MANAGEMENT DISCUSSION SECTION

Operator: Good morning/afternoon everyone. Thank you for holding and welcome to the Assurant Conference Call sponsored by Sterne Agee with your host Melissa Kivett. Today's conference will begin with a presentation followed by a question and answer session. Instructions on that feature will follow later in the program. I would now like to turn the call over to Ms. Kivett, please go ahead.

Melissa Kivett, Senior Vice President, Investor Relations

Thank you so much operator. Thanks so much for joining us today. We've gotten a bunch of calls from our shareholders this morning and we thought this would be an effective way to address some of the questions that you have about our Lender-Placed Insurance Business and I'm pleased to have Gene Mergelmeyer, who is our President and Chief Executive Officer, here today who will start with some prepared remarks. And earlier today John Nadel, Managing Director of Sterne Agee, had suggested the call. I thought it was a great idea and we appreciate his help in facilitating the call today. The call is open to questions from all our sell-side analysts as well as investors. So, with that I'll just pause for a moment and then turn the call over to Gene who has a few prepared remarks.

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Thanks Melissa. I do appreciate this opportunity and I did want to make a few key points about our Lender-Placed Insurance Business before we [inaudible] to open to questions. So you know the Lender-Placed Hazard Insurance, it does protect the mortgage lenders, the investors and the homeowners from loss whenever a homeowner fails to maintain the required insurance coverage in accordance with the term of their loan document. Assurant has been in the Lender-Placed Insurance Business for over 20 years and we are committed to it being a value-added and valuable product for all its constituents. Lender-Placed Insurance is only issued after extensive efforts to have the borrower obtain their own insurance coverage. This includes a series of letters to the borrower, calls to the last known insurance carrier, as well as attempts to call the borrower themselves in many cases. As a practice, and I think it's important to note, that our lender clients do not stop payment on an escrowed insurance policy in order to place a lender-placed coverage. Voluntary insurance payments are advanced on behalf of the lender to the voluntary insurance carrier even if the borrower's delinquent on their mortgage payment. Lapses in coverage that are eligible for lender placement are due to the borrower non-payment, cancellation by the borrower or other cancellation activity of the voluntary carrier. Lender-Placed Insurance is in force on only about 2% of the loans in our portfolio. The amount of coverage is based on the replacement cost to insure that the insurance coverage protects the property and the ability to rebuild that structure. Since the borrower is non-responsive in most cases, most lenders will place coverage at the last known voluntary coverage amount, which is the best estimate of the replacement cost as it's identified – been identified by the borrower when he obtained that insurance coverage.

By contract and to fulfill regulatory and investor requirements, lenders require us to insure every uninsured property in their loan portfolio regardless of the condition or the location of that property and our pricing reflects these unique risks, which results in many otherwise difficult to insure properties. Many of the properties that we insure have a history of multiple losses, physical or conditional hazards or are situated in coastal areas where wind storms are a constant threat or in rural areas with limited fire protection.

Over 50% of our in force coverage is in hurricane prone states. A couple of large hurricanes in a season could wipe out our profits for that year and cause significant increases in reinsurance costs going forward. Our programs are regulated by state insurance departments and we comply with the regulations in each of the states. It does vary by state, but in most states, there is a filing and approval process and certainly in 49 states, our rates are filed and approved or deemed to be approved by the Department of Insurance. Our programs are filed with all states and we also believe that our rates to be among the lowest in the industry.

Policies are backdated to cover lapses in coverage. This is required as the insurance verification cycle has not even started until the lapse in coverage is identified and it takes time to go through the cycle. However, claims are also covered during any backdating period. And in some cases, policies are backdated to cover known claims for uninsured properties that had not even been previously identified. Commissions can be and are sometimes paid on the program to licensed agents, which can be owned by the lending institution.

It's important to note that such compensation is at rates that are generally comparable to the voluntary homeowners insurance market. It is generally the lenders' practice to disclose such compensation in their correspondence with borrowers. While there is a minority of our clients, certain lenders have chosen to participate in the underwriting risk of the lender-placed insurance program. While these programs do allow them to participate in the potential underwriting profits of the business, such that they are also at risk to the losses in the business, particularly in large hurricane events.

