICES ON YOUTUBE. TODAY, IT’S ON TO THE FILED RATE DOCTRINE.

MORE LFPI LITIGATION AND PRACTICES ON YOUTUBE:

TODAY, IT’S ON TO THE FILED RATE DOCTRINE.
THE FILED RATE DOCTRINE

WHAT IT IS.

WHAT IT DOES.

IS THERE A FILED INSURANCE RATE DOCTRINE IN FLORIDA?

IS THERE A FILED RATE DOCTRINE IN FLORIDA LFPI CASES?
WHAT THE FILED RATE DOCTRINE IS.

- **JUDGE-MADE.**

- BEGAN IN FEDERAL COURTS.

- FIRST CASES = FEDERAL AGENCIES REGULATING UTILITIES.

- THE UTILITIES FILED RATES FOR REGULATORY APPROVAL.

- FEDERAL JUDGES HELD THAT APPROVED RATES CHARGED BY THE UTILITIES WERE THE only LAWFUL RATES.
WHAT IT IS, EXTENDED?

- APPROVED RATES CANNOT BE COLLATERALLY CHALLENGED IN CASES WHERE FEDERAL COURTS WOULD HAVE TO RECALCULATE RATES APPROVED BY FEDERAL AGENCIES.

- BUT INSURANCE?
  - REGULATED BY STATE AGENCIES?
  - IF REGULATED AT ALL? CERTAINLY NOT REGULATED BY federal AGENCIES.
THE TWO “STRANDS”

THE TWO STRANDS OF THE FILED RATE DOCTRINE:

NONJUSTICIABILITY

AND

NONDISCRIMINATION.

- EITHER ONE IS ENOUGH.
- NONJUSTICIABILITY IS A FAVORITE OF JUDGES.
WHAT THE FILED RATE DOCTRINE (“FRD”) DOES.

- THE FRD IS A DEFENSE.
- THE FRD APPLIES WHEN THE CHARGE INVOLVED IN THE CASE IS REGULATED AS PART OF A FILED RATE BY AN AGENCY AUTHORIZED TO REGULATE IT.
- THE FRD DOES NOT APPLY WHEN THE CHARGE AT ISSUE IS NOT REGULATED.

“The characterization of the plaintiff’s claim is therefore critical to whether the filed rate doctrine will apply.” Florida Municipal Power Agency v. Florida Power & Light Co., 64 F.3d 614, 616 (11th Cir. 1995).

AND MORE: LOOK HARD AT WHETHER THE CHARGE AT ISSUE IS REGULATED — See Florida Municipal Power Agency, 64 F.3d at 616.
IS THERE A FILED INSURANCE RATE DOCTRINE IN FLORIDA?

LFPI CASES, AFTER ALL, INVOLVE INSURANCE.

SO ONE RESPONSE TO THE FILED RATE DOCTRINE IN LFPI CASES IS A RESPONSE FOR ALL INSURANCE CASES:

IF INSURANCE RATES ARE REGULATED BY A STATE, THEN THAT STATE’S LAW REGULATES THE FILED RATE DOCTRINE.

ON THE OTHER HAND, IF INSURANCE RATES ARE not REGULATED BY THE STATE, THEN THERE IS no FILED INSURANCE RATE DOCTRINE TO APPLY.

--The title insurance case examples.

BUT HERE, IT’S ON TO LFPI!
DOES THE FILED RATE DOCTRINE APPLY IN LFPI CASES IN FLORIDA? FIRST, WHERE ARE THE LFPI CASES IN FLORIDA?

ANSWERING THE SECOND QUESTION FIRST:

- **Most** of the LFPI cases in Florida have been filed in the Southern District of Florida.

- So far the filed rate doctrine has come up only in cases in the U.S. District Court for the Southern District of Florida.
THERE IS A SPLIT IN AUTHORITY. FIRST, THE “OLDER” S.D. Fla. CASES.

I put older in quotes for a reason – The line of demarcation is really Rothstein v. Balboa Insurance Co. (2d Cir. 2015).

