



International scope, Local focus.

Cutting edge insurance solutions.

Presentation.

Streamlining and protecting real estate transactions with innovative insurance products and services.

International scope, Local focus.

What are FAF International's goals?

- ✦ **Aim is to provide a range of specialist insurance solutions**
 - To enhance the credit quality of real estate assets
 - Help property transactions complete on time by introducing a “risk assuming” party to the transaction

- ✦ **To match the range of insurance products that are available with the deals that require them**
 - Real Estate Ownership & Mortgage Security Insurance
 - German Voidable Lease insurance for Civil Code Written Form defects
 - Gap insurance

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Real Estate Ownership (REO) & Mortgage Security Insurance (MSI)

- ✦ **Insurance which protects owners and lenders against a wide range of known or unknown legal ownership or mortgage lending risks.**

- ✦ **Who requires REO or MSI?**
 - An institution or insolvency expert restructuring a legacy loan – a policy may be a simple way of providing the reps and warranties a new lender requires
 - An institution lending against a single site or portfolio of assets
 - A mortgage lender creating or restructuring a syndicated mortgage
 - Investors or banks when legal issues are highlighted during due diligence

- ✦ **All policies include an obligation to provide legal defence to the insured in the event of a challenge, and indemnity in case of loss.**

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Most common property ownership risks in Western and Eastern Europe

- ✦ Violation of planning laws by previous owners/developers
- ✦ Incorrect tendering procedures when land is sold by a public body
- ✦ Incorrect corporate procedures followed, e.g. lack of or expired PoA, missing corporate resolutions
- ✦ Inadequate or infringements of servitude rights
- ✦ Legal restrictions on usage
- ✦ Third party rights, leases, options over the property
- ✦ Erroneous or inadequate description of land in docs
- ✦ Unverifiable gaps in chain of ownership
- ✦ Pending restitution claims of former owners
- ✦ Inheritance issues

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Registration Related Risks – GAP Insurance

Problem

- The average time to register an ownership or a mortgage right in the land register in countries like Poland and Czech Republic can take up to 6 months
- During the registration process the mortgage does not have first priority and is not an enforceable security instrument over the property
- Purchase price has been disbursed, loan has been granted while there is no ownership or mortgage right registered

Solution

- FAF has developed a tailor made product (GAP insurance) to provide a solution
- A GAP insurance policy insures ownership and mortgage rights during the registration period and once the registration process is complete

In Practice

- Majority of German and Austrian banks lending in the above countries require GAP insurance



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German Voidable Lease Insurance

Issue

- As many as 75% of Germany's commercial leases breach the Written Form Requirements of the German Civil Code
- As a consequence a tenant could prematurely terminate the lease giving 6 months notice leading to a loss of rental income and a potential shortage in mortgage payments
- Traditionally lenders have burdened the risk with an onus on the landlord having to "cure" the defect or provide warranties or collateral as part of the loan agreement

Solution

- The insurance protects the lender against any shortfall in debt service resulting from the premature termination of a lease due to a breach of the Written Form Requirements
- The insurance is more cost effective than a bank guarantee as that would have to be repaid if it was ever called in



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Violation of French Servitude Rights

Background

- Purchase of an office building in Paris by a private equity fund

Risk

- Extension works carried out in breach of an old agreement
- Agreement between neighbouring property owners not to build on a bit of communal ground

Solution

- Policy issued covering potential financial losses (demolition and reconstruction works, loss of rent, loss of value as a result of the reduced size, etc)



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Contingent Liability for French Real Estate Taxes

Background

- Foreign owner of French real estate selling its French real estate holding company, regularly affects German funds

Risk

- Under French law, a foreign owner of French real estate may be liable to pay a 3% yearly tax if it cannot prove its exemption
- On sale of the French holding company, the new shareholder may be held liable for the unpaid taxes of the former shareholder

Solution

- Coverage proposed for the 6 year limitation period for every tax year involved
- Insurance allows the seller to satisfy the demands of the purchaser without having to put part of the sale price in escrow or accept a price reduction



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Lack of Official Building Permit

Background

- Existing hotel development in a French ski resort

Risk

- Absence of certification confirming building works (4th floor and pool) completed in accordance with the stipulations of the original building permit
- Parties reluctant to approach authorities for clarification

Solution

- Insured risk of fines and reinstatement or reduction in value



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€5.4bn German Gap Insurance Policy

Background

- Insurance was used to facilitate the financing of a €5.4bn portfolio of residential units
- Minimal title due diligence done during acquisition phase

Risk

- Real estate taxes arising from restructuring could not be agreed and paid by closing, delaying registration of mortgages

Solution

- Insured “GAP” period whilst mortgages were not registered



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Illegal Tender Process

Background

- Rigorous legal requirements apply when land sold from public ownership to the private sector
- Requirements include series of public approvals, adverts, compliance with competition law
- Common in Western & Eastern Europe for there to be violations or lack of evidence about compliance

Risk

- Risk that the state or unsuccessful parties will unwind transfer

Solution

- Insurance for losses to investor or lender if the transfer is set aside






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Polish 9 Month Gap Policy

Background

-  Insured purchasing from a seller that was not yet registered (recent back to back sale)

Risk

-  Polish Land Registry typically take 6 months to register an owner/lender
-  Notaries and lawyers have very limited professional indemnity insurance
-  Back to back purchasers must purchase from unregistered owners

Solution

-  FAF insured losses caused by lack of registration

“FAF’s insurance policy provided us with added comfort that our lawyers’ due diligence reports were not capable of providing alone”



Lilium’s chief legal counsel



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Illegal Car Park Lease

Background

-  Large international developer seeking to acquire a shopping centre
-  Project stopped due to an illegal lease for the car park

Risk

-  Lease for the car park being invalidated

Solution

-  FAF insure the invalidity of the car park lease allowing the project to proceed



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Distressed Asset Transaction-Dawnay Day

Background

- Sale of a portfolio of 221 properties by an administrator (BDO Stoy Hayward)
- Properties spread between 12 different owning companies

Risk

- Absence of standard seller's property warranties

Solution

- Policy streamlined property due diligence and “replaced” seller's SPA warranties
- Administrator achieved “best value” and the purchaser's acquisition process was streamlined
- Premium paid by receiver as deductible cost of receivership



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Dutch Wind Farm Building Permit Issues

Background

- Dutch wind farm development
- Building permit for wind farms susceptible to judicial review under Dutch law (up to 2 years after decision to issue permit)

Risk

- Operator needed to order turbines to comply with construction deadline in building permit
- Potential losses if building permit is overturned by judicial review

Solution

- Insurance enabled the turbines to be ordered and development to start before the expiry of the judicial review period (12-24 months)



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Turkish Zoning Violations

🇹🇷 Background

- Turkey becoming attractive to foreign investors
- Strong economic forecast
- Historically a lot of real estate litigation, particularly around zoning violations

🇹🇷 Risk

- Foreign investment challenged or derailed by litigation from local architects and engineers associations alleging breach of zoning

🇹🇷 Solution

- FAF International insures losses caused where zoning non-compliance is proven and fines or demolition ordered



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Who are FAF International?

- **First American Financial International is the international services arm of the First American Corporation**
 - Fortune 500 company
 - Founded in 1889
 - Revenues exceeded \$6bn in 2009
- **FAF International offers insurance solutions in 80 countries worldwide**
- **Strong Financial Ratings from all major ratings agencies**
- **Unlimited underwriting capacity**

