

2009 Edition Number 1

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For additional information or clarification regarding any of the articles published in *The Guardian*, please contact Ms. Paula Anders, WNC First Marketing Manager at panders@wncfirst.com

WNC's Mission

WNC is a well-known, trusted advisor whose mission is to deliver risk protection solutions to financial institutions, insurance companies and agents.

As a company, we continuously invest in our employees, developing their talents, to earn the confidence of our clients and the support of our shareholders.

From The President and CEO At Your Service

by William M. Keeler



William M. Keeler
President and CEO

If I hadn't read it in the newspaper or hadn't seen it on television, I would have never believed it, but on March 10, the front page of the New York Times revealed how our economy is near a "depression" and on Sunday night, March 15, Ben Bernanke, Chairman of the Board of Governors of the US Federal Reserve, was on "60 Minutes" for a live interview.

Both of these indicate to me how serious our economic situation is. In fact, I mentioned in my last letter that this downturn in the economy is, without a doubt, the worst that anybody currently working has experienced or probably will ever experience.

Using the "depression" word and having the Federal Reserve Chairman become "human," is very telling. Clearly our government is extremely nervous about group psyche and how we will react to this downturn. Will we break the cycle of fear by spending or will we continue desperately to save every penny we can? These are now the really big questions driving the economy down because I believe we have now passed the worst of this crisis and the answers to these questions will determine the length of this recession.

In spite of all of the negative publicity TARP and other government programs have received, I personally believe that they have caused the public to be less concerned about the failure of our financial institutions. In fact, if you think about it, if there really was deep concern on our part, there would be a run on banks such as Citibank. This hasn't happened and I think it reflects the fact that we all believe that the government will stand behind our banking structure.

This doesn't mean that the crisis is over. What it means is that it is slowly beginning to repair. We will have a sharp recession that will take us into the year 2010 before we see a recovery of any significance, but I don't think this recovery will take us back to the bull days of the 80s, 90s, or early 2000s.

When you think about the bubble bursting and credit drying up, you realize that much of our growth over the last 30 years was artificially inflated by credit. With less credit in the marketplace, there will be less retail sales, less housing, less auto sales, less travel, etc.

The bottom line is, in my opinion, although we will recover, it will not be especially robust. We will need to adjust our thinking to "less."

The key point is how we are addressing the causes of this downturn. I have read that the most informed people would blame it on three issues:

1. A very loose monetary policy carried out by the Federal Reserve for far too long
2. The politicization in America of the right for everyone to own a home
3. The absolute breakdown of legislative and governing bodies responsible for monitoring our financial institutions

Over the next few years, we will be absorbed in making sure that these issues are fully addressed and intelligent policies put in place.

Even if we do that, I am willing to bet that it will be well into my young grandchildren's lives before we see another big boom.

Hot Issues Happy Talk

by Jeff Thredgold, CSP, President,
Thredgold Economic Associates

The “dismal science” of economics typically focuses on “bad” news. We clearly face many significant challenges...no argument here. However, there are also many favorable developments taking place within the U.S. economy. This piece focuses ONLY on the “good” news...

- The consensus of forecasting economists still expects a return to positive (not impressive, but positive) U.S. economic growth during this year's third quarter
- Between 1980 and 2007, total emissions of major air pollutants within the U.S. dropped by 52%
- The number of people who have quit smoking (46 million) now exceeds the number who still smoke (45 million). Roughly 21% of adults smoke today, versus nearly half in the early 1950s
- A recent poll of more than 12,000 global business figures conducted by the World Economic Forum ranked the U.S. as the world's most competitive economy
- Traffic deaths per 100 million miles traveled during 2008 were the lowest on record
- Conventional thirty-year fixed-rate mortgages have been between 4.75% and 5.15% in recent weeks, some of the lowest levels on record
- The number of new cancer cases and deaths are falling for the first time since the government began compiling a report on long-term trends
- U.S. exports to China have risen roughly 24% per year since 2001, making China the fastest growing market for U.S. goods
- Incomes for the poorest one-fifth of all earners have grown an average of 3.9% annually since 1994, slightly outpacing the 3.4%-3.6% average gain of those in the middle three-fifths of incomes
- Average U.S. life expectancy has reached 78 years (men 75, women 80), the highest ever. This compares to 76 years in 1995, 68 years in 1950, and 47 years in 1900
- For every dollar of U.S. economic output generated today, we burn less than half as much oil as 30 years ago
- U.S. stock prices have risen roughly 25% during the past five weeks, the strongest rally in more than 70 years. The stock market—



