Neighborhood Risk Management
CORPORATION
NWOs working to insure safer communities

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HAPPENINGS AT NRMC

June 2014

NRMC MEMBER SURVEY

We will be distributing a brief survey to our members shortly. As a group program, NRMC's viability is dependent on serving the needs of our members. To help ensure that NRMC and HUB continue to meet the needs of our members, we want to assess member satisfaction.

We are trying our best to make the survey brief, yet meaningful and informative. Please respond to it quickly and thoroughly. This survey is not intended to be the only means by which you can provide us feedback. Your thoughts, comments, concerns or questions are always welcome.

IMPROVEMENTS TO THE NRMC PROGRAM

PER OCCURRENCE LIMIT ON LOSS PAYMENTS FROM NRMC MEMBER-FUNDED PROPERTY RETENTION FUND

The NRMC group insurance program provides its members with shared coverage, including aggregate limits and a shared member-funded self-insured retention ("SIR") from which the first dollar of losses are paid above the individual member's $5,000 deductible. For Policy Year 2014 (PY2014: April 1, 2014 to April 1, 2015), the shared policy limit of coverage for Property is $500 Million per occurrence, and for GL it is $100 Million per occurrence and a $100 Million aggregate limit per location.

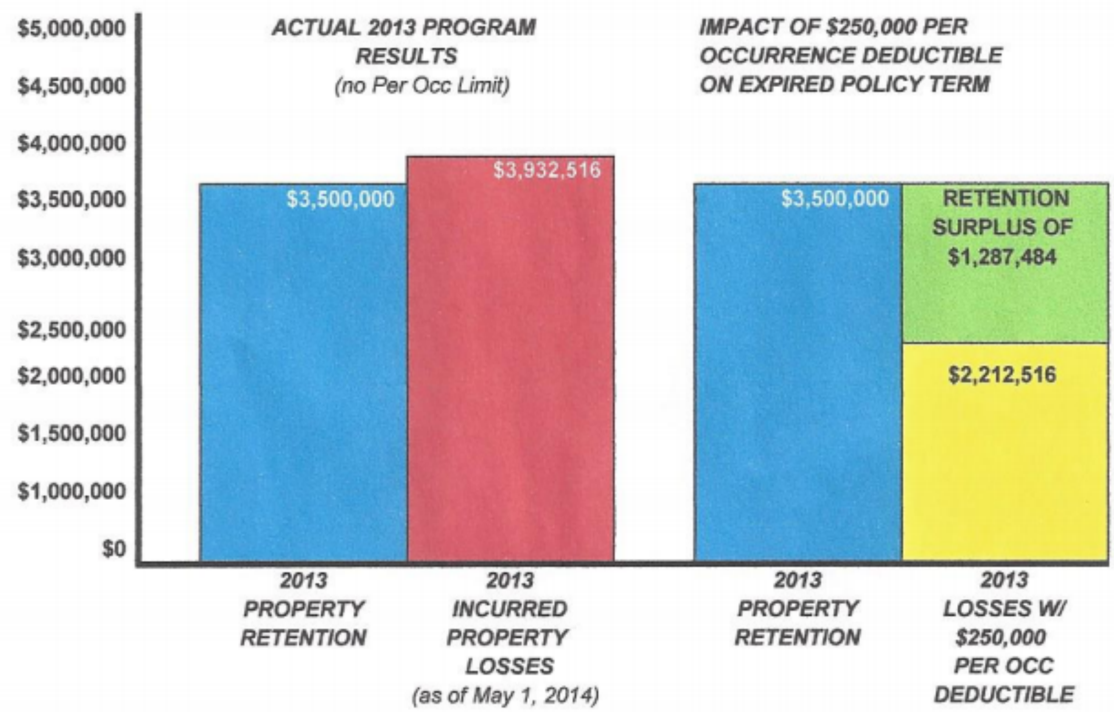
For the NRMC Program's shared retentions (SIRs) for PY2014, each member funded its allocated portion of the retentions at the beginning of each policy year. For PY2014, the SIR is $2.5MM for Property losses and $750,000 for GL losses.