I can also tell you that there is the same rigor and due care in the tracking procedures with these clients and there are certainly no efforts or processes in place to modify them in any way to place more policies or coverage and that they are using the same insurance programs as our other clients.

I think, with that, I want to thank you guys for your time and I'll certainly turn the call back over to John for any questions that you might have.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Thanks, Gene. Thanks for the opening. That was really helpful. I've got a number of questions before we go to Q&A or open Q&A. And maybe just a couple of technical ones for you, Gene, first. In those 49 states where you guys do file rates, are you – in those filings, are you required to include some of the assumptions for expense loads or commissions that you expect to pay and I assume that's part of the filing requirement to get the states to approve your rates or disapprove?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Yeah. That's true, John. It can vary by state, but that's certainly generally the case that all the details are included in the filing.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. And what is the average annual premium per policy currently on the books in your creditor-placed business?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Just on average, it's somewhere around $2,000, John.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. And the average insured value on the homes where those policies are placed?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

I don't have that number off the top of my head.

Melissa Kivett, Senior Vice President, Investor Relations

I've got it right here.

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Okay.

Melissa Kivett, Senior Vice President, Investor Relations

The average insured value for the second quarter – sorry, third quarter this year is $180,000 for creditor-placed policies.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. Okay. And then, can you help us understand the reinsurance aspect of this business, Gene, and you sort of touched on it, I'm not talking about the CAT risk. I'm talking about the reinsurance you have in place with your clients where you share the underwriting risk of this business. Maybe a sense for how many of your clients participate alongside you? I'm looking at some of your disclosures that looks like specialty property, as a total segment, generated 2.1 billion in year-to-date gross earned premiums, you have ceded about 22% of that or 475 million to your clients. Is this just a matter of the clients realizing this is a profitable business and they want to participate as well or is it something where you guys more proactively require the clients and have some skin in the game?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

No – first of all, I think if you're looking at the financial statements, you have to take into account that – again, we have business other than just creditor-placed homeowners, you know...

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Understood and it says, for instance, the government there, I assume that's on the flood insurance too, right?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Yes, that's exactly right. So we have the Write Your Own program and we have other insurance products and we have other clients that can reinsure in those products. So, I think it's safe to say that it's a very small minority of the clients in the creditor-placed homeowners that do participate. I think it ultimately is something that they choose to do. And they do have the opportunity to participate, like I said, in the underwriting income. But they also are on the risk for the underwriting losses as well.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. When we compare or when you guys think about comparing your creditor-placed or lender-placed business to the couple of key competitors that are out there, is it your understanding that they too file rates on a state-by-state basis like you do or do they conduct this business maybe in a different manner like an excess and surplus line?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Again, that can vary by size of competitor. There are a number of different competitors in this marketplace. Some of the more major competitors are typically using filed rates, but it can vary and there are typically certain states where they may choose to do things on more of a surplus lines basis and I think that's true particularly in Florida.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. And I have two more for you; just on average what would you characterize, Gene, as the overall difference in the cost between a typical voluntary policy and a force-placed policy? I mean, I read the American Banker article just like I think everybody else has – I mean, it suggests that the force-placed policy can be 10 times as expensive. I have to believe that that was an individual case that was extrapolated to mean that the whole business is like that and can you just give us a sense?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Well, Sure. I think, I can. Let me try and give you a little bit of color on that. I think, by the very nature of the fact that our average policy is around $2,000 or so would lend you to believe that that's not the case. Let me talk a little bit about our Florida policy. Certainly, there is a – Florida is a very difficult state to insure in. So comparing our policy to a preferred policy in a very-easy-to-insure area is different even than comparing to, obviously, something that's more coastal or in the State of Florida.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Understood. Okay.

