



Presenting a live 60-minute webinar with Q&A

Guaranty Insurance in Real Estate Finance Transactions – An Innovative Solution to Loan Guarantee Requirements

TUESDAY, OCTOBER 22, 2019

Today's faculty features:

Renat Yusufov, Partner, **Bullpen**, New York

Daniel Weingarten, CCIM, VP of Underwriting, **LGIS Group**, Atlanta

Bullpen

<https://bullpenre.com/>

Bullpen is **THE** place to hire commercial real estate talent for your business

Part-time or deal by deal talent for ... **underwriting, asset management, investor relations,** and much more ...

130+
Users



100%
U.S. Based



Curated
Talent



SPONSORED BY



Business | Real Estate | Facilities
Finance | Asset & Risk Management



THE TICI GROUP OF COMPANIES

The TICI Group of Companies was formed in 1921 as a family office firm. Now ninety-eight years later, is a national consulting organization with partners in sixteen states.

Recognized as an authority in every facet of Real Estate as a third-party provider for individual, corporate and institutional investors on office, retail, Industrial, land, with a special emphasis on healthcare.

Led by Helen Mendiola Banks, an industry leader with 42 years experience who is the third generation at the helm as Chairman. For more information about our four companies; Texas International Consultants, Incorporated, Stealth Realty Advisors, LLC, h2B Quantum Holdings, LLC & Rosemary Homes, LLC please contact Helen at helenbanks@ticigroup.com or 713-705-1598.

an innovative solution to loan Guarantee requirements

October 22, 2019 | 12:00 Noon EST



FEATURING

Daniel Weingarten, CCIM
Vice President Underwriting

Loan Guarantee
Insurance Services 

LGIS GROUP

www.lgisgroup.com

Presented by:

Bullpen

Guarantee Insurance in Real Estate Finance Transactions

Presented by:

Daniel Weingarten, CCIM- VP Underwriting— LGIS Group

www.lgisgroup.com

October 22, 2019

Table of Contents

01 How The World Currently Works



02 The Problem



03 The Solution



04 How to Use the Solution



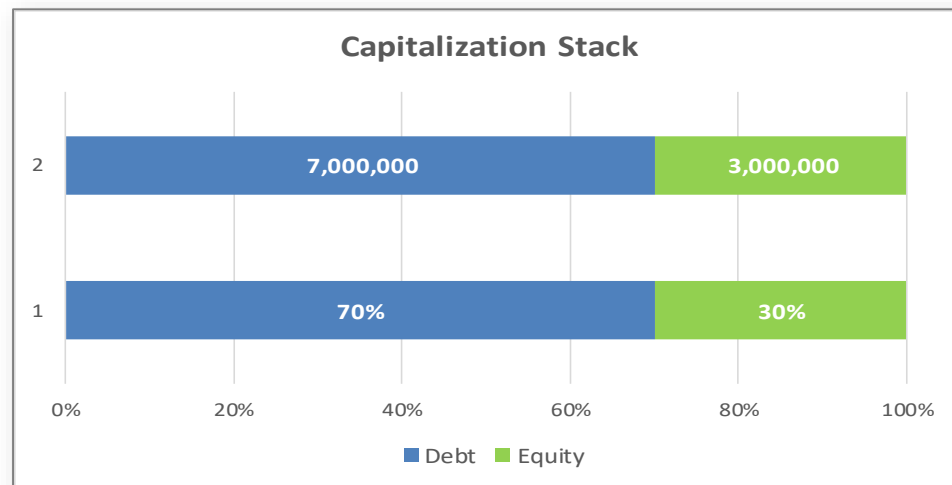
05 Contact

Appendix



Structure of a typical CRE Project

- Single Asset Entity
- Equity
 - Sponsor – Developer most likely only putting in 5% – 10% of the equity, if any
 - **Guarantor of the debt**
 - Promoted Interest, in addition to pari-passu equity
 - Investor – Passive investor putting in 90%+ of the equity
 - **Does not guarantee the debt**
- Debt (for Short Term Financing)
 - Bank – Typically requires recourse
 - Under 36 mo., 2 – 1-year ext. options



Debt - a Note, Mortgage and Covenants

Note

Promissory note secured by a mortgage. Describes the dollar amounts borrowed to repay, interest rate, and amortization.

Mortgage

(or Deed to Secure Debt)

Describes title transfer along with the obligations of each party – including borrower guarantee obligations.

Guarantees

- “Bad Boy” Carve Outs – Fraud, misrepresentations, etc. Also, now includes environmental guarantees.
- Completion Guarantee – Often tied to a Certificate of Occupancy (C.O.)
- Repayment Guarantee / Deficiency Guarantee – In reality one and the same. Reason: Sponsor / guarantor must sell the property to repay – and thus any deficiency is the amount guaranteed by the sponsor / guarantor.

Problems with Guarantees

- Difficult to Define Each Guarantee – and often what is litigated:
 - Completion Guarantee – What is the definition of completion? Can you force someone to complete project?
 - Repayment Guarantee – The small sponsor with little equity often does not have enough cash to repay a default / deficiency, so property must be sold, and lender loses collateral.
- Enforcing Recourse is often a lengthy and expensive proposition.
- Initial Credit Underwriting / Ongoing Reporting – of financials backing the guarantee.
- Banks HATE to take a property back.
- **Banks rarely collect on guarantees of any significance.** Often leveraged into DPO.
- Net Worth and Liquidity Covenants – Often deal killers for sponsors of good deals, rarely enforced.
- Sponsors often do not have the Net Worth requirements:
 - Must be quarterly reporting – hassle for borrower and more work for lender
- Sponsors often do not have the Liquidity Covenant requirement:
 - Must be quarterly reporting – hassle for borrower and more work for lender
 - This is often a covenant, not additional collateral, intended for the lender to grab and use (However, must still sue)
- Initial and ongoing reporting is often inaccurate and illiquid assets are hard to value – such as minority % in other properties, which is often the primary net worth of sponsors.
- Inaccuracies of Contingent Liabilities – Initially and certainly on-going with minimum monitoring.

