

Lease Enhancement



Lease Enhancement Insurance

NorthStar Insurance Management Company serves insurance, risk management and financial communities. Our organizational structure and markets allow us to provide risk solutions and asset protection in all states and abroad.

The practice has significant experience at meeting lender and rating agency requirements for securitized transactions, as well as insuring loans for investment banks, life insurance companies, mortgage banks and property owners.

Available programs include:

- **Insurance for casualty and condemnation risk.**
- **Collateral impairment resulting from environmental contamination and default.**
- **Residual value insurance/guarantee.**
- **Extended rental interruption.**



Your constant in an uncertain world.

Casualty & Condemnation

This product is frequently used as a mechanism to create a bond lease equivalent from a NNN lease by insuring over the termination and abatement rights granted the tenant in the event of casualty or condemnation. The non-cancelable policy is issued for the life of a lease-backed loan, and usually names the first mortgage holder as the insured party. Coverage may also be arranged to protect the owner's equity interest in the property. The product is available throughout North America, although restrictions may apply to properties in California and Florida.

Policy Features

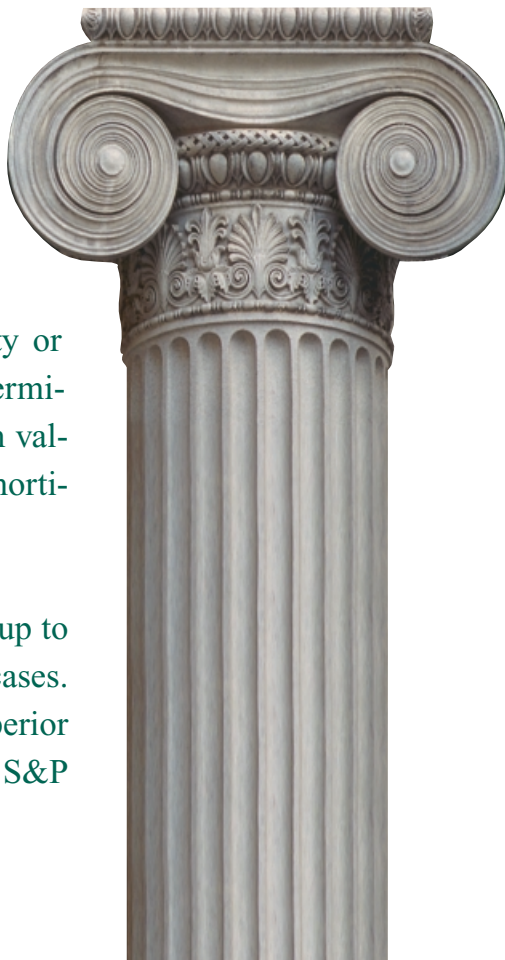
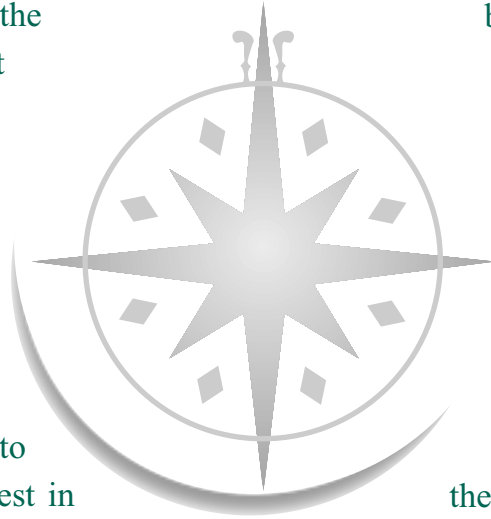
Policies with terms of up to thirty (30) years are available. A premium is collected at inception and the policy is noncancelable thereafter. The policy pays the unamortized balance of a lease-backed loan due to casualty or condemnation resulting in lease termination. A schedule of termination values can be substituted for the amortization schedule.

Individual assets may be insured up to \$135,000,000 or more in select cases. Coverage is provided through superior carriers with only the highest S&P ratings of AAA and AA+.

Who Needs Lease Enhancement?

Originators and holders of NNN lease-backed loans are prime candidates for this coverage. The early termination rights granted the tenant due to casualty or condemnation result in a possibility that the lender will be unable to fully recover its loan. A competitive solution is to insure over these rights so that in the event of lease termination by the tenant due to casualty or condemnation, the policy will make the lender whole by paying the unamortized loan balance.

