HOUSING PARTNERSHIP INSURANCE

Introduction

Dick Gersh, the General Manager of Housing Partnership Insurance (HPI), sat at his desk staring at the notes in front of him. He was preparing for the upcoming board meeting. Business had been going well, but there were some issues looming on the horizon. HPI, an insurance captive created to cover risks for its owners, had several risks itself. The difficulty for Gersh was that he could not buy insurance for the risks HPI faced.

As he considered the current position of the company, Gersh mentally catalogued the risks. They ranged from specific to general. Increased frequency of losses, a large loss, poor loss control by the members, a business partner who’s service was lacking, a partner who was no longer willing to work with HPI, steeply rising reinsurance costs, board decisions that put individual organizations in front of the health of HPI; these were all concerns that Gersh mulled over. So far, the process of setting up HPI, while time consuming and iterative, had been relatively straightforward. Now that the structure was fixed, however, changes were more difficult.

Gersh had two specific problems he needed to address with the board: 1) One of the largest founding members had recently received a poor loss control report from one of their properties. It was Gersh’s understanding that this property did not have the cash to comply with the recommended changes. 2) In the previous year, two of the largest losses had come from properties receiving superior grades on their loss control reports.1 He needed to educate the board about the impact of these two situations, but he also needed to recommend a plan for dealing with the risks HPI faced going forward.

If he were in a traditional insurance company, Gersh mused, the answer would be easy. He could cancel or non-renew the properties with poor loss control and the ones with large losses. However, HPI was set up as an association captive to give a higher level of service and provide stability of pricing and coverage. Canceling these policies was counter to HPI’s mission and yet his job was to ensure the long term sustainability of the captive. Gersh concluded that he should review the whole spectrum of risks HPI faced and determine how each risk affected the others before settling on his final recommendation to the board.

History

Housing Partnership Insurance is a venture of the Housing Partnership Network (HPN), a business cooperative of 84 affordable housing non-profits. The network was formed in 1990 to provide a vehicle for peer to peer learning, innovation, policy shaping, and the determination and implementation of industry best practices. The network has been particularly successful at forging “entrepreneurial partnerships among the business, community, and government sectors to create and sustain affordable housing.”2

---

1 HPI covers property and liability losses such as fire, water damage, and bodily injury using policy terms standard to the insurance industry.
2 http://www.housingpartnership.net

This Yale School of Management case study was prepared by Laura Kunkemueller solely for the use as a learning tool. It is not intended to serve as an endorsement, source of primary data, or illustration of effective or ineffective management.

Copyright (c) 2006 Yale University. To order copies or request permission to reproduce materials, call (203) 432-7811, write to the Program on Social Enterprise at Yale School of Management, 135 Prospect St., New Haven, CT 06511, or email PSE@yale.edu.
The Network members are spread throughout the United States and are deeply rooted within their communities. These entities are generally regional and are thoroughly committed to “revitalizing neighborhoods, developing and financing affordable properties, helping low income families become homeowners and delivering an array of vital social services.” The collaborative and entrepreneurial natures of these organizations have allowed them to “produce, preserve and support affordable housing” through the Network to a much larger extent than would have been possible alone.

At the December 2001 general meeting of the Network, insurance was a major topic of discussion. The volatility of the insurance market, both the instability of pricing and the uncertainty of coverage availability were serious concerns. Many of the members had experienced the frustration of having good loss history, but unable to purchase insurance in the primary market. As one participant described, “the insurance underwriters were trying to dictate our business by canceling policies based on quotas for the percentage of people on public assistance they would underwrite. For example, we had a property where 15% of the residents were mentally disabled. An insurance inspector came to the site and soon after we received a cancellation letter with 30-days notice.”

Some participants saw their insurance premiums double over the preceding three or four years. These sharply increasing premiums strained the budgets of the properties causing them to cut programs, raise rents, or both. HPI was created to “control, and in some cases lower, the insurance costs confronting non-profit developers and property managers across the country.”

After the discussion at the general meeting, Tom Bledsoe, the President of HPN, held a conference call to further discuss the issue of insurance. The result was that 22 HPN members put up $5,000 each to hire a consultant to explore the feasibility of HPN creating its own insurance vehicle. HPN quickly engaged an insurance consultant recommended by an HPN member and began to examine the options. Bledsoe convened a steering committee to review the findings of the consultant and determine the best plan to move forward.

Of the 84 Network members only about 40 were owners of rental housing. Doug Hartman, the consultant, sent surveys to these entities, but the surveys did not receive the hoped for attention. In the end, the original 22 who had invested in the project were the ones to participate. The survey asked for detailed information about their insurance needs, which carriers they used, what types of insurance they needed, and other questions designed to inform HPN of the requirements for the new insurance venture.

The next step was to obtain five year loss runs for each of these groups. This proved even more difficult than obtaining survey responses. Each entity had to request each of their insurance carriers for the previous five years for loss runs. The insurance companies then had to compile all of the data for each of the member’s properties and send the information to their client. The Network member then had to forward the resulting loss runs to Hartman. In the end, only 16 of the 22 were able to generate five year loss histories.