Excessive Time, Costs and Uncertainty in Collection

Procedure when a default occurs:

- Notice of Default (NOD)
- Cure Period (often limit to number and time)
- Foreclosure – Lender acquires title after bidding
- Lender Takes title and has foreclosure sale
- Marketing of Asset
- Pursue a Deficiency
- Negotiate a Discount
- Collection is highly uncertain
- Most lenders do not collect on PG's!

Steps	Existing - Foreclosure State	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Engage Attorney	\$	1	1
4	Foreclosure	\$\$	3	4
5	Acquire title and REO	\$\$	3	7
6	Market for Sale	3%-5%	3	10
7	Pursue Deficiency	\$\$\$	12	22
8	Discounted Payoff (DPO)	\$\$\$\$	2	24
9	Collect Deficiency (Guarantor)	?	3	27
Steps	Existing - Judicial Process State	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Engage Attorney	\$	1	1
4	Judicial Process	\$\$	15	16
5	Acquire title and REO	\$\$	3	19
6	Market for Sale	3%-5%	3	22
7	Pursue Deficiency	\$\$\$	12	34
8	Discounted Payoff (DPO)	\$\$\$\$	2	36
9	Collect Deficiency (Guarantor)	?	3	39

Typical Game Playing – “The Dance”

- Lenders threaten, Guarantors frustrate and avoid / delay the process.
- Lenders rarely collect – Hardly ever collect in full.
- Borrowers use this leverage to negotiate a Discounted Pay Off (DPO):
 - Lenders hate REO assets, and borrowers know it. FDIC also has large penalties for REO on banks' books for over 12 months.
- Lenders always alert the IRS of a DPO – Debt relief is taxed as ordinary income.
- Some deficiencies are based off appraisal (again often a court action), which further exposes lender to more loss and takes time.
- Multiple guarantors adds to confusion – and complicates lives.

Conclusion

- Lose / Lose – time, cost and great uncertainty.
- Relationship is ruined.
- Deposits are gone.
- Resources (time and money) should be spent on problem solving, not game playing.

Nothing has Changed Since the Medicis - even after the Great Recession

- Banks still do not collect on PG
 - Competition is causing banks to lessen PG with “burn downs”. After C.O., reduces to 25% - 50%, and potentially down to 10% upon stabilization.
- Liquidity Covenants (LC) – Well meaning, but wrong application
 - LC are designed to be the cash available to “fix” a problem.
 - However, LC is only a covenant, and banks cannot access unless through a law suit. They are also rarely enforced.
 - Liquidity **Collateral** – is accessible to banks, but less often the case.
 - LC are often not available from a Sponsor, and can kill good deals. Typically desired to be 10% of the loan amount and must be held in cash, or cash equivalent such as T-Bills – now earning approximately 1.75%. So, large amount of funds held up for 3 years earning almost nothing.
- Entity Guarantee – are back and one root cause of Great Recession problem
 - A new entity is formed to hold cash, or cash equivalent, to meet lender’s LC requirement. However, this entity will serve a number of loans unknown to other lender’s. Cumulative cash is often less – such as 5.0% - 7.5% of total. Issue is one loan, or lender, can drain the pot and leave others without.

False Myths vs. Reality

- **“holding borrower’s feet to the fire”** – assuming more skin in the game. This is completely wrong – as it is the small sponsor facing personal ruin, not the passive big money investor. It is also “adversarial” from the start of a problem, and not cooperative in solving a problem.
- **“we want a warm body”** – same as above, and that warm body is often leaving the scene as they are threatened and facing ruin.
- **“we collect on PG”** – not true. 8 out of 10 bankers will admit they **never collect on PG** (certainly not in full), and the other 2 are in denial.
- **Repayment Guarantee is different than Deficiency Guarantee** – These are actually the same. Personal Guarantor will liquidate property in Repayment Guarantee; thus, banks lose that collateral and still must collect deficiency. However, Personal Guarantors rarely perform well as secondary forms of repayment. So, in practice, Deficiency Guarantees perform no differently than Repayment Guarantees.

Current – or only - Alternatives

- **Co-Guarantor** – With a stronger / wealthier individual, but same problems on time, cost and collection; if not worse, as wealthy individuals have expensive lawyers to negotiate non-full repayment.
- **Multiple Guarantors** – Joint and several. Perhaps even more time, cost and for not more security.
- **Entity Guarantor** – As previously discussed, this is often a LOWER level of cumulative net assets and its liquidity might only protect one loan / lender, while leaving the others “high and dry.” Often drafted as a covenant, the lender must sue for the cash. Borrowers must keep in very low yielding cash or cash equivalent vs. deploying that capital in higher yielding investments, particularly other CRE deals – at 20%+ / year higher returns.

NEW SOLUTION – Just Now Available.

- An investment grade insurance product which transfers the riskiest part of the loan.
- A new product called **Commercial Property Loan Insurance (CPLI)** is being brought to market after 10 years in development (which includes obtaining a patent).
- Serves as a substitute, or supplement, for the Personal Guarantee.
- A purpose-built solution by an investor / developer – with lender input.
- Takes advantage of what banks do best (accumulate and distribute capital) and what insurance companies do best (assess, manage and price risk).
- Other areas within banks have taken this risk transfer and competitive advantage approach – PMI for residential and SBA for C&I loans, why not now for CRE!

