

Pro-Rata vs. Leveraged Insurance Example

FAME's Loan Insurance Program provides two types of insurance coverage:

Pro rata: FAME can insure up to 100% of an eligible loan on a pro-rata basis with a maximum relationship exposure of \$5,250,000.

Leveraged: FAME can insure up to 25% of the original loan balance for term loans limited to \$2,500,000 and up to 20% of the original loan balance for lines of credit limited to \$1,000,000.

For illustrative purposes, assume a business applies for a loan of \$950,000. Assume further that the loan defaults with \$900,000 remaining and that the collateral is liquidated for \$750,000 with liquidation costs of \$15,000. The lender's loss is calculated as follows:

Pro-Rata vs. Leveraged Insurance Example				
Loan Amount		\$ 950,000		
Estimated Liquidation Costs		\$ 15,000		
Liquidation Recovery		\$ 750,000		
Loan Balance at Default		\$ 900,000		
		PRO RATA		LEVERAGED
Loan Amount		\$ 950,000		\$ 950,000
Initial Insured Amount		90%		25%
Initial Insured Amount		\$ 855,000		\$ 237,500
Loan Balance at Default		\$ 900,000		\$ 900,000
Liquidation Recovery		<u>\$ 750,000</u>		<u>\$ 750,000</u>
		\$ 150,000		\$ 150,000
Liquidation Costs		\$ 15,000		\$ 15,000
Loss before Insurance		\$ 165,000		\$ 165,000
FAME PAYS		\$ 148,500		\$ 165,000
Bank Loss		\$ 16,500		\$ -
FAME Commitment Fee*	1%	\$ 8,550	1%	\$ 2,375
FAME Annual Insurance Fee*	1%	\$ 8,550	2%	\$ 4,750
Leveraged Claim: FAME will fund a leveraged claim based on the lesser of A, B, or C, which will never exceed 25% of the original loan amount. Using the example above, A would be the eligible claim payment, making the bank's loss \$0.				
A. 100% of lender's loss		\$ 165,000		
B. 25% of loan balance prior to default		\$ 228,750		
C. 25% of original loan balance		\$ 237,500		

*Commitment fees and annual insurance fee are based on the loan amount listed above. Please see Fee/Rate Schedule, page 600.1.