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

I can tell you that our Florida program, and I've said this in the past, was developed really taking into consideration say the Citizens' program. Now – and it's designed to be slightly, but not significantly higher than Citizens', but we're taking on further underwriting risk. Citizens' doesn't accept vacant properties, there is other – there is some underwriting that's going on in that program. So, Florida is a good example of a state where we've recently gone through a rate review with the state and our rates were deemed acceptable. So -

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. I guess, final one for you, Gene, from me is, the article also mentioned Dodd-Frank and there is an element within Dodd-Frank that specifically addresses the cost of force-placed coverage and I guess, I have to assume as the leading provider of this in the U.S. that you guys were probably at the table or at least helping to craft that or at least advise on it. Can you give us a sense for your involvement there and what that process was – entailed?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

We do participate in a number of different organizations and we're involved in looking at that language and I think the final language does include provisions that, again, if it's approved by the states, that there is a deemed reasonableness associated with that. And we believe that our rates are certainly reasonable.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Okay. Thank you, I guess, Betty, we can go ahead and open it up to the queue.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first guest is Mark Hughes [SunTrust Robinson Humphrey]. Mark your line is open.

<A – Melissa Kivett>: Mark, are you there?

Operator: Mark your line is open.

<A>: Go ahead and move on.

Operator: Okay, Mark.

<Q – Mark Hughes>: Yes, I'm here, can you hear me?

Operator: Okay, we can hear you now.

<Q – Mark Hughes>: Thank you. Can you say what's the typical commission is that you pay to your mortgage servicer clients?

<A – Gene Mergelmeyer>: Again, I think that can vary by client. I think the guidance we tried to give you and kind of my opening statements was that, it's generally geared and quite frankly designed to be something that's really not anything in excess of the standard commission rates that would be available to the voluntary homeowner's product.

<Q – Mark Hughes>: And then under doubt Dodd-Frank, who is responsible for which office, what entity for determining reasonableness on the rates?

<A – Gene Mergelmeyer>: You know that I am not exactly sure of that. I'm sorry – at this point.

<Q – Mark Hughes>: Thank you.

Operator: Thank you. [Operator Instructions] And our next guest is Ed Spehar [Bank of America Merrill Lynch]. Ed, your line is open.

<Q – Edward Spehar>: Thank you. Good afternoon, everyone. Two questions, Gene. First, could you give us a sense for how many of your force-place policies occur because the borrower lapses coverage versus the percentage of the time it occurs because the voluntary carrier drops the borrower?

<A – Gene Mergelmeyer>: Well, Ed, I understand your question. That's not something that we have disclosed and I certainly don't have that at my finger tips now. So, I'm sorry, I just don't have that answer.

<Q – Edward Spehar>: Okay. But can you give us some sense, I guess the reason I ask and I think it's kind of important is that this all issue about the sort of the tone of the article being that the servicers driving sort of sales of expensive products. It seemed to me an important point that wasn't sort of mentioned is that, this product gets placed only after the action of a borrower, so it's not a – it's not driven by the distributor, it's driven by the borrower. So I think it is kind of important if it's like 50/50 or if it's 90/10. I mean, any idea where we are in the spectrum?

<A – Gene Mergelmeyer>: Well, let me just say, I think that is an important point. Let me start by saying that there is just an extensive, extensive process and I can tell you in the situations where we're involved in the tracking of insurance, there are very strict service level agreements and they are all geared to ensuring and the people that are totally involved in the process are just absolutely ensuring that we're not placing policies on loans that are insured. And I would say in my belief, for the most part, these are situations where the borrower has been involved in some way, shape or form in the cancellation of this product.

So, like I said to begin, if it's an escrowed account and there is – the lender is going to advance that premium to pay for the voluntary coverage. So there is situations in non-escrowed situations where the borrowers doesn't pay. There are some underwriting situations that occur, many voluntary insurance carriers are underwriting, certainly, more carefully in some of the coastal states but I can tell you that, again our – as we disclose very – we certainly put all of our – when we disclose in our letters, we put our premium amounts in there. We encourage them to go out and get other coverage. And even in situations where they have been cancelled by a voluntary carrier, there is usually an opportunity if they look and do the work, there is an opportunity for them to get a voluntary policy.