How does it work

CPLI insures loans that meet the following criteria:

Equity Requirement 25%-40%, most 25%-30%

Property Types Office, Ind., Retail, Multi-family, Storage, some Hotel

Markets 1st + 2nd Tier cities – Populations > 1M

Loan Sizes \$5 - \$200M – target size

Loan Types Constr., Value Add, Redevelopment, Acq., Loan Modifications

Coverage 10%-40% of Loan Amount w/ 2% min. Deduct.

Term < 36-month, co-terminus w/ underlying loan

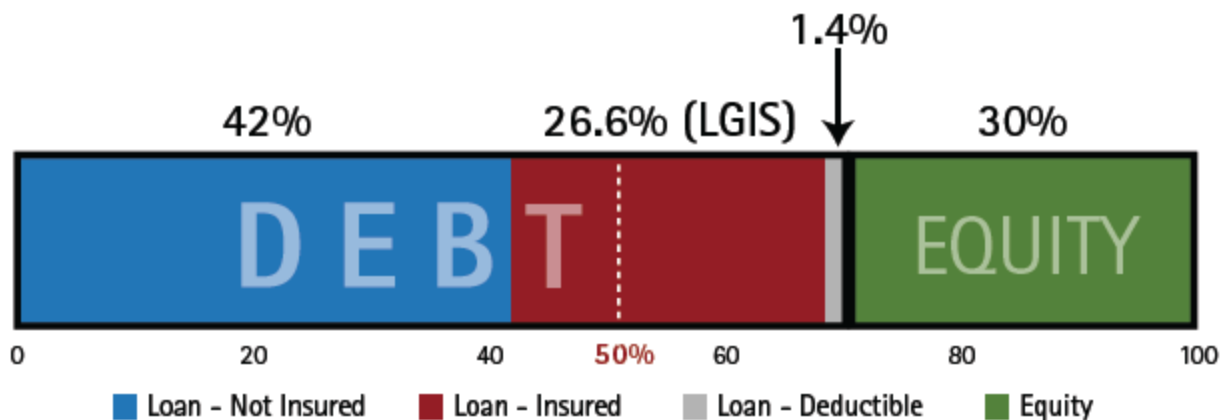
Borrower Partnership, JV, Corp., LLC's, Individuals

Liquidity Covenant – Financial Benefit

Example – Boston

Loan Amount		60,000,000
Liquid Collateral Requirement	10.00%	6,000,000
Loan Term (Years)		3.0
Liquid Collateral Interest		1.75%
Collateral Reinvested Rate		22.00%
LGIS Premium		2.00%
LGIS Loan Coverage		15.00%
Collateral Reinvested - End of Term		10,895,088
Liquid Collateral - End of Term		6,320,545
Difference		4,574,543
LGIS Premium		1,200,000
Difference (Net Savings)		3,374,543

Capitalization Stack Example



The example illustrates the capitalization stack for:

- 30% Equity / 70% Loan
- 40% Loan Insurance (% of total loan amount)
- 2% Deductible (% of total loan amount)

4 Step Process

- 1** Preliminary Review – 24 hours
- 2** Application with Application Fee
- 3** Underwriting and Approval – 10 Business Days
- 4** Issue Loan Policy – at closing along with collection of Premium

Cost (Premium) 1.50% - 3.75% of Loan Amount – 1x

Named Insured* Lender

** Covered for BBC, Completion and Repayment / Deficiency Guarantee. All exposures covered.*

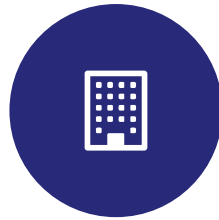
Policy Life Cycle - Phase 1: Preliminary Review

We conduct thorough reviews of individual loans and not portfolios.



Probability of Take Out

Refinance or Sale are the only two options.



Project Feasibility Focus

Over bank's focus on the borrower's ability to repay.



Underwriting Perspective

If we don't want to own the asset we simply pass.



Threshold Underwriting

Accept only if it meets criteria and avoid higher premium for higher risk.

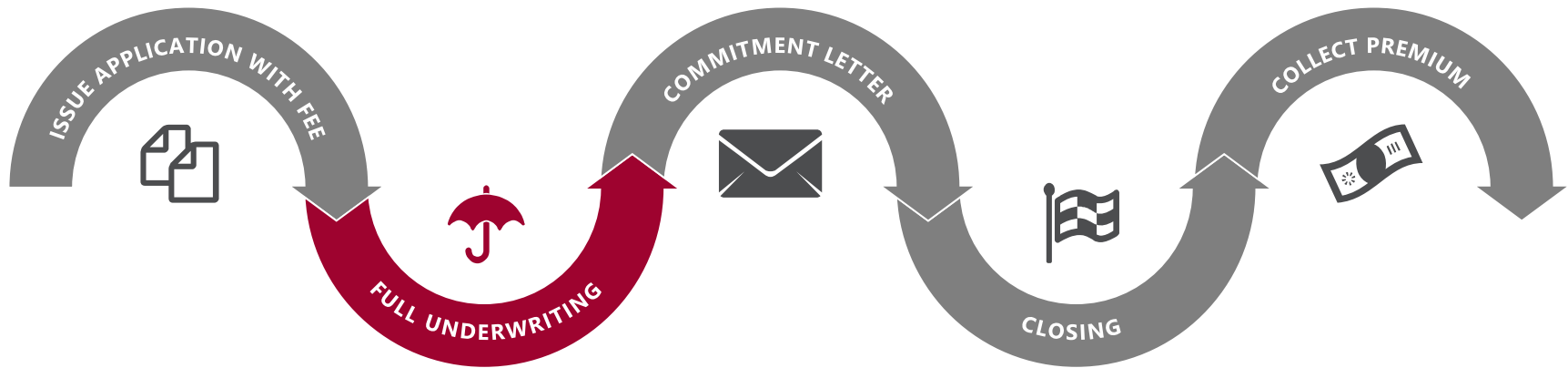
Selectivity Is the Key

LGIS carefully selects only the best individual risks that adhere to our underwriting parameters.