“No, the filed rate doctrine does not apply in lender force-placed insurance cases”

E.g., Wilson v. Everbank, N.A., 77 F. Supp. 3d 1202, 1232-34 (S.D. Fla. 2015) (declining to apply filed rate doctrine at the motion to dismiss stage in an LFPI case, and for other reasons);

Jackson v. U.S. Bank, N.A., 44 F. Supp. 3d 1210, 1216 (S.D. Fla. 2014) (declining to apply filed rate doctrine to “lenders, servicers, or insurers in the force-placed insurance context,” following the lead of other Southern District decisions);

NOW, THE POST-Rothstein CASES IF YOU WILL, APPLYING FEDERAL FRD TO STATE-REGULATED INSURANCE.

“YES, THE FILED RATE DOCTRINE APPLIES TO LFPI CASES”:

FROM THE SOUTHERN DISTRICT OF FLORIDA:

E.g., Fowler v. Caliber Home Loans, Inc., 277 F. Supp. 3d 1324 (S.D. Fla. 2016), appeal docketed, No. 16-16585 (11th Cir. Oct. 13, 2016);

Patel v. Specialized Loan Servicing LLC, 183 F. Supp. 3d 1238 (S.D. Fla. April 25, 2016), appeal docketed, No. 16-121200 (11th Cir. May 2, 2016);

Trevethan v. Select Portfolio Servicing, Inc., 142 F. Supp. 3d 1283 (S.D. Fla. 2015) (precedent for both the Fowler and Patel decisions cited immediately above, to bar LFPI claims based on federal filed rate doctrine, all cases cited having been decided only in federal courts, no mention of Florida state law except, as was done later in Patel, to take judicial notice that ASIC's insurance rates were ostensibly approved by Florida OIR).
SUPPOSE THE FILED INSURANCE RATE DOCTRINE IN FLORIDA IS A *FEDERAL* DOCTRINE, AFTER ALL*?

- **SO, THAT WOULD MEAN THE REAL ISSUE IS WHETHER FLORIDA REGULATES LENDER FORCE-PLACED INSURANCE PREMIUMS INCLUDING KICKBACKS AND OTHER UNAUTHORIZED CHARGES.**

- **THE FLORIDA INSURANCE COMMISSIONER WOULD STILL BE INSTRUCTIVE, MAYBE EVEN DETERMINATIVE.**

  - *Federal vs. State Court decisions?*
Returning to the amicus brief in Fowler, its purpose was to show that the Florida Office of Insurance Regulation has taken the position that so-called "commissions" or, alternatively, "kickbacks" and similar unauthorized costs included in insurance premiums force-placed upon Florida homeowners, are never approved as a part of filed insurance rates for LFPI premiums in Florida.

The amicus brief provided the appellate court with links to all the orders of the Florida Insurance Commissioner taking this position, that unauthorized charges such as alleged "kickbacks" are never included in rates approved by the Commissioner. And now here they are provided to you too.....
THE FLORIDA INSURANCE COMMISSIONER’S DETERMINATIONS STARTING IN 2013.


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RECALL THE DIFFICULTY IN FINDING UNSEALED TESTIMONY AND OTHER EVIDENCE IN THESE COURT FILES

I want to ask your help in locating unsealed testimony and other evidence in recent LFPI case files, in Florida and anywhere else in the U.S.

I am writing another article about force-placed insurance. It is not so easy now to find discovery in the court files on PACER as it once was.

Do you know of force-placed insurance cases with depositions and other discovery accessible on PACER? Do you know who would that I can ask?
FOWLER/PATEL (11th Cir. September 24, 2018).

- Received late yesterday.
- “FACTS AND ALLEGATIONS, SONGS AND LAMENTATIONS.”
FOWLER (to say again, received yesterday) AND OPPORTUNITY IN FLORIDA LFPI CASES.

OPPORTUNITY.
HOW? WHO? WHAT? IN FUTURE FLORIDA LFPI LITIGATION NOW.

IT WILL BE YOU.
YOUR HOST FOR THIS PRESENTATION.

Dennis Wall

Elected member of the American Law Institute . Member of the Group writing the Restatement of Liability Insurance Law.


Expert Witness who has testified at trial and been deposed over 30 times in cases across the country, an insurance coverage lawyer with 40 years of experience, and he serves as a consultant on numerous insurance-related issues.

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