If the tenant exercises a right to rent abatement due to condemnation, the policy will respond by paying the abated amount on a monthly basis. The policies are not intended to provide yield maintenance.



Environmental Insurance

LENDER'S PROTECTION SECURED CREDITOR,
IMPAIRED PROPERTY POLICY (SCIPP)

Similar to casualty / condemnation insurance, the Environmental Insurance policy protects the lender on leasebacked loan transactions. In the event of onsite pollution discovered by the insured party subsequent to default on a loan, this policy will pay the outstanding loan balance.



Policy Features

- Protects the originator or subsequent holder of lease-backed loans
- Provides for payment of outstanding loan balance on covered conditions
- Portfolio or individual property coverage
- Responds to existing and new loans
- No Phase I Environmental Report requirement
- Limits available up to \$100,000,000 with no deductible required
- Policy terms of up to 25 years
- Coverage provided through insurers with S&P ratings of AAA and AA+

SCIPP form has been approved for use by Moody's, Fitch and Standard & Poor

Who Needs Environmental Insurance Protection?

A Phase I Environmental Report is not required for this insurance and there is no fee requirement to obtain a proposal and price quotation. This is seen as no-cost due diligence and avoidance of legal and financial consequences resulting from discovery of a previously unknown environmental contamination condition.

Borrower's Protection Policy

BORROWER'S PROTECTION POLICY POLLUTION LEGAL LIABILITY (PLL)

This policy protects the borrower/owner of commercial properties. Following the discovery of an existing or new environmental condition, the cleanup of the insured property and any resulting offsite cleanup would be covered. Third-party property damage and bodily injury are also covered.

Policy Features

- Protects the borrower/owner of properties having known and/or unknown environmental conditions
- Provides coverage for onsite and offsite cleanup resulting from any covered condition
- Responds to third party claims for bodily injury and property damage for any covered condition
- Business Interruption can be included on a first party basis
- No Phase I required
- Limits available up to \$100,000,000 with a minimum deductible of \$5,000
- Policy term available for up to 10 years
- Pricing discount provided on Secured Creditor policy when purchased in conjunction with PLL policy
- Coverage provided through insurers with S&P ratings of AAA and AA+

Residual Value Guaranty

Originators of credit-tenant loans rely on the tenant's ability to make scheduled rent payments as the primary vehicle to amortize the loan. If the loan has a balloon payment at the end of the term, an element of real estate risk is introduced into the transaction. This real estate risk is mitigated with the attachment of a residual value insurance (rvi) policy which effectively guarantees the final balloon payment.

Policy Features

- Long-term policy with terms up to 25 years indemnifies the insured against loss which may result from a decline in market value of the insured premises.
- Individual assets may be insured up to 40% of current market value.
- Coverage provided through selected carriers with S&P Ratings of A to AA+.

Who Needs Residual Value Insurance Protection?

If a mortgage loan does not fully amortize over its term and there is a diminution in value of the collateral resulting from changes in market value, the lender has an exposure to default in the payment of the balloon. The product is designed to guarantee the lender payment of the balloon note at the end of the loan term.



In addition to the foregoing risk solutions, we design products to meet the specific needs of our clients. To illustrate an example:

Long Term Rental Interruption Insurance

The lessee in a NNN lease is often required to insure (or self-insure) the building it occupies, but frequently there is no requirement to provide rental interruption insurance. If the lessee has the right to abate rent due to casualty and no rental interruption insurance is provided, the holder of a leasebacked loan may be faced with an interruption in debt service. Since rental interruption insurance is usually sold as an endorsement to the building coverage, it can be difficult to arrange protection against this exposure independent of the lessee. We can arrange for this risk transfer using either a stand alone rental interruption policy, written on an annual basis, or a prepaid noncancelable policy, written for the term of the loan.

At NorthStar, we take pride in our ability to provide innovative risk solutions. In a constantly changing environment, we realize that needs and abilities to warehouse risk likely evolve on a daily basis. We aggressively answer the challenge to produce solutions. Our goal is to help you achieve yours!

NorthStar serves insurance, risk management and financial communities. With headquarters centrally located in Kansas City, our organizational structure and markets allow us to successfully provide risk solutions and asset protection in virtually all states and abroad.

If our current product line does not address your needs, we will create a custom solution that works for you. Please contact us for further details.

