

HARRP NOTES

Housing Authorities Risk Retention Pool
2500 Main Street, Suite 120
Vancouver, Washington 98660
(360) 694-3500 • (360) 694-3600 FAX
Website: www.harrp.com



PLEASE ROUTE:

- _____ Executive Director
- _____ Accounting / Finance
- _____ Maintenance
- _____ Property Management
- _____ Personnel
- _____ Safety Program Coordinator
- _____ Other

DECEMBER 2006

Volume 14, Issue 4

CHANGE IN COVERAGE—PLEASE NOTE!

The Housing Authorities Risk Retention Pool (HARRP) provides property coverage on a rating formula which bases contributions to the pool on the Total Insured Value (TIV) of the structure. In the past, HARRP modified its coverage agreement to reflect losses only to be paid based on the reported values of units, not structures.

Section 1, of the Coverage Agreement stipulates what will be covered for property losses. Paragraph 2 states, “*Our (HARRP) total liability for the entire property claim shall not exceed 125% of the reported value of the damaged unit(s).*” Further reading, “*In a multi-unit building, the reported value of the building shall be divided by the number of units to arrive at the reported value of damaged units unless you have reported values for individual units.*”

HARRP “capped” its coverage at 125% of the reported value, by unit. The structure TIV is divided by the number of units. Therefore, if a unit burns, the loss is capped at 125% of the unit value. There is no differential between the cost of a studio, 1 bedroom, 2 bedroom, 3 bedroom, etc. The costs of reconstruction increases with the size of the unit. Several HA’s have questioned this stipulation to reporting inventory and there is significant confusion about the practice. This practice puts the HA in a precarious situation of possible under-insuring, unless specific steps are taken to accurately report values of each unit within a structure. This requirement would be administratively burdensome on both the HA and the HARRP staff.

HARRP staff has researched the issue of “unit” based coverage with HUD requirements and have determined that our basis for loss coverage may be in non-compliance with HUD’s mandatory requirement of required “blanket” coverage.

The HARRP Board of Directors has approved abandoning the “unit” loss cost and returning to loss costs allocated by building. This will eliminate much confusion and program administration issues being faced. In light of this change, it is imperative that the TIV’s are reviewed by our members at renewal. Beginning January 1, 2007, the HARRP staff will focus more resources on underwriting the properties at renewal. What this means is, if the TIV of a structure appears to be low, staff will perform an analysis of the property through a valuation software program to determine the adequacy of the declared value. If the values are determined to be low, HARRP will increase the values upon the member’s renewal. HARRP’s members will be responsible for challenging the new declared values before the renewal process is completed, if desired.

This is HARRP’s way of assuring that the declared TIV’s accurately reflect the costs of reconstruction in your area. Since losses are capped at 125% of the declared value, we do not want any unfunded surprises in the event of a loss.

LEAD BASED PAINT COVERAGE

An exclusion for which members have no coverage is lead paint ingestion claims. These claims are not only excluded by HARRP but also by commercial insurance companies on all housing insurance policies (including tax credit and non-profit housing). We have been working with a well known underwriting company backed by Lloyds of London to create a lead paint errors and omissions policy that includes contingent bodily injury claims for elevated blood levels. The policy will cover any listed program or location including: public housing, tax credit, non-profit housing, non-owned managed housing, section 8 visual inspections and XRF or EPA certified Risk Assessment inspections. It is intended to fill the gap of defense and injury claims for allegations that they received a lead based injury from any duty arising out of the housing authority’s work. One housing authority spent in excess of \$70,000 to defend a lead paint claim for which they thought they had coverage. It will be sold exclusively through HARRP Agency.

MARSHALL AND SWIFT PROPERTY VALUATION SERVICE

HARRP has purchased a web based property valuation service that will allow us to accurately depict current property values for replacement cost. This includes both existing and newly acquired properties being added to HARRP's portfolio. Use of this software will enable HARRP to arrive at and negotiate realistic agreed insurance amounts when adding member properties.

Marshall and Swift, the licensor of the software program, has licensed three (3) HARRP staff members to conduct the valuation reports; Bill Gregory, Al Alvarez and Rick Gehlhaar. We have tested the software on several renewals and at our members' specific request. The information generated has been accurate and easily obtainable by the HARRP staff. As you may be aware, Marshall Swift is one of the property valuation methods that HUD recommends for housing authorities.

We invite you to utilize this service if you have any questions or concerns regarding your declared property values. As stated, we are engaging Marshall and Swift at renewals when replacement cost figures appear to be low. However, HARRP openly invites you to utilize this new service!



SERVICES FOR OTHER ORGANIZATIONS

The Board of Directors and the Insurance/Underwriting Committee have determined a pricing basis for Section 8 E&O coverage for services rendered by HARRP members for other entities. This rate is for services that parallel what is typically provided in the Housing Choice Voucher program. Outsourcing administration services, specifically HQS type inspections, eligibility standards and income verification have become more prevalent as a revenue generating process for many of our members.