For PY2014, the carriers agreed to a $250,000 per occurrence limit on the SIR or retention fund contributions to Property loss payments. This means that large Property loss(es) will not deplete the SIR and that the carriers bear more risk on large losses. This is a significant improvement for our program - something we have been seeking for many years.

Here is an illustration of how the $250,000 per occurrence limit works and how our program could benefit. In PY2013, a member suffered a $2MM property loss (fire). The loss depleted our Property Retention fund by $2MM. Had the $250,000 per occurrence been in place, the same $2MM loss would depleted the Property Retention Fund by $250,000 - not the full $2MM -- leaving $1.75MM more funds remaining in the SIR Property Retention account. The full amount of the $2MM claim will be paid: However, the needed loss funds above the SIR will come from the carriers; not the member-funded Retention!

We asked HUB to prepare an analysis of the impact of this change by applying the $250,000 per occurrence limit on the Program's losses for PY2013. For PY2013, as of May 1, 2014, NRMC incurred $3,932,516 in Property losses. These losses depleted the entire $3,500,000 Property Retention. Had the $250,000 per occurrence limit been in place for PY2013, then at the end of the policy year, instead of the depleted Property Retention fund, there would have been a net surplus in the Property Retention fund of $1,287,484. This amount includes reserves for incidents which are reported and can develop into claims. If the incidents do not develop into claims, then after a legally permissible passage of time, those reserves will not be needed and have the potential of providing additional source of surplus for our members.

LOOKING AT NRMC 2013 PROPERTY LOSSES TO RECOGNIZE IMPACT OF $250,000 PER OCCURRENCE DEDUCTIBLE LIMIT



As noted in the chart above, had the per occurrence SIR limit been in place for PY2013, NRMC members have been protected against the impact of a large, single loss on the Property Retention Fund. We hope that PY2014 will trend in a similar fashion and that our members will see the benefits of the change.

EXPLORING CAPTIVE INSURANCE

As part of our continuous efforts to make sure our Program remains competitive, NRMC is evaluating the structure of the existing program. With seed money from NeighorWorks America ("NWA"), we have begun to investigate a "Captive Insurance" model for the NRMC program.

In very basic terms, a captive insurance company is an entity that is formed to insure the risks of its owners, and has as its primary goal, the reduction of the entity's (and in turn, the owners') cost of risk. Captive insurance companies generally have lower expenses and costs of risk than conventional insurance markets, and are able to share the benefits of those savings with their owners.

Some of the risk management benefits that a captive may provide are: (1) reduced insurance costs - by retaining the premium for expected losses, thereby avoiding the premium loading for a commercial insurer's overheads and profits; (2) protected cash flow - reserves for unpaid claims and unearned premium, otherwise kept by a commercial insurer, can be held by a captive and invested. This takes advantage of the captive's ability to establish such reserves from pre-tax income that is not possible for a noninsurance entity; and (3) better matching of revenue and expenses. As losses emerge over a number of years, a captive is able to reserve from current funds for future claims payments, thereby matching revenue and expenses attributable to each financial year.

The many advantages that this type and form of alternative risk management structure can be summarized as follows: (1) **availability of coverage**; (2) **reduced reliance on commercial insurance** - as a captive matures and its net worth grows, it becomes capable of retaining a greater proportion of its owners' risks. The increased use of a captive diminishes the owner's dependence on commercial insurance; (3) i**mproved negotiating position - a**s the captive's ability to absorb risk grows, it improves the owner's negotiating position with insurance and reinsurance markets; and (4) **flexibility in program design** - a captive provides opportunities to more easily structure insurance programs since the captive is not subject to the same constraints and conventions normally evident with traditional insurers.

There are formation costs and capitalization requirements for forming a captive insurance company, and a host of other factors to consider.

In the coming months, we will be evaluating this structure with our consultants, and keeping our members apprised of the developments, providing you with much more detailed information.