With the insurance requirements and potential premium volume determined and the loss histories of the interested members, Hartman, Bledsoe, and the steering committee started to examine the various forms the new venture might take.

---

4 Ibid.
5 Testimonial given by Karen Brooks Crosby, President, Dallas City Homes. April, 2005.
6 Business Plan, p. 4.
**Insurance 101**

The basic principle of insurance is to take in premiums from many to pay the losses of a few. Companies must balance the types of risk assumed and the possibility of loss arising from those risks with the premiums charged. Different structures allow the company managers to emphasize different parts of the insurance equation. The most often used models are: stock company, mutual insurer, purchasing pool, and captive.

Insurance is a highly regulated industry. In most cases, state insurance departments determine the particular standards and requirements for those providing insurance in that state. There are very few federally regulated insurance structures. This creates challenges and compliance concerns for ventures wanting to provide coverage across the country.

In addition to “admitted” insurance carriers, those who are subject to the state regulations, there are “non-admitted” carriers. These carriers are not required to comply with the volume of regulations an admitted carrier has; however, the guarantees to the insured are lessened substantially too. For example, if an admitted insurance company declares bankruptcy, the state insurance fund will cover losses for existing policy holders. This is not the case for “non-admitted” carriers.

Insurance company ratings are also very important. An AM Best rating of A- or above is considered a strong rating and is generally accepted by financial institutions. Most lenders will not accept lower than an A- rating because they want guarantees that their collateral is insured by a financially sound provider. HPN members with mortgages or other financing arrangements for their properties needed the assurance that their insurance vehicle was stable and acceptable to their lenders.

The insurance industry, like most of the financial sector, experiences cycles. “Hard” markets are characterized by limited coverage availability and high premiums, while “soft” markets are characterized by significant competition, liberal underwriting, and low prices. These cycles are driven by many of the same forces that influence the overall economy.

Insurance companies rely on two sources of income to pay for losses and expenses: 1) Premiums and 2) Investment income. When investment income is up, premiums can go down and underwriting can relax. When investment income is down, premiums must increase and losses must be controlled through stricter underwriting guidelines. The graph below shows the combined ratio (losses plus expenses / earned premiums) from the last 25 years. The higher the ratio, the more investment income is needed to cover the shortfall of earned premium. As the graph shows, the industry as a whole has relied on investment income in each of the last 25 years.\(^7\)

---

\(^7\) AM Best is the rating agency most often referenced in the insurance industry.

\(^8\) Figures represent results of the United States property and casualty industry.

Without a combined ratio less than 100%, the insurance marketplace in general will be subject to these cycles and will continue to experience pricing volatility and coverage instability.

**Insurance company structures**

*Stock company*

Stock companies are the structure that most people think of when they think of a national insurance carrier. The Hartford, Chubb, and CNA are all examples of stock companies. Each of these is also publicly traded. Stock companies tend to be larger and usually accept a broader range of risks than the other structures. For example, in addition to covering classes of risk such as business owners, construction, and habitational, these companies also provide many specific coverages such as property, general liability, worker’s compensation, and automobile. Rates and coverage forms are approved by each state in which the company does business and changes must be filed before they can be used. These companies generally have significant overhead expenses.

Like all insurance providers, stock companies maintain underwriting standards. Each decides which classes of business it will cover and what the maximum acceptable loss ratio (incurred losses/written premium) will be. The underwriting guidelines enable these companies to minimize the risks to which the company is exposed thereby also minimizing claim payments. The company must balance these restrictions with obtaining enough premium to pay the losses that are incurred.

Stock companies are managed by employees and a board of directors separate from the insureds covered by the company. Management of these companies ultimately answers to the stock holders. Consequently, flexibility for individual insureds is limited. Insureds have the option of accepting the offered coverage at the proposed premium or shopping their insurance requirements to another company.

*Mutual Company*

Many mutual companies look like stock companies to the outsider. Liberty Mutual, for example, accepts a broad range of risks and charges market rate premiums. The insureds often have little in common beyond their purchase of insurance from the same company. Mutual companies generally have independent management “appointed” by the insureds; however, the insureds have no more practical say in the operation of a mutual company than an individual stockholder has in the running of a stock company. As with stock companies, forms and rates are set by the company management without the insureds’ input.

Periodically, mutual companies will distribute excess funds generated from premiums and investment income back to the insureds. Although rare, some mutuals may also assess insureds additional premiums if the company experiences exceptionally heavy losses. Individual insureds must consider the financial stability of the mutual company before accepting this coverage. Because of this treatment of surpluses and shortfalls, mutual companies can be considered highly sophisticated risk financing pools.

*Purchasing Pool*

These entities are legally distinct from the member organizations, but enable the members to command more clout within the insurance marketplace. Individual members of the pool have more say in the management of the pool but the organization is still subject to the underwriting criteria of the individual insurance companies providing the coverage. So, while a larger account with good loss history may be more attractive to an insurance company than a small-

---

er account with similar loss history, the insureds are still subject to that company’s underwriting guidelines and rate structure. If a company only allows 20% of tenants in insured properties to be on public assistance, and some properties have 60%, these properties will be unacceptable regardless of how big the purchasing pool is. Likewise, premiums will be developed using industry experience as the base and not the superior experience of the pool. Unless a group of risks is insuring its own losses, it will always be subject to the cycles and underwriting trends of the general market.