We do NOT underwrite portfolios!

We rely on our own underwriting (not the banks').

Policy Life Cycle - Phase 2: Origination



Policy Life Cycle - Phase 3: Guarantee Monitoring



Before Certificate of Occupancy

- ✓ Monthly Reviews
- ✓ Loan Draws
- ✓ Inspection Reports
- ✓ Before CO

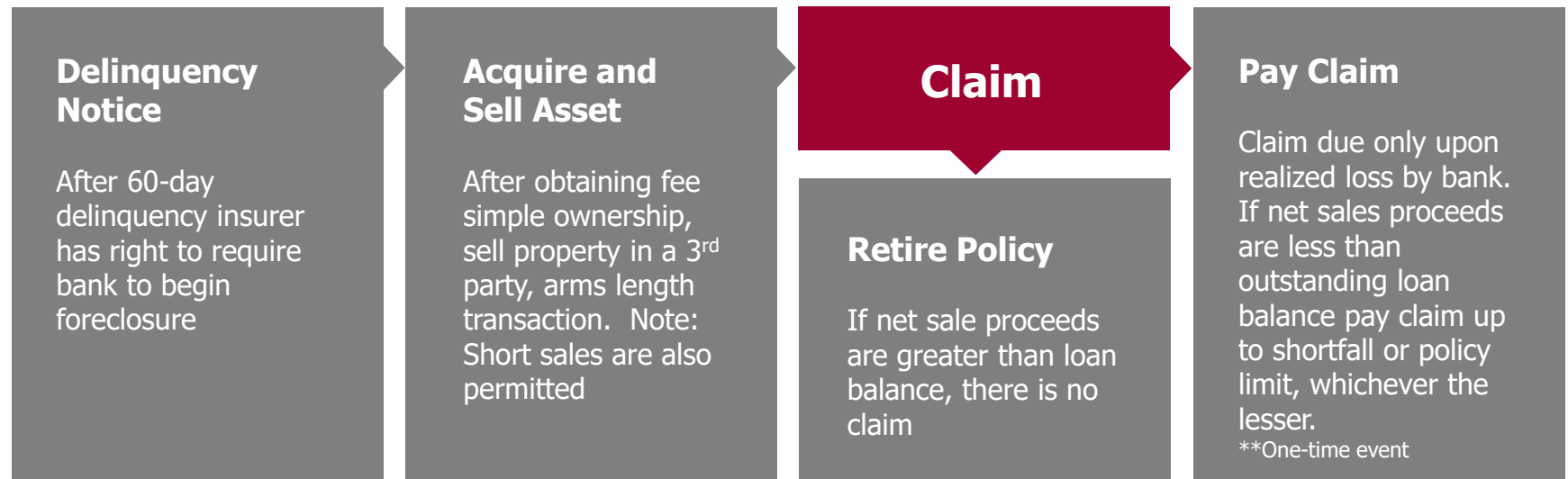
After Certificate of Occupancy

- ✓ Quarterly Reviews
- ✓ P&L to Budget
- ✓ Marketing Reports
- ✓ Loan Performance Reports



Policy Life Cycle - Phase 4: Retirement or Claim/Work Out

The LGIS claim process allows lenders to recoup their money fast without costly lawsuits and waiting periods.



Dual Claim Trigger:

- (1) Borrower Default/Foreclosure or Short Sale, and
- (2) Uncured default with quantifiable loss

Claim

Must have a quantifiable Loss to calculate a claim.

- Need to have a sale – Deed-in-lieu, Foreclosure or a Short Sale.
 - NOTE: Short Sale allows lender option to not property put on their books / REO.
- Claim must be made during Policy period after a default. However, process and settlement can extend beyond the end of the policy term. “Claims Made” form.
- Claim allows for an additional 2% of the outstanding loan balance for Property Preservation costs plus some accrued interest.
- Claim also has a minimum deductible of 2% of the Loan Amount.
- Borrower is fully insured - only exception is repayment of any claims paid if Borrower files for bankruptcy (no longer needed because risk has been transferred to LGIS).

Claim Example

Scenario: Default Loss Mitigation Analysis

This analysis illustrates the benefit to the bank should the loan default.

