TEXEL OVERVIEW

Credit Risk Insurance for Asset-Backed Loans

Credit Risk Insurance for Asset-Backed Loans

Non-payment insurance (NPI) providing coverage for loans secured against assets such as aircraft and vessels is a product that has become integral for banks looking to reduce their capital and credit limits held against their loan portfolios.

Although collateralised, asset-backed loans are often extended to clients with whom the lenders already have significant exposures and can aggregate across asset type to create exposures which are difficult to manage when an institution is looking to maintain or grow their lending relationships. The NPI product can therefore become a vital silent distribution tool to allow a client to manage their internal capital and credit limits hurdles while expanding their relationships with their core clients.

The broader credit and political risk insurance market has always worked closely with banks and lending institutions operating in the aviation and shipping industries. Products such as residual value insurance ('RVI') and non-repossession insurance are occasionally used to help provide coverage for specific events that may occur during a transaction. However, neither of these forms of coverage are able to provide the benefits of NPI. Banks have become partners with insurers that offer the NPI product to help provide them with information to correctly assess the unique risks that exist in an asset-backed financing. As the NPI market for these structures has developed, insurers have taken on external and internal resources to ensure that they are correctly equipped to analyse the differences in transaction structures and valuations that exist not only within each sector but within each individual asset class. Hence insurers are able to offer experienced and knowledgeable support to their clients, which when combined with a correctly structured NPI policy will provide a client with confidence in the ability of the NPI policy to indemnify them in the event of a default.

The NPI product can be used to facilitate an institution's growth in markets either through the insurance of specific individual loans or through portfolio structures across multiple assets and loans. As with any asset back transaction, the insurers will spend time looking into the asset and its valuations as well as the cashflow that it generates from its contracting parties. Partnership with insurers to help with this process is key to achieving success in using the NPI product to expand a Banks portfolio through this silent and highly rated distribution channel.

EXAMPLE TRANSACTIONS

Insured	Multinational bank
Transaction	A USD450m senior secured facility, secured against a portfolio of VLCC's
Obligor	Special-purpose vehicle
Tenor	7 years
Cover	Over USD40m from 3 A+ rated insurers

Insured	Multinational bank
Transaction	A bilateral senior secured facility, secured against 7 narrowbody aircraft
Obligor	Private aircraft leasing company
Tenor	9 years
Cover	USD30m from 1 A+ rated insurers

ABOUT TEXEL

The Texel Group is a market-leading specialist insurance broker, primarily focused on the development, structuring and execution of NPI policies for our clients. With over 20 years' experience at the forefront of the international insurance markets, we are staffed by individuals with skills and experience to help our clients understand the product and ensure that it is correctly structured to obtain the maximum capital and limit relief possible for each transaction.

KEY POINTS:

- Portfolio of loans or single transaction
- Experienced market of insurers rated A- or better
- NPI can provide capital and credit limit relief if appropriately structured
- Asset valuation and cashflow generation analysed by the insurers
- Partnership approach with insurance coverage preferable at 50 % or less
- Sizeable capacity to facilitate large volumes of NPI