**Captive**

A captive can be defined as “a subsidiary owned by one or more parent organizations established primarily to insure the exposures of its owners.” Unlike stock and mutual companies, captives are usually owned and run by entities with similar businesses and exposures. These entities generally experience the same insurance market failure and are unable to reliably obtain reasonably priced insurance from mainstream insurers. In many ways, captives can be considered mini mutual companies. However, there are a few important differences.

Management of the captive is controlled by the parent organizations. Most captives are governed by boards made up of employees of the parent entities. Also, most of the financing for a captive comes directly from the parents and the risks insured by the captive are those of the parents. Underwriting criteria are, if not determined by the board, at least reviewed and approved by the board. Underwriting issues such as spread of risk, previous loss history, and financial stability must be considered for each risk insured. Premium levels, available discounts, and potential dividends are also approved by the board.

Many groups frustrated by years of battling large insurance companies see captives as a way to circumvent the market and be rewarded for their good experience. While loss control and adequate premiums can greatly reduce the fluctuations experienced by the members, participants soon learn that the discipline of operating a sustainable insurance company requires the diligence of all members. Decreasing the combined ratio below 100% is a key component of a captive’s success.

Unlike the other models, incurred losses directly impact each of the members. If one member suffers a large loss, the resulting claim payment reduces the amount left for dividends for everyone. Governance must be for the long-term health of the captive and not for the individual interest of one of the members. This becomes difficult if the board must take action against a member causing substantial risk to the captive. Industry partners and their commitment to the captive are also critical. Likewise insurance expertise and the ability to detect trends and changes in the market are important for sustainability. Although generally smaller than the other structures, captives can be highly sophisticated providers of insurance.

**Housing Partnership Insurance**

The survey responses and loss histories confirmed what both Hartman and Bledsoe had originally suspected. HPN had many entrepreneurial members who were both motivated to find and answer to the insurance problem and in a position to support a new venture. Bledsoe was confident, based on his experience with previous ventures started by HPN, that the members would work collaboratively on the new insurance alternative.

The loss histories indicated that this group experienced significantly better loss rates than other habitational risks. Of the members who responded, loss ratios (losses incurred/earned premiums) ranged from 25%-33% while the indus-

---

try average for habitational risks was closer to 50%. Further examination revealed that the member loss levels were not a fluke. “Nearly all of the properties had been recently rehabilitated or developed” and the property managers “took an active role in asset and property management.”\textsuperscript{11} Members wanted this loss control success to translate to reduced premiums.

Based on this information, Hartman and Bledsoe recommended to the steering committee that HPN form a captive insurance company to provide coverage to members of the captive. Larry Swanson, Chairman of the steering committee, voiced the group’s willingness to accept more risk if they also got more control by saying, “With a captive, we have the best opportunity to provide slow, stable growth in premiums over time.”\textsuperscript{12} The volatility of the marketplace would be reduced. The superior loss experience would help overcome underwriting barriers with reinsurance companies and the members would have direct input in the operations of the company. In the final analysis, there were four factors that made the creation of a captive possible for HPN: mutual risk sharing, loss performance, scale, and access to capital.\textsuperscript{13}

**Implementation**

Although HPN had previously structured sophisticated financial instruments, Bledsoe recognized the need for insurance expertise. Over the next several months, Bledsoe worked with the steering committee, insurance brokers, actuaries, reinsurance brokers, and other experts to set up both the captive and the insurance program within the captive. (See Appendix A for a list of HPI’s vendors).

Milliman USA provided a feasibility study that determined a workable business model. The projections including both an expected and a conservative case were approved by regulators in Vermont, a state traditionally friendly to insurance captives. This model examined projected losses, including trending factors for losses that remain open over long periods, anticipated expenses for running the captive, and the premiums needed to sustain the venture.

Milliman determined that the first year premiums required to cover even a bad year would be 15% lower than those being offered in the marketplace at that time. The actual loss ratio for those entities submitting loss runs was 29% as compared with the actuarial projection of 49%. Premiums were developed using a conservative 40% loss ratio.

The next step was to determine the actual insurance mechanism. Because of the financing various members had in place, A ratings were required. As a newly formed entity, the captive would not be eligible for a rating for a minimum of three years. Also, the insurance department needed guarantees that losses would be paid even if losses exceeded those predicted in the Milliman report.

The solution was to enter a reinsurance arrangement with Lexington Insurance acting as a fronting insurance carrier. Lexington Insurance agreed to provide policies to captive members meeting the underwriting criteria with HPI reinsuring all losses above the deductible level. Lloyd & Partners (Property) and AIG (Liability) provided reinsurance above $500,000. Below is a graphic depiction of the basic insurance structure.