LGIS Insured Loan

Project - Total Capitalization *		10,214,505
Equity	30.0%	3,064,351
Debt	70.0%	7,150,153
Outstanding Loan Balance - at time of Default	100.0%	7,150,153
Term (Yrs.)		3
LGIS Coverage (% of Loan Amount)	40.0%	2,860,061
Bank / Borrower Exposure		4,290,092
LGIS Premium (% of Loan Amount)	3.0%	214,505
Liquidation Value (% of Total Capitalization)	50.0%	5,107,252
Property Taxes	1.25%	
Insurance	0.5%	
Agent Commission	4.0%	
Miscellaneous Costs	1.0%	
Sales Proceeds		5,107,252
LESS: Agent Commission	4.0%	204,290
Net Sales Proceeds		4,902,962
LESS: Transaction Costs + Carry Costs		
Property Taxes (half year)	0.63%	63,841
Insurance (half year)	0.25%	25,536
Miscellaneous Costs	1.00%	51,073
Other		-
SubTotal - Transaction Costs + Carry Costs		140,449
Net Sales Proceeds		4,762,513
Loss **		2,387,640
Max. Lender Loss	2.0%	143,003

Not Insured Loan

Project - Total Capitalization		10,000,000
Equity	30.0%	3,000,000
Debt	70.0%	7,000,000
Outstanding Loan Balance - at time of Default	100.0%	7,000,000
Term (Yrs.)		3
Bank / Borrower Exposure		7,000,000
Liquidation Value (% of Total Capitalization)	50.0%	5,000,000
Property Taxes	1.25%	
Insurance	0.5%	
Agent Commission	4.0%	
Miscellaneous Costs	1.0%	
Sales Proceeds		5,000,000
LESS: Agent Commission	4.0%	200,000
Net Sales Proceeds		4,800,000
LESS: Transaction Costs + Carry Costs		
Property Taxes (half year)	0.63%	62,500
Insurance (half year)	0.25%	25,000
Miscellaneous Costs	1.00%	50,000
Other		-
SubTotal - Transaction Costs + Carry Costs		137,500
Net Sales Proceeds		4,662,500
Loss **		2,337,500
Lender Loss	33.4%	2,337,500

* Includes LGIS Premium ** Less Commission and Transaction Costs *** Less Ins. Claims adjustments

Who is backing this?

Backed by State National, a wholly-owned subsidiary of an S&P A Rated NYSE Company

StateNational

- State National Insurance Company, Inc. is A.M. Best A rated and a wholly-owned subsidiary of Markel Corporation (NYSE: MKL) S&P A rated.
- State National is a specialty provider of property and casualty insurance operating in two niche markets, **Program Services** and **Lender Services**. The company is licensed to do business in all 50 states and D.C.

**LGIS is also
properly licensed
in all states
planned for
business**

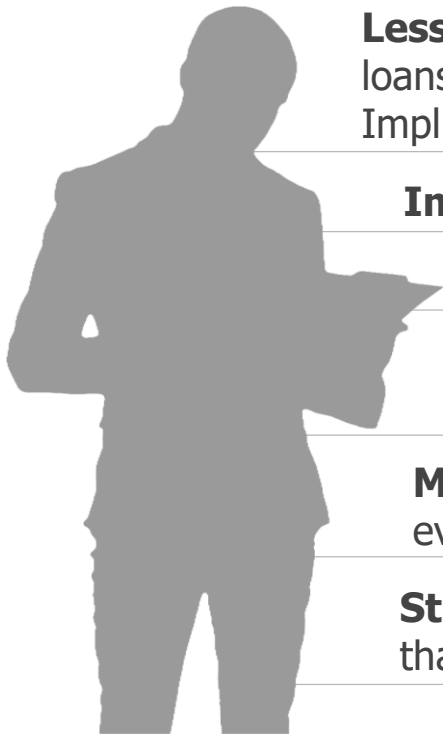


Value for Lender

- **Portfolio Optimization with Investment Grade Credit**
- **Operating Enhancements**
- **Improved Customer Experience**
- **Deposits**
- **Competitive Advantage**

Portfolio Optimization

With Investment Grade Credit



Less capital held in reserves means more available for making loans, leading to higher Return on Equity (ROE). See Appendix for Implied Specific Reserve slide and Capital Relief slide.

Improves collateral without guarantor reliance.

Collateral Deficiency Repayment with certainty.

Cuts collection time and cost significantly with a certain two-step process including filing a claim with payment within 60 days.

More profitable CRE loans but with lower collateral risk than ever before.

Strategy to raise equity freeing equity from reserves is cheaper than raising new equity.

Operating Enhancements



Improved Customer Experience

Initially when negotiating loan, there are **no contentious discussions** of personal guarantee.



In the case of default, relationship can still be maintained to **cooperatively work out situation** with less pressure knowing banks will be repaid and borrowers protected.

Deposits

Banks making CRE loans **require all deposits** go back into the bank into "sweep accounts".
LGIS also has a "LGIS Deposit Program" for cooperating banks.



We will **leave money in their banks** – even at below market rates – for the entire term of the loan, known as "Sticky Deposits"

Superior to Existing Models

	LGIS	Existing Foreclosure State	Existing Judicial Process State
Resolution Time (months)	5.5	27.0	39.0
Cost of Resolution	\$*	\$\$\$\$	\$\$\$\$\$
Probability of Collection	100%	50%	50%
Credit Strength	Investment Grade	Personal	Personal
Capital Relief	Yes	No	No

* LGIS allows 2% of outstanding balance for property preservation / collection in claim.

Value for Borrower

- **First loss position transferred to LGIS**
- **Lower borrowing costs and terms improves returns and offsets costs / premiums** (see Appendix Example)
- **Upgrades lender selection and ability to participate in more deals with no capacity issues**
- **Circumvent bankruptcy and taxation on debt forgiveness**
- **Unlocks tied up cash in low yielding cash equivalent and redeploy into higher yielding invest. / new deal.**
- **Expands capacity – to do more deals.**
- **Enhances relationships**

How Can Banks Use This New Tool

- Using CPLI solves the problems mentioned
 - Solves problem uncertainty, time and cost of collection. →
 - Keeps REO assets off balance sheet – if not for much less time.
 - Provides Capital Relief, or frees up capital for new loans vs. raising new equity – increasing ROE
- Provides a Competitive Advantage
 - Banks – offering in essence a non-recourse loan to regain market share (from non-banks and banks), enhance relationships, enhance deposits, lowers cost of capital
 - Borrowers – can do more loans / deals and better position to negotiate with JV partners.
- Provides Cooperation – in times of distress with no game playing

- No hoping for PG collection or being left out in an Entity Guarantee structure.
- Significantly reduces the time for resolution (5.5 mo. v. 27-39 mo.)
- Avoid significant carry costs, penalties and legal fees.