LEADERSHIP CHANGES AT NRMC

At our recent annual Board meeting, Jim Ferris was elected to succeed Patrick Madden as NRMC Board President effective July 1, 2014. Patrick has served as President since 2007, and will continue his service as a Board member.

Jim is well-known by many of our members. Since 2007, Jim has served as the Executive Director of NeighborWorks Capital Corporation ("NCC"). Jim has 30+ years of senior management experience in both private and nonprofit organizations with expertise in real estate development, property management, and financial management. At NCC, Jim has overall responsibility for strategic planning and raising capital. Jim participates in various industry advisory committees focused on affordable housing finance and lending, including NeighborWorks' *Strength Matters* and CARS™ Data Platform Advisory Committee. Jim has been a member of the NRMC Board of Directors since September 2012.

Effective, June 1, 2014, two new directors joined the NRMC Board of Directors: **Michael Claflin** and **Sandi Levine**.

Michael Claflin is the Chief Executive Officer of AHEAD, Inc. In that role, Mike oversees an organization which has developed, owns and operates 330 units of affordable housing in nine northern New Hampshire communities. In addition to his work with AHEAD, Mike co-created Profile Capital LLC, a regional real estate investment firm for accredited investors, that provides consulting services for "startup" as well as seasoned corporate clients that includes assistance with the structuring of financial proposals, debt restructuring, and refinancing packages.

Prior to joining AHEAD, Mike worked for 19 years in the banking industry, most recently as Regional Vice President of Connecticut River Bank. He currently serves on the boards of FHLB Boston, Advisory Council and HOMEteam Education and Resources.

Sandi Levine joined Tenderloin Neighborhood Development Corp. ("TNDC") and the affordable housing professional community in 2010. Sandi shares management of over 32 historic and recently constructed multi-family buildings in San Francisco, providing nearly 3,000 residents with affordable housing in a supportive environment. Sandi leads the insurance and litigation management functions at TNDC. A major building fire in 2011 - *before TNDC joined the NRMC program* - provided hands on experience in risk management, emergency response, and the insurance claims process.

Prior to joining TNDC, Sandi practiced transactional law in San Francisco, and provided financial management and contract negotiation at University of California San Francisco, and worked in residential real estate.

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NRMC StoveTop FireStop Initiative

As of June 10, 2014, 92% of the units insured in the NRMC Program have installed StoveTop FireStop suppression devices. Many remaining members are in the process of installation.

Be counted among the safe members.

92% is excellent progress towards our goal of 100% installation. Congratulations to these Members. To date, there have been no reported kitchen fire losses where these devices are installed in our properties. There is no question, these devices save lives and money.

As a reminder, here are some STFS safety tips you may find helpful:

- STFSs have a 5 year life. For those who installed STFSs in your properties before our campaign began, remember to check that your devices have not expired or deployed or appear inoperable.
- Make STFS inspection a part of your routine maintenance visits and periodic inspections. Check to see if the devices remain sealed. If they have been activated, they must be replaced immediately.
- Make sure all residents are instructed on the proper use of the STFS safety device. Suggested **instructions** (in English and Spanish; WORD format) can be found at: NRMC STFS Resi Instructions .
- When you add apartments to your portfolio or when an apartment turns over, make sure that the apartment is outfitted with an operational STFS device. And remember to **instruct** new residents on kitchen safety and how the STFS devices operate.

To update your information or to learn more about this initiative, please contact Deb Aschheim at (212) 509-672 or daschheim@neighborhoodrisk.org.

PREVENT FALLS FROM WINDOWS

Each year, tens of thousands of children are injured or die in falls from unguarded windows. Now that the warmer weather has arrived, we take the opportunity to remind our members of the importance of making sure that window guards are properly installed in all of their properties. Local ordinances proscribe the applicable requirements for your locale.

Please make sure that window guards are securely in place. We recommend that all residents be reminded of the importance of window guards, even if there are no children living with them. For instance, they may want window guards in case:

- friends or family with young children who visit
- residents babysit for children in their apartment
- they have grandchildren visiting

- they have older relatives who might accidentally fall

Remind all residents of the importance of proper window safety and to ASK if they have any questions.