<Q>: And Gene, just maybe a point about thinking about when people lapse, sometimes people can just lapse or not respond and drop their insurance. And as you're talking about, the other reason may be a carrier may be, for example, pulling out of a state and they would lose their coverage because a carrier decided not to cover policies in Vermont or something?

<A – Gene Mergelmeyer>: Yeah. I mean that typically will occur and you'll hear oftentimes within the industry that there will be State Farm pulling out of a section of Florida or Allstate pulling out of a section of Florida. I can tell you, in most cases, those policies are ultimately replaced by other voluntary carriers. That's our experience.

<Q>: Okay. That's very helpful. Thanks.

Operator: Thank you. [Operator Instructions] And our next guest is Steven Shoots (sic) [Schwartz] [Raymond James]. Steven your line is open.

<Q – Steven Schwartz>: Hi, Gene, can you hear me? It's Steven Schwartz, I'm going to assume they meant me.

<A – Melissa Kivett>: I think so.

<A – Gene Mergelmeyer>: Yes, we can hear you. Thanks. Okay. How are you doing?

<Q – Steven Schwartz>: Reading the article, like everybody else, I thought there were kind of four main accusations if you would be. The first one that I would identify is the backdating, as you pointed out, that's necessary and sometimes you wind up covering stuff that you wouldn't cover if you hadn't backdated, that's understandable.

I think the second issue is one of reinsurance and whether there was something wrong there? I'll just say, I didn't realize that you were reinsuring that business but it always surprises me that lenders didn't want to reinsure that business given what they get in mortgage insurance and what they do on the credit side. I think the issue that I would – I guess, there is the issue of mortgage servicers somehow doing dastardly deeds in getting people into this. You seem to categorically deny that, is that correct?

<A – Gene Mergelmeyer>: Yes.

<Q – Steven Schwartz>: Okay. And then finally, the one thing, what do the servicers do – the article – I mean, I know you do so much of this business and it is so much done by you even under other people's names. Is there a RESPA violation here? That's what the article seemed to be alleging.

<**A – Gene Mergelmeyer**>: I firmly – it's certainly my belief that we operate in a very compliant manner. I know all of our lenders are very cognizant and also try and operate in a very compliant manner. And so, I believe and again, we've been in this business for a long time. I'm committed to it being compliant, value add for all constituents and I believe our clients are in the exact same position.

<**Q – Steven Schwartz**>: Okay. That's really the only issue that I was able to identify. I appreciate the insight.

Operator: [Operator Instructions] And our next guest is Jay Leopold [Legg Mason Capital Management]. Jay, your line is open.

<**Q – Jay Leopold**>: Thank you. I was wondering, if you could describe for us how you compete for business and win business? Is it price or are your prices relatively the same as others and you're competing for business based on either commissions or reinsurance rates?

<**A – Gene Mergelmeyer**>: Yeah, I think that's a really good question. And I going back to the publication, I think there was an inference that the servicer clients are not sensitive to rates. And it's certainly my belief that that's not true at all. And one of the thing – again, I think we believe that our rates are some of the lowest in the industry. And I believe that that's certainly a factor in allowing us to compete and win business. And it is a focal point, both our prospects and our clients. And then, quite frankly, when I look at what really sells our product, it's really around the treating of their customers, the customer service level that we're able to have with them, our ability to do the tracking well, be proactive and not false place insurance policies.

And trust me, our whole process is built on making sure that we do whatever we can to get that borrower to get their own coverage. And our lenders require it and we work with the investors, certainly the Fannie's and Freddie's of the world, to make sure that the tracking procedures are compliant and providing adequate coverage to the extent that the borrower needs to file a claim. There are people spending lots and lots of time trying to make sure that these programs are effective and that we are only placing insurance when there is no absolute other coverage.

<**Q – Jay Leopold**>: Do you believe you have the lowest cost structure in the industry or is your mousetrap any better than anyone else's?

<**A – Gene Mergelmeyer**>: Well, I certainly do. I believe we have a very good – again, I think through our proprietary technology and a number of the other things that we have in place, we have core capabilities around doing this administrative business and I think that provides us with tremendous competitive advantages and cost-effectiveness.