typically focused 6-9 months ahead—sees a return to U.S. economic growth

- The U.S. trade deficit with the world fell for the seventh straight month in February to a nine-year low of \$26 billion
- Roughly 30% of trash was recycled or composted in the latest year, versus 16% in 1990
- A record 50.5 million foreigners visited the U.S. during 2008
- Seat belt usage by Americans was at 82% in 2007, versus 49% in 1990 and 14% in 1983
- A record 84.6% of adults over age 25 now have at least a high school diploma, versus 24.5% in 1940
- The number of people using public transportation hit a 52-year high during 2008
- No passenger died in commercial air travel accidents in 2007 and 2008, a period when commercial airliners carried 1.5 billion passengers. Unfortunately, that string was broken this year
- Violent crime declined 3.5% during 2008's first half versus the prior year. Violent crime overall is down 55% since 1993, with violence by teens down 71%. School violence has declined by half from a decade ago
- U.S. military deaths in Iraq during 2008 plunged by two-thirds versus the prior year
- Donations to charity set an all-time high in 2007, with more than \$300 billion donated by individuals, foundations, and corporations. As a percentage of GDP, Americans gave twice as much as the next most charitable nation...England
- Productivity of the average U.S. worker rose an average of 2.6% annually during the past 10 years, the largest gains in 40 years. Rising productivity is a long-term key to higher standards of living

- Air pollution declined 25% over the past 30 years even as the population and the economy grew. Water quality also continues to improve. More progress will occur in coming years as companies see rising value in “going green”
- Alcohol-related traffic fatalities in the most recently reported year dropped by more than half versus 20 years ago
- The upward “mobility” of the typical American remains the greatest in the world. Why? The U.S. economy “rewards” the combination of hard work and educational achievement more than ever before...and more than any other country in the world
- During the early 1960s, the five-year survival rate from cancer for Americans was one in three. Today it is two in three...continuing to climb...and the highest in the world
- More than three million girls participated in high school sports last year, part of a record 7.3 million total participants
- Women earned nearly 60% of all bachelor's degrees awarded in recent years, versus 43% in 1970 and 24% in 1950. Women earned a similar share of master's degrees
- Men's contribution to housework has doubled over the past 40 years, while their time spent on child care has tripled
- The Consumer Price Index (CPI) has actually declined 0.4% during the most recent 12-month period—the first 12-month decline since 1955—helping to stretch consumer incomes
- The U.S. role of dominance in the global economy in recent years has been as clear-cut as at any time since the 1950s

Jeff Thredgold, CSP is president of Thredgold Economic Associates, an economic consulting and professional speaking firm (www.thredgold.com).

Compliance Corner

Confused On Lender 45-day Flood Notice Requirements?

You're not alone. WNC often receives inquiries regarding flood lender-placement process. Following are three of the most common questions, and our responses:

1. When does federal law require a lender to begin the lender-placement notice-letter cycle? **After the lender determines that the collateral is not covered by flood insurance.**

2. Does the answer change for the expiration of a voluntary insurance, or lender-placed insurance? **No. Whether the expired coverage was voluntary or lender-placed, once the insurance expires, the collateral is not covered by flood insurance.**

3. May a lender charge a borrower for the cost of lender-placed insurance (including the 45-day lender notice period)? **Yes. Federal law explicitly allows a lender to charge a borrower for the cost of lender-placed insurance.**

The easiest way to discuss the answers to these questions would be to examine the loan process and the governing federal law chronologically.

