Multifamily Mortgage Business Lender Letter 15-02

Date: January 20, 2015

To: Multifamily Lenders

From: Rob Walton, Vice President for Debt and Equity Asset Management

Subject: Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA/TRIA”)

HIGHLIGHTS

- On Monday, January 12, 2015, President Barack Obama signed a bill into law that extends the termination date of the Terrorism Insurance Program established under the Terrorism Risk Insurance Act of 2002 for six years (the most recent reauthorization expired December 31, 2014), until December 31, 2020.

- As this is a reauthorization of the original bill, there is no lapse from December 31, 2014 to January 12, 2015 when the bill was signed by the president. The Treasury Department will now institute rulemaking for the implementation of the reauthorization of the law.

- The Terrorism Coverage Moratorium outlined in Lender Memo 14-07 and which delegated temporary authority to Lenders/Servicers to waive terrorism insurance coverage, as, is rescinded, effective January 20, 2015, and the Terrorism Insurance Coverage requirements referenced in Part IIIA, Section 322.03.F of the Multifamily Selling and Servicing Guide are now back in effect.

Following are some of the changes in the Terrorism Risk Insurance Act that will come with the reauthorization:

- The amendment phases in a new program trigger for all certified acts of terrorism from $100 million to $200 million by 2020.

- The program triggers will phase in as follows: $100 million in 2015; $120 million in 2016; $140 million in 2017; $160 million in 2018; $180 million in 2019; and $200 million in 2020.

- Certification of Acts of Terrorism by the Secretary of the Treasury, under the amendment, must be executed in consultation with the Secretary of Homeland Security. Previously there needed to be concurrence with the Secretary of State.

- Payment Co-Share: Increases from 15 percent to 20 percent for insurers, with no change in 2015, then phased in 1% per year. During this time, the federal government’s co-share decreases from 85% to 80%.

- Studies/Reports/Misc.:
o  GAO study required on the impact of upfront premiums and reserve fund implications.

o  Treasury will do annual study on the competitive challenge to small insurers participating in the program.

o  Creates advisory committee on risk spreading mechanisms.

o  Treasury to require insurers to submit terrorism insurance data.

**Impact on Borrower Premiums:**

The full impact on premiums as a result of the changes in the reauthorization will not be seen immediately. Marsh (a large national and international insurance broker and risk management firm) indicates that: “Congress’ swift passage of TRIPRA, after reconvening this week, is likely to generally blunt any long-term price increases or a lack of adequate insurance capacity in the terrorism insurance markets.” The phases and oversight, as outlined above, will also help mitigate premium increases.

**Effective Date**

This Lender Letter is effective January 20, 2015.

**Contact Us**

Please contact the Insurance team at Drawer_Insurance@fanniemae.com if you have any questions.