How Can Borrowers Use This New Tool

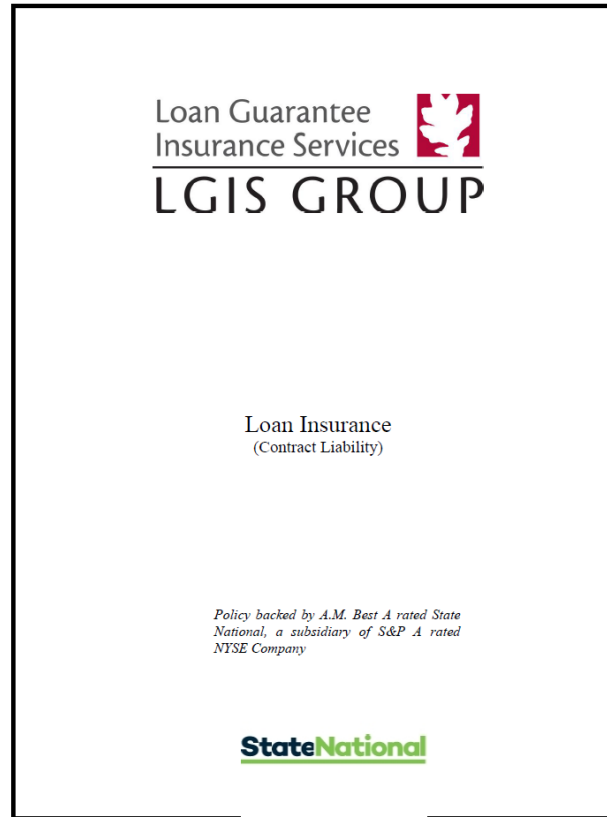
- New and better way to structure all deals going forward
- Scalable business model
- Can still allow Entity Guarantee – but better
- Allows a fuller budget, with higher contingencies, to access cash needed to “fix” a problem – better mechanism than a Liquidity Covenant
- Resolves problems quickly – time and cost (particularly legal)
- Improves lender selection
- No more capacity issues allowing sponsor to do more deals
- Improves borrowing terms, negotiations w/ JV partners.
- Provides Cooperation – in times of distress with no game playing

Policy

The policy on the web site

Go to: www.lgisgroup.com

LogIn Tab: Password: "lgisclient"



Policy Number _____ Name of Insured _____ Effective Date _____
Form Number _____ Copyright ©David Eichenblatt and Company, LLC

Contact Us



Mr. David L. Eichenblatt, CCIM
LGIS Group
President & Founder
404-995-7016 (O); 404-229-5888 (C)

DEichenblatt@lgisgroup.com
www.lgisgroup.com



Mr. Daniel Weingarten, CCIM
LGIS Group
VP of Underwriting
404-995-7001 (O); 281-787-1523 (C)

DWeingarten@lgisgroup.com
www.lgisgroup.com



Questions??

Appendix

Compare Existing to New Model – Workflow

Steps	Existing - Foreclosure State	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Engage Attorney	\$	1	1
4	Foreclosure	\$\$	3	4
5	Acquire title and REO	\$\$	3	7
6	Market for Sale	3%-5%	3	10
7	Pursue Deficiency	\$\$\$	12	22
8	Discounted Payoff (DPO)	\$\$\$\$	2	24
9	Collect Deficiency (Guarantor)	?	3	27

Steps	Existing - Judicial Process State	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Engage Attorney	\$	1	1
4	Judicial Process	\$\$	15	16
5	Acquire title and REO	\$\$	3	19
6	Market for Sale	3%-5%	3	22
7	Pursue Deficiency	\$\$\$	12	34
8	Discounted Payoff (DPO)	\$\$\$\$	2	36
9	Collect Deficiency (Guarantor)	?	3	39

Steps	With LGIS	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Deed in Lieu	Internal	0.5	0.5
4	Market for Sale	3%-5%	3	3.5
5	Claim Paid	Internal	2	5.5

Conclusion

	LGIS	Existing System		
1	Much Quicker Resolution (mos)	5.5	27.0	39.0
2	Much Less Expensive Resolution *	\$	\$\$\$\$	\$\$\$\$\$
3	Probability of Collection	100%	50%	50%
4	Credit Strength	Investment Gd.	Personal	Personal
5	Capital Relief	Yes	No	No

* NOTE - LGIS allows 2% of outstanding balance for Property Preservation / Collection in Claim.

Default Loss Example

Scenario: Default Loss Mitigation Analysis

This analysis illustrates the benefit to the bank should the loan default.