\textsuperscript{11} Business Plan, p. 11.
\textsuperscript{12} Testimonial provided by Larry Swanson, Deputy Executive Director, ACTION-Housing, Pittsburgh, Pennsylvania. April, 2005.
\textsuperscript{13} Business Plan, p. 13.
From the insured’s standpoint, the insurance transaction is similar to its previous experience. The insured contacts IMA, the broker, with the insurance specifications. IMA contacts Lexington, the company, to receive a quote and to bind coverage after the insured accepts the quote. HPI reinsures for all losses in excess of the insured’s deductible. If losses exceed $500,000, then Lloyds or AIG will pay depending on the type of claim. The policies carry both the name and A+ rating of Lexington even though HPI is contractually responsible for all losses up to $500,000. The insureds need never know the complexity of the risk transfer structure, but can have confidence that they will be made whole after a loss. (See Appendix B for the HPI fact sheet.)

The next hurdle was capitalization. Captives are traditionally capitalized by charging members 125% of the market rate premium in the first year. Because of the cash constraints of potential HPI members and the underlying reasons for forming the captive, the traditional method was inappropriate. Premiums for the first year had to be at or below market rate.\(^{14}\)

Drawing on the problem solving abilities of the Network members, HPN was able to develop a financing mechanism to assist potential captive members in raising the cash needed to join. HPN formed Housing Partnership Ventures (HPV) a non-profit loan fund that offers 5-year, interest only loans to prospective members of HPI. Money for HPV came from a $2 million grant from a federal budget earmark and a $5 million loan from Merrill Lynch. Each loan provided by HPV is fully guaranteed by the receiving HPI member. The expectation is that favorable loss experience in the captive will enable the distribution of dividends which could then be used to pay off these loans. However, if no dividends are declared, the individual members are obligated to pay them off from other sources.\(^{15}\)

The captive was funded by three sources: Owner’s equity, retained earnings, and letters of credit. The loans helped members purchase Class B shares of common stock based on the amount of insurance they needed. The sale of stock generated $3.2 million, approximately 40% of the first year premiums. Those funds have been set aside for loss reserves.

\(^{14}\) Interview with Tom Bledsoe, November 6, 2005.

\(^{15}\) Business Plan, p. 21.
Retained earnings generated by premiums exceeding the sum of losses and expenses were also added to reserves annually. When the reserves were large enough, projected by Milliman to be in year four, HPI have the option of declaring dividends, reducing premiums, or both. The graph below shows how the premiums and investment income were used in the first year:

![Graph showing the uses of premium and investment income]

In addition to the initial and ongoing funding mentioned above, Merrill Lynch committed to a $2.5 million letter of credit in the event of catastrophic losses. Although the possibility of losses exceeding premiums and loss reserves was remote, insureds could rest easy knowing that even the conservative projections were backed by additional resources.

**Governance**

HPN members were intrigued by the structure of the captive because it allowed them a voice in their insurance programs. Each member has one share of voting stock as does the Network. The captive is governed by a nine member Board of Directors. Eight seats are filled by members of the captive on staggered three year terms and the ninth seat is held by a “resident of Vermont” as required by the state statute. After new members are underwritten and approved by the HPI board, they become equal members of the company with one voting share and Class B shares in relation to their premiums. New members also gain the right to run for board seats and vote for board members.

The board oversees the policies and practices of HPI. Dick Gersh, who joined HPI as general manager three months into the first policy year is in charge of the day to day operations as well as managing relationships with the various vendors. (See Appendix C for the general manager’s job description.) The board meets quarterly to review HPI’s progress, including loss experience, and to address outstanding issues. In the spring meeting, the board votes on new directors, approves the upcoming year’s budget, and determines the premium range for the next policy year. All of these decisions are reached after considering input from the general manager and the appropriate vendors. The other board meetings may include presentations on board governance, loss control, and prevention or insurance education.

17 Business Plan, p. 6.
Underwriting
HPI faces the typical underwriting risks: Moral hazard, poor loss control, and adverse selection. Each of these risks has the potential to negate the projections developed by Milliman if left uncontrolled. Underwriting guidelines are reviewed and approved by the board before they are implemented. (See Appendix D.)

Moral hazard describes “any condition, other than a physical one, which increases the likelihood that an insured property will be destroyed.” If an insured can make more money from insurance than from selling a property, for example, a moral hazard exists. Arson is one of the best examples. While arson is easily detectable, there are other forms of moral hazard that are less clear cut. By linking each HPI member to the experience of each other member, HPI built in accountability for loss results. By purposely incurring losses, insureds would not only be taking money out of the captive’s reserves but, as a consequence, would be directly impacting the possibility of receiving future dividends.

Moral hazards also develop when insureds do not engage in loss control because insurance is in place. Deterioration of property is a usual consequence of moral hazard. This can result in both property and liability claims. For example, faulty wiring, left unfixed, could result in a fire or a crumbling sidewalk might be responsible for a trip and fall claim.

A more common occurrence among insureds is poor loss control. There may be several reasons for a lack of attention to risk management: cash flow, ignorance of hazards, or lack of cooperation from tenants. Regardless of the reason, poor loss control is a significant contributor to and predictor of claims. Attention to loss control is the best way to avoid losses.

