



# **Leveraged vs Pro-Rata Loan Insurance: What's Best for Your Borrowers?**

February 5, 2019

- Review of FAME's commercial loan insurance options
- What's new?
- Scenarios: Leveraged insurance vs pro-rata insurance – what works best?

# Commercial Loan Insurance

## On-line Answer (OLA) Overview

- **Pro-rata term loans and lines of credit:**
  - Up to 75% insurance on up to \$500,000 FAME exposure
  - Up to 60% insurance for FAME exposure between \$500,001 - \$750,000; and for start-ups.
- **Pro-rata refinance of existing lender debt:** 40% insurance on up to \$500,000 FAME exposure.
- **Leveraged term loans:** Up to 25% insurance on up to \$250,000 FAME exposure.
- **Leveraged line of credit loans:** Up to 20% insurance on up to \$250,000 FAME exposure.

# Commercial Loan Insurance

## Traditional Paper Application Overview

- **Pro-rata Insurance** up to 90% Commercial Loan Insurance not to exceed FAME's exposure of \$5,250,000 for any one relationship
- **Leveraged Insurance** up to 25% not to exceed FAME's exposure of \$2,500,000
- **Working Capital Line of Credit** – Can be insured up to 90% pro-rata insurance limited to FAME exposure of \$1,000,000 or 20% leveraged insurance limited to FAME exposure of \$1,000,000

- **Leveraged insurance is now available on OLA** up to \$250,000 FAME exposure (Leveraged insurance via traditional paper application is available up to \$2,500,000)
- **Online interactive comparison tool** to compare pro-rata vs. leveraged insurance.  
*Available at FAMEmaine.com, see the Commercial Loan Insurance – Traditional Application page.*
- **Term loans:** one-, three-, and five-year fee options
- **Lines of credit:** one- and three-year fee options

Term Loans	Inputs
Loan Amount	\$950,000
Leveraged Insurance %	25%
Pro-Rata Insurance %	75%
Balance at Default	\$750,000
Disposition / Liquidation of Collateral	\$600,000
Reasonable Collection Costs & 90 Days of Interest	\$1,500

	Leveraged		Pro-Rata	Variance
Loan Amount	\$950,000	Loan Amount	\$950,000	
Insurance %	25%	Insurance %	75%	
Insured Balance	\$237,500	Insured Balance	\$712,500	
Year-1 Fee	3%	Year-1 Fee (<\$1MM = 2% / >\$1MM 2.25%)	2.00%	
Fee Total	\$7,125	Fee Total	\$14,250	(\$7,125)

				Variance
Loan Amount	\$950,000	Loan Amount	\$950,000	
Default Balance	\$750,000	Default Balance	\$750,000	
Disposition / Liquidation of Collateral	(\$600,000)	Disposition / Liquidation of Collateral	(\$600,000)	
Reasonable Collection Costs & 90 Days of Interest	\$1,500	Reasonable Collection Costs & 90 days of Interest	\$1,500	
Lender Loss Prior to Submission	\$151,500	Lender Loss Prior to Submission	\$151,500	\$0

Leveraged claims are based on the lowest of three scenarios		Pro-Rata claims are based on the lowest of two scenarios		Variance
1. 100% of the Lender's Loss	\$151,500	1. Lender Loss Prior to Submission * Insurance %	\$113,625	
2. Loan Balance at Default + Collection Costs * Insurance %	\$187,875	2. Original Insured Balance	\$712,500	
3. Original Insured Balance	\$237,500			
Leveraged Claim Paid	\$151,500	Pro-Rata Claim Paid	\$113,625	\$37,875
Lender Loss	\$0	Lender Loss	\$37,875	(\$37,875)

This simplified tool is provided for illustration purposes only and is intended to highlight differences in methodology for calculation of claim payments between leveraged and pro-rata insurance. While accurate for the examples tested, each FAME insurance claim is analyzed based on the terms of the Master Loan Insurance Agreement, the Loan Insurance Authorization, and the facts and circumstances of each claim, which may differ from the result calculated by the tool.

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Term Loans	Inputs
Loan Amount	\$950,000
Leveraged Insurance %	25%
Pro-Rata Insurance %	75%
Balance at Default	\$850,000
Disposition / Liquidation of Collateral	\$500,000
Reasonable Collection Costs & 90 Days of Interest	\$1,500

	Leveraged	Pro-Rata	Variance
Loan Amount	\$950,000	\$950,000	
Insurance %	25%	75%	
Insured Balance	\$237,500	\$712,500	
Year-1 Fee	3%	Year-1 Fee (<\$1MM = 2% / >\$1MM 2.25%)	2.00%
Fee Total	\$7,125	Fee Total	\$14,250
			(\$7,125)

Loan Amount	\$950,000	Loan Amount	\$950,000	Variance
Default Balance	\$850,000	Default Balance	\$850,000	
Disposition / Liquidation of Collateral	(\$500,000)	Disposition / Liquidation of Collateral	(\$500,000)	
Reasonable Collection Costs & 90 Days of Interest	\$1,500	Reasonable Collection Costs & 90 days of Interest	\$1,500	
Lender Loss Prior to Submission	\$351,500	Lender Loss Prior to Submission	\$351,500	\$0

<b>Leveraged claims are based on the lowest of three scenarios</b>		<b>Pro-Rata claims are based on the lowest of two scenarios</b>		Variance
1. 100% of the Lender's Loss	\$351,500	1. Lender Loss Prior to Submission * Insurance %	\$263,625	
2. Loan Balance at Default + Collection Costs * Insurance %	\$212,875	2. Original Insured Balance	\$712,500	
3. Original Insured Balance	\$237,500			
Leveraged Claim Paid	\$212,875	Pro-Rata Claim Paid	\$263,625	(\$50,750)
Lender Loss	\$138,625	Lender Loss	\$87,875	\$50,750

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# Questions?

## Finance Authority of Maine

5 Community Drive

P.O. Box 949

Augusta, ME 04332

207-620-3532

800-228-3734

TTY 207-626-2717

[business@FAMEmaine.com](mailto:business@FAMEmaine.com)

[FAMEmaine.com](http://FAMEmaine.com)



## Roxanne Broughton

Commercial Loan Officer

207-620-3547

[rbroughton@FAMEmaine.com](mailto:rbroughton@FAMEmaine.com)

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Thank You