Loan Origination

Under federal law, each federally regulated lender is charged with the duty to ensure that the borrower maintains continuous flood insurance coverage on collateral securing a designated loan.

Under 42 USC § 4012a(b)(1), the Federal Deposit Insurance Corporation ("FDIC"), issued this regulation, which states in pertinent part:

A bank shall not make, increase, extend, or renew any designated loan unless the building or mobile home and any personal property securing the loan is covered by flood insurance for the term of the loan. . . . (12 CFR § 339.3(a))

Nothing in this regulation requires the lender to pay for the flood insurance premium or any fees and this includes the 45-day lender notice cycle period.

Rather, the lender is simply forbidden from making, increasing, extending or renewing a designated loan unless flood insurance coverage is present.

A lender complies with this federal mandate by simply refusing to close the loan unless the borrower purchases flood insurance coverage.

Once the borrower purchases the flood insurance, the lender may then close the loan in full compliance with federal law.

Insurance Expiration

Federal law requires the insurance to remain in effect for the term of the loan. To facilitate compliance, federal law also requires each flood insurer to provide the borrower and the lender with a 45-day notice that the flood insurance is going to expire.

The Director (or the designee of the Director) shall, not less than 45 days before the expiration of any contract for flood insurance under this title, issue notice of such expiration by first class mail to the owner of the property covered by the contract, the servicer of any loan secured by the property covered by the contract, and (if known to the Director) the owner of the loan. (42 USCS § 4104a(c))

Nothing in this regulation requires the lender to provide an expiration notice. Rather, the lender (like the borrower) should expect to receive one from the insurer.

The insurer must mail an expiration notice, at least 45 days before expiration: (1) to the borrower, (2) to the servicer, and (3) to the lender, if known. It makes no difference if the insurance is lender-placed or voluntary, the insurer must issue the expiration notices.

Insurance Renewal or Lender-Placement

At loan origination, the borrower is required to obtain flood insurance at the borrower's expense, or the loan can not close.

Prior to expiration, the insurer issues an expiration notice to the borrower (and the

lender). If the borrower fails to renew the flood insurance, at the borrower's expense, federal law requires the lender to purchase the insurance itself and empowers the lender to recover this expenditure by charging the borrower for the cost of the insurance.

The FDIC regulation states:

If a bank, or a servicer acting on behalf of the bank, determines, at any time during the term of a designated loan, that the building or mobile home and any personal property securing the designated loan is not covered by flood insurance or is covered by flood insurance in an amount less than the amount required under § 339.3, then the bank or its servicer shall notify the borrower that the borrower should obtain flood insurance, at the borrower's expense, in an amount at least equal to the amount required under § 339.3, for the remaining term of the loan. If the borrower fails to obtain flood insurance within 45 days after notification, then the bank or its servicer shall purchase insurance on the borrower's behalf. The bank or its servicer may charge the borrower for the cost of premiums and fees incurred in purchasing the insurance. (12 CFR 339.7)

Nothing in this regulation relieves the borrower of the burden of paying for the required insurance. In fact, this regulation affirms that the insurance must be obtained, "at the borrower's expense" and that if the lender is forced to obtain the insurance, the lender may "charge the borrower for the cost" of the coverage.

Beginning at loan origination, and continuing for the term of the loan, the borrower is expected to pay for the cost of the insurance, even if the lender must purchase the insurance itself.



This regulation mandates a five-step lender-placement process:

1. Determine that the collateral is “not covered by flood insurance”
2. Notify the borrower of the need to “obtain flood insurance, at the borrower’s expense”
3. Wait “45 days after notification”
4. Purchase the insurance
5. “Charge the borrower for the cost” of the coverage

The lender’s duty to start the 45-day lender-placement notice-letter cycle begins when the lender “determines” that the collateral “is not covered by flood insurance”. It makes no difference if there was never any coverage or if the coverage expired.