Adverse selection refers to the situation when only the poor risks are submitted to a company. In the case of HPI, adverse selection would take the form of members insuring their older, unrehabilitated properties in the captive and their newly developed properties in the open market. This situation is not a problem for HPI during a “hard” market or when the market is turning. However, during a “soft” market when other carriers’ premiums are low and insurance coverage is easy to get, HPI members might be tempted to move their insurance. HPI has guarded against adverse selection by requiring each member to purchase a minimum of 90% of their insurance from the captive. In addition, if a member chooses to leave the captive, it may not rejoin for three years.

In addition to the risks mentioned above, HPI is affected by pure accidents. These are occurrences that happen regardless of precautions taken, loss control education, or good faith efforts by insureds to minimize their exposures. Protecting themselves against financial loss by accident is the primary reason insureds purchase insurance.

Competition
The success of HPI is directly related to the loss history of the members. The initial trigger for the captive, the fact that members’ superior loss history was neither recognized nor rewarded by premium reductions by mainstream insurers, is the same issue that could lead to future competition. Because of members’ low loss ratios, these accounts would be more desirable than the average account. As the market softens, companies start targeting risks with good loss histories in hard to write categories. Risks that would have been unacceptable at the previous renewal become desirable and companies lower premiums to entice new business.

19 Business Plan, p. 6-7.
In a “hard” market when mainstream coverage is exorbitantly expensive or unavailable, HPI’s stable premiums and steady coverage are appealing. However, when the market turns HPI will encounter competition. Unlike many perceived high hazard classes, the coverages needed by HPI members are those typical of any business that owns property. Consequently, these coverages are available through most of the nationally known carriers such as Hartford, St. Paul Fire & Marine, and Chubb when their underwriting guidelines allow habitational risks. In addition, many regions have small mutual companies that take on specialty risks such as apartment buildings or rental housing.

In its initial year, HPI’s premiums were near the bottom of the market. Coverages were comparable to those available elsewhere. Members were interested in HPI for the long term benefit of slowly growing, and consequently predictable, premiums and for the availability of coverage. In theory, members of HPI understand that HPI will not always have the lowest premiums, but their tolerance of premiums in the middle of the mainstream range has not yet been tested.

HPI’s structure allows for members to leave if they no longer wish to purchase their insurance through HPI. The captive will refund the initial investment. Covered losses incurred during in-force policies will be paid. However, as mentioned above, any member who leaves is not eligible to rejoin the captive for three years.

**Conclusion**

Having reviewed the various components of HPI, Gersh sat back and put his pen on the pad. HPI’s first year had been successful. Even though the loss experience gathered by HPI before assuming the risk had indicated an average loss ratio of 29%, actual losses incurred by HPI in the first year were 31%. This was still far lower than the actuarial model assumption of 40% and over a third lower than the industry average of 49%. The Captive insured $2.6 billion of property and was in the process of underwriting two more potential members. Gersh expected that the year one level of 33,000 apartments insured would grow to over 50,000 by the end of the second year. (See Appendix E for the application process.) Still, he had some doubts.

Would board members hold one another accountable for the loss experience of their properties? Would he be able to modify premiums to cover bad loss history? Would board members vote for the good of the captive over that of their organization? What should be done about the members with poor loss control reports? How much of the premium burden should one risk bear? What was the right balance between dividend potential and low premiums? How could he ensure that HPI continued the success it had enjoyed the first year?

Gersh recognized that in addition to answering the specific questions he had, he needed to present the board with a strategic analysis of HPI’s position and the threats to its success. He was grateful the board was made up of business people, but realized he needed to help them understand the insurance specific issues HPI faced. As long as the Milliman projections held, he knew board discussions would be relatively easy. However, now that the recent loss runs and loss control reports pointed to specific members as increased risks, he suspected HPI was headed toward debate and disagreement.
<table>
<thead>
<tr>
<th>Vendor (Office Location)</th>
<th>Services/Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIG (Boston)</td>
<td>Liability Reinsurance</td>
</tr>
<tr>
<td>Bank of New York (NYC)</td>
<td>Trust Administration, Custodian</td>
</tr>
<tr>
<td>Baker &amp; McKenzie (NYC)</td>
<td>Legal Counsel</td>
</tr>
<tr>
<td>Broadspire (Phoenix)</td>
<td>Claims Administrator</td>
</tr>
<tr>
<td>Downs Rachlin Martin (Burlington, VT)</td>
<td>Lead Legal Counsel</td>
</tr>
<tr>
<td>IMA Financial Group (Denver)</td>
<td>Program Management, incl. Underwriting, Loss Control, Reinsurance Placement</td>
</tr>
<tr>
<td>Lloyd &amp; Partners (UK)</td>
<td>Property Reinsurance</td>
</tr>
<tr>
<td>Lexington Insurance (Boston)</td>
<td>Policy Fronting Carrier</td>
</tr>
<tr>
<td>Milliman USA (Massachusetts)</td>
<td>Actuarial Services</td>
</tr>
<tr>
<td>Saslow Lufkin &amp; Buggy (Connecticut)</td>
<td>Tax, Audit</td>
</tr>
<tr>
<td>Smith Bell &amp; Thompson (Burlington)</td>
<td>Captive Management, Accounting</td>
</tr>
</tbody>
</table>
HOUSING PARTNERSHIP INSURANCE

Fact Sheet

Corporate Structure
- A for-profit subsidiary of HPI Holding Company, a private stock company owned by 18 of the country’s major non-profit affordable housing corporations.
- An association captive insurance company licensed in Vermont, the leading US domicile for captives.
- All owners are members of the Housing Partnership Network.