LGIS Insured Loan

Project - Total Capitalization *		10,214,505
Equity	30.0%	3,064,351
Debt	70.0%	7,150,153
Outstanding Loan Balance - at time of Default	100.0%	7,150,153
Term (Yrs.)	3	
LGIS Coverage (% of Loan Amount)	40.0%	2,860,061
Bank / Borrower Exposure		4,290,092
LGIS Premium (% of Loan Amount)	3.0%	214,505
Liquidation Value (Same as Not Insured Loan)	49.0%	5,000,000
Loss **		2,489,530
Max. Lender Loss	2.0%	143,003

Not Insured Loan

Project - Total Capitalization		10,000,000
Equity	30.0%	3,000,000
Debt	70.0%	7,000,000
Outstanding Loan Balance - at time of Default	100.0%	7,000,000
Term (Yrs.)	3	
Bank / Borrower Exposure		7,000,000
Liquidation Value (% of Total Capitalization)	50.0%	5,000,000
Loss **		2,337,500
Lender Loss	33.4%	2,337,500

* Includes LGIS Premium ** Less Commission and Transaction Costs *** Less Ins. Claims adjustments

Implied Specific Reserve

Scenario: Reserve Requirement

This analysis illustrates the benefit the bank will receive with an LGIS insured loan.

LGIS Insured Loan

Loan Amount	\$10,000,000
Probability of Default	1.5%
Loss Given Default*	2.0%
Percent of Loan Held in Reserve	0.010%
Implied Specific Reserve	\$3,000

Not Insured Loan

Loan Amount	\$10,000,000
Probability of Default	1.5%
Loss Given Default*	33.4%
Percent of Loan Held in Reserve	0.167%
Implied Specific Reserve	\$50,100

The \$47,100 difference in Implied Reserve Requirement results in a \$5,652 additional ROE per year Lender would receive based on a 12% required return.

Source: Methodology from former Chief Risk Officer of UCBI, David Shearrow.

Capital Relief

Scenario A: Guarantee for Top 50% (most risky)		
	Without Substitution	With Substitution, Full Period
Exposure Type	HVCRE Exposure	HVCRE Exposure
Loan Amount	\$ 10,000,000	\$ 10,000,000
Risk Weighting	150%	150%
Exposure Period (Months)	24	24
Exposure Capital Reserve	\$ 15,000,000	\$ 15,000,000
Guaranty Exposure Type	None	Corporate
Guaranty Amount	50% \$ 5,000,000	\$ 5,000,000
Guaranty Risk Weighting	0%	100%
Guaranty Period (Months)	0	24
Recognized Guaranty	\$ (714,286)	\$ 5,000,000
Guaranty Reserve	\$ -	\$ 5,000,000
Exposure Amount	\$ 10,714,286	\$ 5,000,000
Exposure Reserve	\$ 16,071,429	\$ 7,500,000
Total Capital Reserve	\$ 16,071,429	\$ 12,500,000
Reduction		\$ 3,571,429
Required Core Capital	7.00%	7.00%
	-	250,000
Return on Equity - Annually	15.0%	15.0%
Additional Earnings - Annually	-	40,189
Additional Earnings - over Period	-	86,838
Add'l Annual Earnings / Loan Amount	0.00%	0.40%
Add'l Period Earnings / Loan Amount	0.00%	0.87%

Scenario B: Guarantee for 50% (most risky), and assume bottom 50% would be considered No Risk by Supervisors.		
	Without Substitution	With Substitution, Full Period
Exposure Type	HVCRE Exposure	HVCRE Exposure
Loan Amount	\$ 10,000,000	\$ 10,000,000
Risk Weighting	150%	150%
Exposure Period (Months)	24	24
Exposure Capital Reserve	\$ 15,000,000	\$ 15,000,000
Guaranty Exposure Type	None	Corporate
Guaranty Amount	100% \$ 10,000,000	\$ 10,000,000
Guaranty Risk Weighting	0%	100%
Guaranty Period (Months)	0	24
Recognized Guaranty	\$ (1,428,571)	\$ 10,000,000
Guaranty Reserve	\$ -	\$ 10,000,000
Exposure Amount	\$ 11,428,571	-
Exposure Reserve	\$ 17,142,857	-
Total Capital Reserve	\$ 17,142,857	\$ 10,000,000
Reduction		\$ 6,071,429
Required Core Capital	7.00%	7.00%
	-	425,000
Return on Equity - Annually	15.0%	15.0%
Additional Earnings - Annually	-	68,321
Additional Earnings - over Period	-	147,624
Add'l Annual Earnings / Loan Amount	0.00%	0.68%
Add'l Period Earnings / Loan Amount	0.00%	1.48%

Improved Terms Example

Scenario: Borrower Benefit with LGIS Insurance

Assumptions

Assumption: Investment grade guarantee will allow more favorable rate and debt dollars.

Deal Size	10,000,000				
Cost of Equity	20.00%				
Cost of Debt	5.00%				
Without LGIS Insurance	K		Cap. %		Weighted K
Equity	20.00%	X	35.00%	=	7.00%
Debt	5.00%	X	65.00%	=	3.25%
			100.00%		10.25%
			Year 1	Year 2	Year 3
Cost of Capital			1,025,000	1,025,000	1,025,000
NPV @ 10%	\$2,549,023				
With LGIS Insurance					
Less Rate	0.50%				
More Debt	5.00%				
	K		Cap. %		Weighted K
Equity	20.00%	X	30.00%	=	6.00%
Debt	4.50%	X	70.00%	=	3.15%
			100.00%		9.15%
			Year 1	Year 2	Year 3
Cost of Capital			915,000	915,000	915,000
NPV @ 10%	\$2,275,470				
Savings (Cost)	10%	273,554	110,000	110,000	110,000
LESS:					
Debt	7,000,000				
LGIS Premium	3.25%	227,500			
NET Savings (Cost)		46,054			

Compare to Alternative/Non-Bank Example

Scenario: Compare Bank Deal w/ LGIS Ins. vs. Alternative Non-Recourse Lenders			
Cost		10,000,000	
Equity	30%	3,000,000	
Debt	70%	7,000,000	
Rate	Spread	2.50%	
	Alternative Lender	6.50%	
	Bank	4.00%	
		In	Out
Points	Alternative Lender	1.25%	0.50%
	Bank + LGIS	3.75%	0.00%
Alternate Lender		1	2
Points		87,500	35,000
Interest		455,000	455,000
Total Costs		542,500	490,000
NPV		1,237,359	
Bank		1	2
Points		262,500	-
Interest		280,000	280,000
Total Costs		542,500	280,000
NPV		934,955	
Savings (Cost)		302,404	
% Difference		32.3%	

Assumption: Insurance Guarantee will allow more favorable rate and debt dollars.