Likewise, it makes no difference if the collateral was insured by lender-placed insurance or voluntary insurance; the lender’s duty is triggered when it determines the collateral is uninsured.

When the insurance expires, the collateral “is not covered by flood insurance”. Only after the lender has determined the insurance has expired, must the lender begin the lender-placement notice-letter cycle.

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Technology Bulletin

Malicious software is an issue affecting us all

by Greg Baltzer, Senior Vice President Technology

All of us that own a computer are aware that malicious software (virus, ‘malware’, phishing) is rampant in the online environment we use in our daily lives. It affects us at home and in the workplace. As the developers of this software get more sophisticated with their methods and tools, it is becoming a more difficult challenge to operate in the online world without some risk.

Symantec, one of the world’s largest software vendors in the data security marketplace has recently released their report on 2008 Internet security issues. There is some startling information in the report on the rapid growth of malicious software on the Internet. Symantec created more than 1.6 million malicious code signatures in 2008 alone. That number represents 60% of ALL the signatures they have ever created. They estimate that there are more than 245 million malicious code attacks world wide each month.

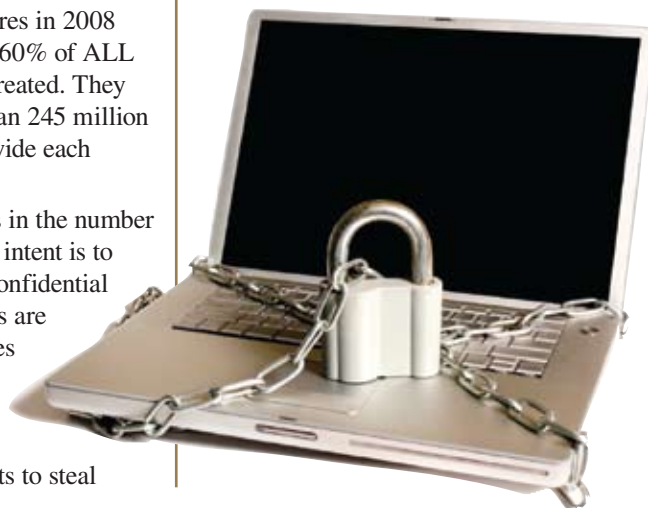
We are seeing huge increases in the number of ‘phishing’ scams, where the intent is to ‘fool’ the user into supplying confidential information. These type attacks are now being seen in text messages sent to cell phones, not just email. Symantec estimates that 90% of all the threats identified in 2008 were attempts to steal

confidential information as that is where the money is.

At WNC we acknowledge the environment we all operate in and are doing all we can to minimize the risk. We have implemented three different methods of exchanging secure email between us and our clients. We have established secure FTP connections traveling over VPN connections to make any data flowing between us as secure as possible. Our email filters strip out more than 25,000 ‘spam’ email messages daily, including many ‘phishing’ emails.

We will continue to provide secure, reliable methods of communicating with our clients to do our best to avoid the pitfalls that come with doing business in the online world we live in today.

For more information regarding any aspect of our data security measures please contact Greg Baltzer in the South Pasadena corporate office at (800) 423-2497, ext. 6315.



Operations Corner

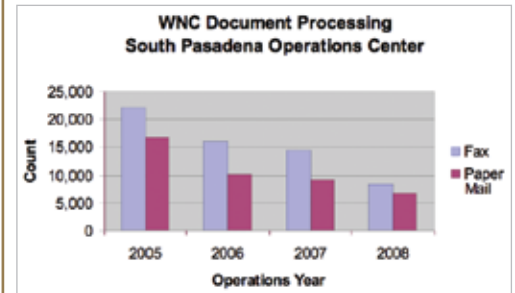
When Less Is More

by Ann Morlan, VP of Operations, South Pasadena

Here at WNC’s South Pasadena Operations Center, we are proud of the big gains we’ve made in moving toward a more paperless environment. Not only does it make our operations “greener” and more eco-friendly, our clients also enjoy significant benefits such as:

- Shorter processing time
- No lost documents
- Multiple coverage orders in Excel increases speed and accuracy
- Policy and refund reports in Excel provide different sorting options for quicker and easier research and processing

As you can see from the chart below, we have continuously reduced our fax and paper documents since 2005 when we launched our paperless initiative.