<**Q – Jay Leopold**>: And then final question, of all the servicers that you're dealing with, are they – do 100% of them receive either a commission or reinsurance or are some of them just straight?

<**A – Gene Mergelmeyer**>: I would say never say never.

<**Q – Jay Leopold**>: Okay, but...

<**A – Gene Mergelmeyer**>: ... not 100%, no.

<**Q – Jay Leopold**>: But most of them, as a rule, will receive one or the other and is one of them more common than the other? It sounds like commissions are more common than reinsurance?

<**A – Gene Mergelmeyer**>: Yeah, reinsurance is a very small minority.

<Q – Jay Leopold>: And then the commission rates vary depending on whatever you can negotiate?

<A – Gene Mergelmeyer>: That's true.

<Q – Jay Leopold>: Okay, thank you.

Operator: Thank you. [Operator Instructions]. And our next guest is Ryan Harkins [Chartwell Investment Partners]. Brian your line is open.

<Q – T. Ryan Harkins>: Hi, in situations where a servicer outsources the tracking and processing of hazard insurance to Assurant, does Assurant in those situations get all of the insurance business or is that bid out on a competitive basis for each individual borrower?

<A – Gene Mergelmeyer>: Well, I would say, if we are signing up for and the lender servicer is hiring us for the business, then we have the exclusive right to place the insurance in every one of the uninsured borrowers and that is what we do by contract.

<Q – T. Ryan Harkins>: And is the pricing in those situations, is it – it's negotiated upfront with the servicer or is it priced again on an individual basis?

<A – Gene Mergelmeyer>: Again, our rates and forms are regulated by the insurance departments and we implement those across our lenders. There is some rate flexibility based on certain underwriting criteria of the bank and deductibles and things of that sort, but generally our insurance programs are the same across each of our lenders.

<Q – T. Ryan Harkins>: Okay. And do you disclose how many of those outsourcing relationships you have and with whom?

<A – Gene Mergelmeyer>: No, we don't.

<Q – T. Ryan Harkins>: Can you disclose what percentage of your business is through those kinds of relationships?

<A – Gene Mergelmeyer>: Well, when you say those kind of relationships, may I just better understand that -

<Q – T. Ryan Harkins>: Well, maybe, it's 100%. I'm not terribly familiar with your business. What percentage of the written premium is through relationships with servicers where you essentially control 100% of the tracking and the processing for their loan portfolios?

<A – Gene Mergelmeyer>: Well, that would be the majority. It wouldn't be on 100%, but of the creditor-placed homeowners business that we do and again, we do write other products other than just this product. But, I would say the majority are – we would also perform the tracking services.

<Q – T. Ryan Harkins>: Got it. Okay, thanks very much.

Operator: Thank you. Our next guest is Jeff Schuman [Keefe, Bruyette & Woods]. Jeff, your line is open.

<Q – Jeffrey Schuman>: Thank you, good afternoon, thanks for doing the call. Gene, I was wondering if you could talk a little bit more about another aspect of this, which is, I guess, to what extent have the costs of the coverage been visible, I guess, to the ultimate investors in mortgage securities? Do you think that awareness is changing and what's the risk that they may just seek to require or incentivize the servicers to somehow search for more cost competitive solutions here?

<A – Gene Mergelmeyer>: Well, I can certainly appreciate that question. I don't know at this point that I would be in the position to really speculate on what a lender may be thinking at this point in time. What I can say is, we do work with them on a regular basis and we do work with the GSEs, the Fannies and the Freddies of the world and we are constantly talking about them to try and make sure that our programs are fitting everyone's needs.

<Q – Jeffrey Schuman>: Okay. And then to follow up on one of John's initial questions, he was asking about the filing process and you indicated that there is a lot data in the filings. But can you give us any sense of kind of what key metrics or thresholds or standards some of the states might look at? Because certainly, if we think about of sort of the typical minimum loss ratio requirements that exist in other lines of business, I mean, this kind of wouldn't hold up well against that kind of standard. So what exactly are – do you think the regulators are looking at when they sort of assess the reasonableness of the premiums?