Entity Guarantee – Improvement using CPLI

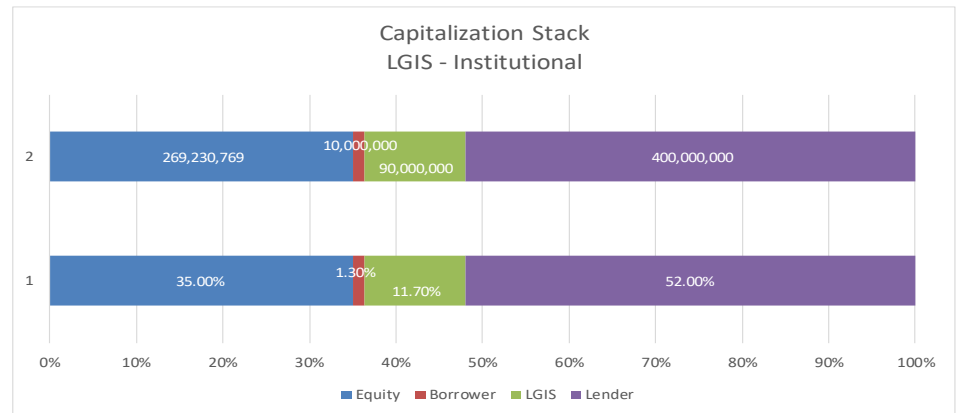
Below is an example that frees Cash, or equivalent, to redeploy at higher rates for borrower and doubles the security for lender.

Liquidity Requirement Assumptions			
Number of Projects		5	/ Project
Project Cost		769,230,769	153,846,154
Loan Amount	65.0%	500,000,000	100,000,000
Guarantee	20.0%	100,000,000	20,000,000
Borrower - 1st Takes (% of Loan)	2.0%	10,000,000	2,000,000
LGIS - 2nd Takes		90,000,000	18,000,000
Liquidity Requirement (% of Loan)	10.0%	50,000,000	10,000,000
Borrower Benefit			
Liquidity Requirement		50,000,000	
Borrower - 1st Takes (% of Loan Amt.)	2.0%	10,000,000	2,000,000
Freed Liquid Collateral		40,000,000	
Term (Years)		3	
Liquidity Collateral Investment Rate (T-Bills)		1.74%	
CRE Investment Returns		20.00%	
LGIS Premium - % of Loan Amount		2.00%	
Freed Liquid Collateral - End of Term		69,120,000	
Liquid Collateral Investment - End of Term		42,124,542	
Difference		26,995,458	
LESS: Cost of LGIS		10,000,000	
Net Benefit		16,995,458	
Interest Rate Savings			
Loan Amount	500,000,000		
Interest Rate Savings	0.25%		
Savings / Year	1,250,000		
Years	3		
Total - Interest Rate Savings		3,750,000	
Total Net Benefit		20,745,458	

Bank Comparison - Liquid Collateral Covenant Scenarios

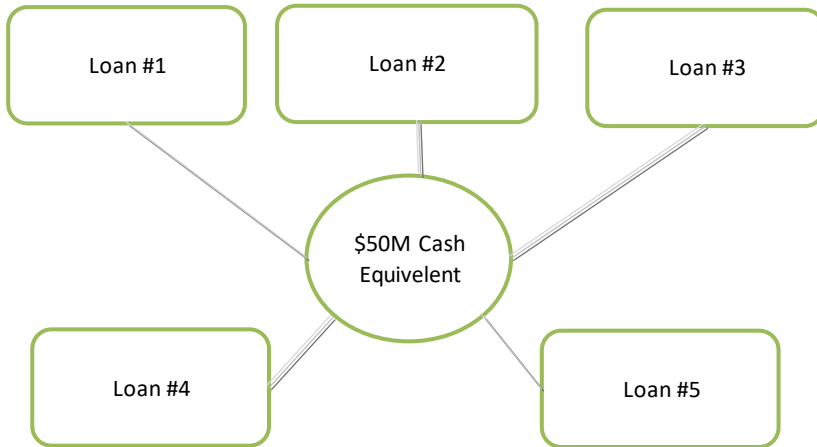
	5 (Different Lenders)		
Number of Loans	5		
Loan Size / Loan	100,000,000		
Total Loan	500,000,000		
	Option 1	Option 2	Difference
Borrower Cash Collateral (All Lenders)	50,000,000	10,000,000	40,000,000
LGIS *			
LGIS / Loan		18,000,000	
# of Loans		5	
Total LGIS Coverage	0	90,000,000	
Total Guarantee	50,000,000	100,000,000	50,000,000
			% Increase
% of Loan	10.0%	20.0%	100.0%

* Guarantee Claim paid after a sale - Short Sale, Deed-in-Lieu or Foreclosure Sale.



Graphic Illustration of Above Example

Scenario 1 - \$50M Cash Equivalent + \$0 Ins. On each Loan (Total = \$50M)



Scenario 2 - \$10M Cash Equivalent + \$18.0M Ins. On each Loan (Total = \$100M)