Policy Coverage
- More than 33,000 affordable apartments valued at $2.6 billion.
- Property coverage equals the total insurable value, up to $75 million per property.
- Liability coverage is $1 million per occurrence per property with a $2 million aggregate limit per property.
- HPI reinsures Lexington Insurance Company, a subsidiary of AIG, for the first $500,000 loss per occurrence above stated deductibles.
- Commercial reinsurers cover claims above these limits.

Business Partners
- Lexington Insurance is the fronting carrier that issues the polices. Another AIG subsidiary provides reinsurance on the liability coverage above HPI’s loss limits.
- Lloyd & Partners Limited has arranged property reinsurance above HPI’s exposure through Lloyd’s of London and several UK insurance companies.
- Merrill Lynch has pledged a letter of credit and provides loan financing for the stock purchases.
- Claim adjuster is Broadspire, a national risk management company.

Financials
- $3.5 million of stock issued by Housing Partnership Holding Company to capitalize the captive subsidiary.
- $3 million in equity invested by the Network’s nonprofit partners.
- $2 million of equity invested by the Network in a new credit facility—Housing Partnership Ventures—to finance stock purchases.
- $5 million loan provided by Merrill Lynch CDC to capitalize the Ventures Fund and a $2.5 million letter of credit pledged by Merrill Lynch CDC to augment the captive’s reserves.
- First year premiums of $8 million reflect 15% savings from the 2003 premiums paid to retail insurance companies by the owners/insureds.
- Dividends may be available for distribution to stockholders as early as 2006 if loss performance mirrors historic levels.
Stockholders

- ACTION Housing, Pittsburgh, PA
- BRIDGE Housing, San Francisco, CA
- Central Community Housing Trust, Minneapolis, MN
- Charlotte-Mecklenburg Housing Partnership, Charlotte, NC
- Community Preservation and Development Corp, Washington, DC
- Community Services of Arizona, Chandler, AZ
- Dallas City Homes, Dallas, TX
- Greater Miami Neighborhoods, Miami, FL
- HAP, Inc., Springfield, MA
- Housing Partnership Network, Boston, MA
- Housing Partnership of Louisville
- LINC Housing Corporation, Long Beach, CA
- Mid-Peninsula Housing Coalition, Redwood City, CA
- Rocky Mountain Mutual Housing Association, Denver, CO
- Settlement Housing Fund, New York, NY
- South Shore Housing, Kingston, MA
- Southern California HDC, Rancho Cucamonga, CA
- Southwest Minnesota Housing Partnership, Slayton, MN

Management

- SB&T (Burlington, VT) serves as captive manager responsible for financial management and compliance with Vermont regulations.
- IMA Financial Group (Denver, CO) manages the company’s insurance contracts and acts as the program underwriter.
- Downs Rachlin Martin (Burlington, VT) is the legal counsel.
- The Housing Partnership Network (Boston, MA) acts as general manager and oversees the third party contractual arrangements.

Board of Directors

- Lawrence Swanson, Chairman (ACTION-Housing)
- Thomas Bledsoe, President (Housing Partnership Network)
- Alan Arthur (Central Community Housing Trust)
- Carol Galante (BRIDGE Housing Corporation)
- Carol Lamberg (Settlement Housing Fund)
- Peter Richardson (Housing Strategies, Inc.)
- Russell Sibley (Greater Miami Neighborhoods)
- Fran Wagstaff (Mid-Peninsula Housing Coalition)
- Richard Whittingham (Southern California Housing Development Corporation)

Launch Date

April 1, 2004
Appendix C

HOUSING PARTNERSHIP INSURANCE COMPANY

General Manager

The Housing Partnership Network is a growing national nonprofit housing corporation based in Boston. Housing Partnership Insurance, Inc., (HPI) is an affiliate company owned by the Network and member organizations. HPI is a Vermont association captive that is managed through a contract with the Network.

About HPI
HPI is a stock corporation that is owned by 17 housing partnerships and the Network. HPI insurance products are designed to meet the comprehensive needs of member-owners. The initial product lines reinsured by the captive include property and liability coverage. In addition, HPI sponsors group programs for professional liability, directors and officers, umbrella policies, and other ancillary lines that are not directly insured by the captive.

Lexington Insurance Company is the captive’s fronting carrier, and reinsurance is being provided by AIG and a Lloyds of London syndicate. HPI has engaging other third-party contractors to perform key insurance functions (e.g., underwriting and program management, captive management, TPA/claims services, actuarial studies, and legal and accounting services). HPI is governed by a nine-member board of directors.