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Claims Corner

April Forecasts for the 2009 Hurricane Season

by Mark Sarrett, President, Precise Adjustments, Inc.

The Colorado State University’s hurricane forecasting team, led by Philip Klotzbach and William Gray, have forecast an average Atlantic basin hurricane activity for the 2009 season, according to a new report from the Tropical Meteorology Project.

The team’s second extended-range forecast for the 2009 hurricane season anticipates 12 named storms forming in the Atlantic basin between June 1 and November 30. Six of the 12 storms are predicted to become hurricanes, and of those six, two are expected to develop into intense or major hurricanes (Saffir/Simpson category 3-4-5) with sustained winds of 111 mph or greater.

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The meteorologists are basing their updated opinions on cooler than anticipated water temperatures in the Atlantic Ocean, along with the anticipation of an El Nino event in the Pacific Ocean. In the past, an El Nino event has served to cause upper level wind disturbances (or wind shear) that inhibit the formation of hurricanes over the Atlantic Ocean.

The team, which was very accurate last season, issues further updates as the hurricane season approaches that usually contains more exact information. Their final hurricane season prediction will take place in June—just before the beginning of the 2009 hurricane season.

This downgraded forecast is based on an extended-range early April statistical prediction scheme that uses 58 years of data. This statistical model explains a considerable amount of hurricane variability in “hind casts” issued from 1950-2007. Over this time period, the three-predictor scheme correctly forecast above- or below-average seasons in 45 out of 58 years. The forecast model also successfully predicted an above-average season in 2008.

Even though this season is currently being predicted to be an average year for hurricane formations, Gray said, “We are currently in an active period for Atlantic hurricane activity. This active cycle in the Atlantic basin is expected to continue for another decade or two at which time we should enter a quieter Atlantic major hurricane period like we experienced during the periods from 1970-1994 and 1901-1925”.

The CSU hurricane forecast team also predicts a 63 percent chance that at least one major hurricane will make landfall on the US coastline in 2009. The long-term average probability is 52 percent.

For the US East Coast, including the Florida Peninsula, the probability of a major hurricane making landfall is 39 percent (the long-term average is 31 percent). For the Gulf Coast from the Florida Panhandle west to Brownsville, the probability is 38 percent (the long-term average is 30 percent).

Rusty Pfost, who is in charge of the National Weather Service headquartered in Miami, Florida states, “I hope they’re right. It like to have something resembling normal this summer. I’m tired of above average seasons.” Randy also recalled that Hurricane Andrew, one of the three most powerful hurricanes to strike U.S. land formed during a season which was also predicted to be an otherwise quiet

summer of 1992, so you never know.

As this season approaches, it always makes sense to be prepared as an individual and as a financial institution and/or insurance agency. Please take the time now, before we get too close to the season, to do all that you need to do to prepare your family, friends and businesses.

Product News

What is the best method for protecting a bank’s automobile loans?

by Gina Worthington, Vice President, Lender Placed Insurance Products



This is a common question asked by risk and loan portfolio managers. Not surprisingly, since every bank is unique, the answer will depend on a number of factors such as current and future exposure to risk, internal systems and resources, and cost objectives. Reviewing internal processes is necessary in order to determine which programs and which processes are the best fit for a lender’s situation. Options include blanket coverage for all loans but the most comprehensive program is a lender placed program.

Collateral Protection Insurance (CPI) is a program designed to work with a lender’s insurance tracking mechanism (internal or outsourced) on the lender’s collateralized loans. In the event a borrower does not maintain insurance as required by the security agreement, a certificate of insurance is issued, and the cost of the placed insurance is charged to the individual borrower.