<A – Gene Mergelmeyer>: Well, again, there are many factors. It is a unique business, there are catastrophic risks. So it does vary by state, so we, again, focus on each individual state. I don't want to get into specific targets or anything associated with that in any particular filings. But it is something that we work with each state based on the requirements of that state and based on the nature of the business in that state in terms of developing our filings.

<Q – Jeffrey Schuman>: And I think you mentioned 49 states. If that's the case, is there a different scheme in New York or what is the outlier?

<A – Gene Mergelmeyer>: The outlier would be Texas, which again, they have some mandated forms that don't fit this specific program that – such that it relies us – requires us to file it on a surplus basis, but we do file those forms and rates for the state, but it is on a surplus basis in Texas.

<Q – Jeffrey Schuman>: Okay. Thank you very much.

Operator: Thank you. Our next guest is John Nadel [Sterne, Agee & Leach]. John?

<Q – John Nadel>: Thanks, Betty. Gene, I've got a couple of follow-ups for you. I realize you guys care about the opinions of all the other participants who are at the table and have a – I'm sure – sort of a vested interest in making sure that everybody who has got a seat at the table of this whole process is – I guess, that everybody is feeling like they are on equal footing. But more formally or technically, do you have any fiduciary responsibility at all to the actual buyer of the mortgage, the CMBS holder or whoever that might be? Do you have any fiduciary responsibility to them?

<A – Gene Mergelmeyer>: In terms of our policies, our master policies that are issued to the lenders, the borrower is an additional insured. So they have the ability to file claims and we certainly service those claims.

<Q – John Nadel>: Understood. But if there is – okay. So if it goes – so if a property is foreclosed and the owner becomes the – is the owner of the mortgage-backed security – I guess, they'd have the wherewithal to file claims if they needed to?

<A – Gene Mergelmeyer>: Yeah...

<Q – John Nadel>: Okay.

<A – Gene Mergelmeyer>: ... it's a separate program, but we do have the real estate owned program that we do write for a number of our lenders and certainly, they have the ability to file claims as well.

<Q – John Nadel>: Got it. Got it. Maybe this question's more for Melissa – I don't know, is there any reason that you guys can think of why an article in American Banker would have any impact whatsoever on your ability to be buying back shares?

<A – Melissa Kivett>: Yeah, obviously, we can't comment about ongoing or potential buy backing – buyback activity. I mean, I think I can only refer to what we said on our third quarter call.

<Q – John Nadel>: Okay. I'm not asking you to say whether you are or aren't, I'm just wondering if an article in some industry paper were to – could have an impact on that?

<A – Melissa Kivett>: I guess, there is always ongoing viewpoints on the companies that are stretched through the press or like through you guys through analyst reports. So...

<Q – John Nadel>: Okay.

<A – Melissa Kivett>: I can't speculate, I probably have to refer to the lawyers to ask that question.

<Q – John Nadel>: Okay. And then the last one I've got for you, Gene, is just aside from the rate – the filing of rates state-by-state, are there any regular or – I don't know, somewhat regular, formal regulatory reviews that are done or conducted by any of the insurance departments or other bodies of your business?

<A – Gene Mergelmeyer>: Yes, yes, there are. We are subject to – certainly triannual audit for all the various insurance companies. We have other states that are doing regular reviews of us on an ongoing basis.

<Q – John Nadel>: Okay. Thanks a lot. Betty, I think we've got, you guys have a couple of more minutes. So you can go back.

Operator: Thank you. Our next guest is Mark Hughes [SunTrust Robinson Humphrey]. Mark your line is open.

<Q – Mark Hughes>: Thank you. In the foreclosure process, is – does the repayment of these insurance fees take precedence over other, I guess, contestants for whatever proceeds there are from the sale?

<A – Gene Mergelmeyer>: Run that by me one more time.

<Q – Mark Hughes>: Just the force-placed insurance, if in a foreclosure process, do you have precedence? Are you repaid first?

<A – Gene Mergelmeyer>: Would that be before the ultimate investor?

<Q – Mark Hughes>: Yes.