Position Overview
The general manager reports to the Network president (who also serves as president of HPI) and works closely with the Network’s chief financial officer and the HPI board. The general manager is responsible for ensuring that HPI and its contractors are effective in delivering high-quality, cost-effective insurance to the member-owners. The success of HPI is measured by the extent to which volatile insurance costs are stabilized, premiums are controlled, and dividends are available for distribution to stockholders.

Position Requirements
An entrepreneurial self-starter with an undergraduate degree plus ten years of experience in financial or business management required. Understanding of rental real estate is important. Knowledge of property, casualty and other lines of insurance preferred. A master’s degree in finance with a concentration in insurance is a plus, as is ARM/CPCU designation. Excellent communication skills—both written and oral—are essential.
Appendix D

**Eligibility Requirements**

HPI is a captive insurance company that was created to provide rental property insurance for members of the Housing Partnership Network. Stockholders must meet four eligibility requirements:

1. **Network Membership.** Stockholders must be members in good standing of the Housing Partnership Network.
2. **Rental Housing Owners.** Stockholders must own or have substantial control of entities that own rental housing.
3. **Annual Premiums.** Stockholders must be paying total annual premiums of at least $50,000.
4. **Loss History.** Stockholders must demonstrate at least five years of positive loss experience. Underwriting will examine the frequency and size of claims, and average annual losses should not exceed 35% of annual premiums.

**Underwriting**

The following information must be submitted for underwriting by HPI’s program management team:

1. **Current Policies.** Copies of all insurance policies providing property and liability coverage.
2. **Loss Histories.** Complete claims information from the insurance providers for the past five years, currently valued. (A sample request for this information is attached.)
3. **Property Data.** Information on each property must be provided in electronic format and include the following data:
   - Property name and address
   - Replacement cost for structure
   - Replacement cost of contents
   - Annual rental income
   - Number of buildings
   - Year built
   - Number of stories
   - Occupancy percentage
   - Description of commercial operations
   - Construction type
   - Sprinkler percentage
   - Daycare operations
   - Smoke detectors
   - Number of pools and diving boards
Ineligible Properties

HPI provides insurance primarily for residential rental properties. Exceptions include mixed use and other commercial properties owned by stockholders. Following are examples of facilities that are not currently eligible for the HPI insurance program:

- Properties developed for homeownership
- Day care facilities, assisted living facilities or nursing homes
- Short-term boarding or rooming houses
- Vacant or unoccupied properties (over 120 days) unless in the process of remodel or renovation
- Bars, taverns or restaurants
- Buildings that are being torn down or demolished
Appendix E

Application Process

Applying to participate in HPI involves collecting the standard information on the properties to be insured, plus five-year loss histories, and then preparing to invest in the stock company. To start, there are discussions with the CEO about HPI’s goals and business approach. There are then six principal steps in the process.

Step 1. HPI Underwriting Review
The HPI general manager and the IMA insurance professionals thoroughly review the property information and loss histories, along with the current policies and premiums. If this underwriting process concludes with a positive recommendation, the general manager will submit the application to the HPI board for approval. At this juncture, the board acts to invite the applicant to consider becoming a stockholder of the company.

The time required for this step depends primarily on how long it takes for the applicant’s broker to provide the five-year loss history for each property. This can be an arduous task, and IMA and the general manager will provide as much help as they can. With all the information on hand, the general manager can normally secure board action in a few weeks.

Step 2. Applicant Review of Corporate Documents
HPI stock is a privately placed security. As such, its purchase is governed by rules of the Security and Exchange Commission. The SEC requires stockholders to be “accredited investors” and own assets valued at $5 million or more. Once this asset test is affirmed, applicants are provided various corporate documents for their review. They include the company’s business plan and the shareholders agreement, along with recent performance reports and other materials as may be requested.

Step 3. Premium Quotations
At the same time as applicants are reviewing the corporate documents, the general manager and IMA will generate policy proposals and premium quotations. The quotations are based on the complete loss history and property information. There is an opportunity for discussion after the initial quotation to be sure that the costs and the coverage meet the needs of the various properties.

Step 4. Stock Purchase Commitment
The number of shares of common stock to be purchased is determined primarily by the total of first year premiums. The sum of the purchase price for Class A and Class B or C stock constitute the applicant’s capital investment in the company. Applicants will likely need action by their board of directors to commit to join HPI and make the stock purchase.

The board and staff of the company, and all the third-party contractors, stand ready and eager to provide whatever information and assistance is requested to achieve a commitment. Applicants must also decide if they wish to borrow from Housing Partnership Ventures in order to finance the stock purchase.

Step 5. Loan Application to Ventures
All but one of the current HPI stockholders has borrowed from Ventures. The terms are favorable—five-year loans at LIBOR plus 275 basis points—and the interest may be capitalized. The recourse loans are fully guaranteed by the borrowers. It is expected, though not assured, that principal and interest will be retired through dividend distributions in the fourth and fifth years after investments are made. The HPI general manager (Dick Gersh) and the Housing Partnership Ventures administrator (Kathy Farrell) will coordinate the loan application and approval process.
Step 6. Insurance Binders and Certificates
Organizations may join HPI at any time, but most elect to make HPI stock purchases to coincide with insurance renewal dates. It generally takes a couple of months for new members to complete the underwriting and approval process. Upon the purchase of stock, IMA will generate and deliver the Lexington insurance binders. Printed certificates will follow promptly thereafter.
### Housing Partnership Insurance, Inc.