An active follow-up plan with borrowers to obtain evidence of insurance encourages borrowers to obtain and maintain their own insurance. Only those borrowers without coverage are charged for the insurance. The CPI program provides the borrower with comprehensive and collision coverage so vehicles can be repaired which helps keep the borrower in the vehicle, resulting in reduced repossessions

Who is WNC?



Stephen Luther, IT manager

Meet Stephen Luther

Since joining WNC in 1984, Stephen has seen the company grow from a relatively small family-owned business to its current position as a leader within the insurance industry providing a multitude of voluntary and lender placed insurance products with combined sales topping \$150 million in 2008.

Stephen graduated from Bucknell University in 1973 with a Bachelor’s Degree in Business Administration. After graduation, he worked for the Los Angeles Hilton as an internal auditor for eight years. While working for the Hilton, he completed a program at Woodbury University concentrating in computer sciences. He began his career with WNC in 1984 as a junior programmer and has advanced to his current position as IT manager.

As IT manager, Stephen is involved with all departments within WNC as well as with some of our major lending institutions such as Wells Fargo and Citibank. Over the years, he has been responsible for designing and implementing EDI transmissions from our clients in order to automatically process policies. Stephen is currently involved with beta testing of WNC’s new lender placed policy management system (CERTUS I) which is scheduled for release in mid 2009. In addition, Stephen is also working with the Products Department to implement a new product REO program (REOSelect) which is a customized program to cover a lender’s REO properties. He has been a member of the Disaster Recovery (DR) Team for the South Pasadena office for the past five years.

As you can see, the IT Department never lacks challenges and as member of this department, Stephen will continue to look forward to tackling these challenges in order to meet our customer’s needs.

Conference Update

NFIP National Flood Insurance Program

April 19-22, 2009
Sheraton Boston Hotel
Boston, MA
(301) 386-6346

GNECUS The Great New England Credit Union Show

April 21, 2009
Holiday Inn
Boxborough, MA
(617) 896-5314

Fidelity Information Services (Formerly Alltel)

April 26-29, 2009
Orlando World Center Marriott
Orlando, FL
(904) 357-1452

NACUSO The National Association of Credit Union Service Organizations

May 3-6, 2009
Encore Las Vegas
Las Vegas, NV
(888) 462-2870

LBA Louisiana Bankers Association

May 13-15, 2009
New Orleans Ritz- Carlton
New Orleans, LA
(225) 387-3282

AAMGA American Association of Managing General Agents

May 17-20, 2009
Boca Raton + Club
Boca Raton, FL
(610) 225-1999

NYBA New York Bankers Association

June 10-12, 2009
Otesaga Hotel
Cooperstown, NY
(212) 297-1662

CMBA California Mortgage Bankers Association

August 9-11, 2009
Wynn Las Vegas
Las Vegas, Nevada
(916) 446-7100

Operations Corner continued from page 4

As we continue to process less paper, we gain more in efficiency and our clients benefit from quicker, better and more accurate reports and information. In today's economy, this is surely one of a few instances when less is actually more.

If you have questions or comments, please call me at (626) 463-6339 or send an e-mail to amorlan@wncfirst.com. It will be good to hear from you!

Product News continued from page 5

and charge-offs.

CPI programs have greater availability of coverages than blanket programs including higher limits and lower deductibles. Also, added protection through coverages such as Skip and Confiscation, Repossession Expense Reimbursement, and Mechanics Lien Reimbursement all assist the lender with expenses. The most unique coverage of a CPI program is Premium Deficiency Coverage which provides protection for the cost of the premium.

Risk reduction and minimizing charge-off dollars is a very important part of any collateral protection program. How protected is your portfolio?

If you have questions regarding information disseminated at these meetings or need information about upcoming conferences please feel free to contact: Sheri Kordsmeier, 626-463-6311, Lisa Samaniego, 909-392-3754, Dava Wittig, 262-789-8202



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- ✓ Select the coverages you want and how much you need (including Liability and Earthquake)
- ✓ Get coverage only for the time you need it
- ✓ Choose the deductible that's right for you

... in three quick steps.

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