<A – Gene Mergelmeyer>: Yes.

<Q – Mark Hughes>: And then, do you ever get into situation where you negotiate that or is that pretty rock solid?

<A – Gene Mergelmeyer>: I really – that's not – I would refer you to the lending community. That's not really my expertise. So, I would just refer you to them for that question. I'm sorry.

<Q – Mark Hughes>: Thank you.

Operator: Thank you. Our next guest is Ryan Burns. Ryan, your line is open.

<Q – Mark Finkelstein>: Hello. It's, Mark Finkelstein actually from Macquarie. I guess a couple of question. Firstly, when you talked about the comparison between premiums and the voluntary versus the force-placed market, was that apples-to-apples thinking about the differences in the actual coverage levels, because, as I understand it, your product doesn't actually cover contents?

<A – Gene Mergelmeyer>: No. That's correct. Our product does not cover contents or liability.

<Q – Mark Finkelstein>: I guess if you – so, if you adjusted for that, what would be the differential in premium?

<A – Gene Mergelmeyer>: Well, again – it's going to vary significantly by state and again by where the individual property and the underwriting characteristics of that property. As I tried to mention – if you really look at our policies, I mean, they're certainly not the most desirable from an underwriting standpoint in most cases. So, we often deal with vacant properties or again, properties in very CAT prone areas or in undesirable neighborhoods where the risks are certainly higher. So, it's difficult because each individual policy has its own characteristics.

<Q – Mark Finkelstein>: Okay.

<A – Melissa Kivett>: I think the key point, Mark, is that there – as Gene's saying, is they're not underwritten and that reflects the difference in the rate – of the risks that we're taking on because we are not individually underwriting any of the policies and our commitment to our clients is that we will track and ensure that all people in accordance with the law will maintain the insurance and if they lapse on their coverage, we'll let them know. They'll have 60 to 90 days period on average to get a policy and if they don't, in accordance with the law, we'll actually place a policy. And that's the difference that's reflected in the premium.

<Q – Mark Finkelstein>: Okay. And then I guess just a broader question, I mean putting all the accusations that were in the article to the side. I mean, I guess the broader question is, how do we think about margins on this business going forward? I mean obviously the margins on this business or materially higher than what you see in the voluntary market. Clearly, there is a certain technology/kind of fee side of this that is part of that differential. But I mean, sometimes when you have these kind of issues, you have to start to think about that margin and whether there is risks of further margin compression just in the pricing of this business going forward.

And I'm just curious, if you have any views on – is this a change or in terms of how you have to think about the product, how you have to think about margins and how you have to think about pricing?

<A – Gene Mergelmeyer>: Well, it's certainly difficult to speculate all the ramifications of articles and whatever else that are going to occur here . But think of – oftentimes, when we think of our business, think of the fact that it is very, very CAT prone. Think about how we would be similar to – let say our reinsurer, who quite frankly, has to have pretty low loss ratios in non-CAT periods, because we are susceptible to volatility around CATs, we have to run it at lower loss ratios in non-CAT times. We've been lucky enough to have those situations occur in the last couple of years, which has produced some of our lower loss experience, but again I think I pointed out, with 50% of our in force coverage being in CAT prone states, we certainly have a CAT exposure to our business model.

<A – Melissa Kivett>: Yeah, and you could see from our reported results that since going public in 2004, we've had in excess of 500 million in gross CAT losses, to Gene's point.

<Q – Mark Finkelstein>: Okay. Thank you.

Operator: Thank you. That concludes our Q&A session. I'll turn the call back over to the John Nadel.

John Nadel, Analyst, Sterne, Agee & Leach, Inc.

Thanks Betty. Gene and Melissa, thank you so much for spending the time with us today. Really appreciate you taking the time out to do this. I think it was very helpful for all of us.

Melissa Kivett, Senior Vice President, Investor Relations

Great. And thanks so much John, we appreciate you facilitating the call and for everyone who was able to call in and we will post a transcript on our call for people who want to reference that. Thank you so much.

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

All right. Thank you.

Operator: That concludes today's conference. Thank you for participating. You may now disconnect.