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April 30, 2018

Richard Ifft
Senior Insurance Regulatory Policy Analyst
Federal Insurance Office
Room 1410 MT
Department of the Treasury
1500 Pennsylvania Avenue NW
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Submitted via: www.regulations.gov

RE: 2018 TRIP Effectiveness Report, Document Number 2018-05433

Dear Mr. Ifft:

On behalf of the 1.3 million members of the National Association of REALTORS® (NAR) and its commercial affiliates the CCIM Institute and the Institute of Real Estate Management (IREM), thank you for the opportunity to provide comments to the Federal Insurance Office (FIO) within the Department of the Treasury on the effectiveness of the Terrorism Risk Insurance Program (TRIP) for use in the FIO's report to Congress. NAR is a strong supporter of TRIP, as it is critical to the continued availability and affordability of terrorism risk insurance for commercial real estate in the U.S. Since its reauthorization in January 2015, NAR members have not reported any difficulties for themselves or their clients in obtaining terrorism risk insurance policies, and studies have found that more than 60% of American businesses have terrorism coverage, a testament to the program's effectiveness.

In the aftermath of the September 11, 2001 terrorist attacks, insurers backed out of the terrorism risk insurance marketplace, causing those policies to be suddenly scarce. Where they were offered, the cost was prohibitively high. This prompted Congress to pass the "Terrorism Risk Insurance Act" (TRIA) in 2002, creating the federal reinsurance risk-sharing program between the U.S. government and private insurers. TRIA mandated that insurers make available terrorism coverage along with property and casualty lines, and in return, the U.S. government provides a federal "backstop" for losses above a triggering amount (in 2018, that amount is $160 million) from a certified terrorist attack. Since its initial passage, the TRIP has been reauthorized three times, in 2005, 2007, and most recently in 2015 (it will expire on December 31, 2020).

NAR's membership includes thousands of commercial practitioners who work in all areas and markets of the country. They are involved in every sector of the industry: commercial development; sales of industrial, office and retail buildings; hospitality and resort sales; commercial property management; and leasing of commercial properties of all kinds.[1] Their work is important to the communities they live and work in, and to the U.S. economy as a whole. To these members and their clients, terrorism risk insurance is often a necessary part of securing financing to close deals,

[1] National Association of REALTORS® 2017 Commercial Member Profile: https://www.nar.realtor/research-and-statistics/research-reports/commercial-member-profile

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build new developments, and open businesses, which in turn create jobs and bring money into those communities. Sixteen years after its creation, TRIP continues to be crucial to keeping that coverage available and affordable for American businesses of all types and sizes.

Absent TRIP, it is likely that the country would see a repeat of what occurred in 2001, with many insurers no longer offering terrorism risk insurance coverage, or continuing to offer it only at significantly higher prices. In fact, in the lead up to the 2015 reauthorization of TRIP, uncertainty about the program's future resulted in reports from NAR members of insurers including "springing exclusions" in their policies. A springing exclusion is a provision that automatically voids a policy if a specific event happens – in this case, if Congress failed to reauthorize TRIP. Had that occurred, many borrowers would have found themselves in technical default of their financing agreements. In that case, commercial mortgage-backed securities (CMBS) borrowers face the threat of default and bond downgrades. In the retail and multifamily sectors, a jump in terrorism risk insurance premiums can reduce the value of commercial properties. The cumulative effect would have been detrimental to the commercial real estate industry, and to the U.S. economy overall.

With TRIP in place, the availability and affordability of terrorism risk insurance in the U.S. is secure. The public/private partnership of TRIP and private insurers protects the nation's business sector by ensuring that adequate insurance coverage is available to effectively manage economic risks. The "make available" requirement in TRIP is particularly effective. Between 2003, the first full year of the program, to 2006, take up rates for terrorism risk insurance increased from 27% to 60%.[2] According to the Marsh 2018 Terrorism Risk Insurance Report, in 2017 62% of U.S. companies purchased terrorism risk insurance.[3] These companies represent all types of commercial enterprises, and can be found in all regions of the country.

As mentioned above, NAR commercial members are involved in all aspects of the commercial real estate industry. One characteristic that distinguishes these practitioners from many others in the field is that their deal sizes tend to be on the lower end of the spectrum, with the reported median dollar value of sales transaction in 2016 at $543,500, and the median leasing dollar value at $220,000.[4] This puts the majority of NAR commercial members' clients in the "small business" category, which is also the group that may face the most difficulty affording terrorism risk insurance without the existence of TRIP. These small businesses, the backbone of the U.S. economy, would be most vulnerable to a decrease in availability and an increase in the cost of coverage, both outcomes that TRIP and its "make available" requirement protects against.

Thank you for the opportunity to share NAR's views on the effectiveness of TRIP. We look forward to continuing to work with the Federal Insurance Office and Congress to ensure the reauthorization of this important program.

Sincerely,

Elizabeth J. Mendenhall

Elizabeth Mendenhall
2018 President, National Association of REALTORS®

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[2] "Report on the Overall Effectiveness of the Terrorism Risk Insurance Program," Federal Insurance Office, U.S. Department of the Treasury. https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2016_TRIP_Effectiveness_%20Report_FINAL.pdf. June 2016.

[3] Marsh 2018 Terrorism Risk Insurance Report: https://www.marsh.com/content/dam/marsh/Documents/PDF/US-en/Marsh_2018%20Terrorism%20Risk%20Insurance%20Report.pdf. April 2018.

[4] National Association of REALTORS® 2017 Commercial Member Profile: https://www.nar.realtor/research-and-statistics/research-reports/commercial-member-profile