HARRP has adopted the policy of charging 75% of the E&O rate (currently \$1.66 per unit per year) to capture the risk exposure associated with partial administration services. This has been practiced specifically for HQS type inspections performed by a few of our members for parties other than HUD.

The issue at hand is the addition of other services, other than full Section 8 contract administration, such as eligibility and income verification, as well as lease administration. After lengthy discussions within the HARRP staff, the following recommendation has been approved by the Board of Directors;

“The rate charged for coverage of partial contract administration services conducted on behalf of governmental, non profits and private owners, not currently affiliated with HARRP, will be 75% of the Section 8 E&O rate charged to members. This rate will be charged annually upon renewal of the member. The 75% rate will be inclusive of all partial administration services, other than full voucher administration, performed by the member housing authority.”

Please notify HARRP if your Authority participates in this type of venture.

STREAMLINED PROPERTY COVERAGES

HARRP has experienced numerous requests for coverage on newly acquired properties through a homeownership program where single family homes are purchased at auctions or from sellers in default in order to get good prices. Typically, there is little to no advance knowledge that our members are purchasing the homes.

The HARRP procedure for adding newly acquired properties requests that we receive the Coverage Change form 60 days prior to the requested effective date of coverage. This does not mean that we do not provide coverage for 60 days, our turn around time is much quicker than 60 days. HARRP wants to assure adequate time to complete the underwriting process for newly acquired properties. If there is a problem of some kind, the member then has the opportunity to correct any issues (secure an inspection report, etc.) and still effect coverage in time.

(Continued on page 4)

HARRP has agreed on a streamlined property coverage procedure for members that experience this “quick purchase/quick sell” scenario. This streamlined coverage agreement is ***ONLY*** for properties that you acquire last minute and are going to be turned over very quickly, such as after a rehab, etc. These are properties that are not expected to stay on your inventory for any length of time. This is a limited coverage (Actual Cash Value v. Replacement Cost coverage) with specific coverage exclusions. HARRP will agree to insure the property immediately with limited coverage and the member pays an annual premium, whether the property is turned-over in less than one (1) year or not. This offsets the internal HARRP administrative costs. If the property then stays in your inventory over your annual coverage period, it would be subject to full underwriting criteria and the member would need to follow the underwriting procedures for renewal coverage to continue.

The criteria to qualify for this coverage are as follows:

- Property must be purchased with the intent of rehabilitation and quick resale
- Property must not be owned by the member over 1 year
- Member will submit the HARRP Coverage Change Form for each piece of property as quickly as possible after acquisition
- Property will be valued at Actual Cash Value (ACV), not Replacement Cost Value (RCV)
- Coverage will exclude code and ordinance upgrades
- Coverage will exclude all claims related to mold and/or water intrusion
- Coverage will exclude all claims related to vandalism and/or malicious mischief

If you have any questions or would like to invoke this special coverage option, please give the HARRP staff a call.

2007 RATES ANNOUNCED

| | <u>CA</u> | <u>OR</u> | <u>WA</u> | <u>NV</u> |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| Property | .00050 | .00064 | .00083 | .00106 |
| General Liability | \$ 9.90 | \$ 8.28 | \$10.56 | \$ 9.23 |
| E&O Unit Rate | \$ 2.13 | \$ 2.11 | \$ 2.94 | \$ 2.03 |
| E&O Employee Rate | \$125.68 | \$124.90 | \$227.22 | \$113.99 |
| Auto Liability — Urban | \$391.75/\$522.34 | \$362.14/\$482.85 | \$328.01/\$437.35 | \$363.38/\$484.50 |
| Auto Liability — Other | \$332.16/\$442.88 | \$333.02/\$444.03 | \$280.73/\$374.31 | ---- |
| Section 8 Liability | \$1.66 | \$1.66 | \$1.66 | \$1.66 |

We are pleased to announce that rates have been adopted and will be effective January 1, 2007 to December 31, 2007. Here are some highlights;

- Property - Rate reductions in all states reflects the increase in the TIV declared by the members for existing properties. The higher property fire claim activity in NV, OR and WA resulted in smaller rate reduction recommendations.
- General Liability - Rates are mixed with OR and WA receiving rate reductions while CA and NV received rate increases.
- E&O EPL – Rate reductions of 15% in CA, NV and OR with a 5% rate reduction in WA represents a very quiet 2006 claim year.
- E&O Units - Rate reductions in all states represents another quiet claim year.
- E&O Section 8 – No rate changes for 2007.
- Auto - Last years’ rate increases in all states except NV stabilized the rates and eliminated the need for rate changes in 2007 except for small reductions in non-urban WA and NV.



Season's Greetings!!