**Balance Sheet**

**December 31, 2004**

#### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$914,319</td>
</tr>
<tr>
<td>Restricted cash equivalents - 114 Trust</td>
<td>6,735,624</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>157,125</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>102,879</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>190,365</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$8,100,312</strong></td>
</tr>
</tbody>
</table>

#### Liabilities and Shareholder's Equity

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid losses and loss adjustment expenses</td>
<td>$1,983,487</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>1,379,546</td>
</tr>
<tr>
<td>Federal income tax payable</td>
<td>264,585</td>
</tr>
<tr>
<td>Loan payable – affiliate</td>
<td>988,762</td>
</tr>
<tr>
<td>Losses payable</td>
<td>310,126</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>78,734</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>5,005,240</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, no par value, 100 shares authorized, issued and outstanding</td>
<td>2,951,000</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>144,072</td>
</tr>
<tr>
<td><strong>Total shareholder's equity</strong></td>
<td><strong>3,095,072</strong></td>
</tr>
</tbody>
</table>

---

20 These financial statements are excerpted from the 2004 audited statements. The accompanying notes have not been included.
Housing Partnership Insurance, Inc.
Statement of Operations
For the Period April 1, 2004 (commencement of operations)
through December 31, 2004

Revenues:
  Assumed premiums $5,594,827
  Change in unearned premium (1,379,546)
  Earned premiums 4,215,281
  Investment income, net 59,996
  Total revenues 4,275,277

Losses and expenses:
  Losses and loss adjustment expenses incurred 2,703,613
    Policy acquisition cost expenses 314,188
    General and administrative expenses 1,039,184
  Total losses and expenses 4,056,985

Net income before federal income tax expense 218,292
Federal income tax expense (74,220)
Net income $144,072
Housing Partnership Insurance, Inc.
Statement of Changes in Shareholder’s Equity
For the Period April 1, 2004 (commencement of operations)
through December 31, 2004

<table>
<thead>
<tr>
<th>Common Stock</th>
<th>Retained Earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Balance at April 1, 2004</td>
<td>--</td>
<td>$</td>
</tr>
<tr>
<td>Issuance of common stock</td>
<td>100</td>
<td>2,951,000</td>
</tr>
<tr>
<td>Net income</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Balance at December 31, 2004</td>
<td>100</td>
<td>$2,951,000</td>
</tr>
</tbody>
</table>
Housing Partnership Insurance, Inc.

Statement of Cash Flows
For the Period April 1, 2004 (commencement of operations) through December 31, 2004

Cash flows provided by operating activities:
Net income $ 144,072

Adjustments to reconcile net income to net cash provided by operating activities:
Deferred income taxes (190,365)

Changes in assets and liabilities:
Prepaid expenses (157,125)
Deferred policy acquisition costs (102,879)
Unpaid losses and loss adjustment expenses 1,983,487
Unearned premiums 1,379,546
Federal income tax payable 264,585
Losses payable 310,126
Other liabilities 78,734

Net cash provided by operating activities 3,710,181

Cash flows from investing activities:
Purchases of money market funds (6,735,624)

Net cash used in investing activities (6,735,624)

Cash flows from financing activities:
Proceeds from loan from affiliate 988,762
Issuance of common stock 2,951,000

Net cash provided by financing activities 3,939,762

Net change in cash and cash equivalents 914,319
Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period $ 914,319
## Housing Partnership Insurance

### Financial Projections

**Income Statement**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underwriting Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Written Premium</td>
<td>7,700,000</td>
<td>10,010,000</td>
<td>13,013,000</td>
<td>14,964,950</td>
<td>17,209,693</td>
</tr>
<tr>
<td>Gross Earned Premium</td>
<td>7,700,000</td>
<td>10,010,000</td>
<td>13,013,000</td>
<td>14,964,950</td>
<td>17,209,693</td>
</tr>
<tr>
<td>Ceded Premium (reinsurance)</td>
<td>1,905,750</td>
<td>2,702,700</td>
<td>3,513,510</td>
<td>4,040,537</td>
<td>4,646,617</td>
</tr>
<tr>
<td><strong>Net Premium Written</strong></td>
<td>5,794,250</td>
<td>7,307,300</td>
<td>9,499,490</td>
<td>10,924,414</td>
<td>12,563,076</td>
</tr>
<tr>
<td><strong>Net Premium Earned</strong></td>
<td>1,400,000</td>
<td>1,820,000</td>
<td>2,366,000</td>
<td>2,720,900</td>
<td>3,129,035</td>
</tr>
</tbody>
</table>

### Underwriting Deductions

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss and Loss Expense incurred</td>
<td>2,700,000</td>
<td>2,902,900</td>
<td>3,773,700</td>
<td>4,338,836</td>
<td>4,990,811</td>
</tr>
<tr>
<td>Fronting Fee</td>
<td>405,558</td>
<td>511,511</td>
<td>564,964</td>
<td>764,703</td>
<td>879,415</td>
</tr>
<tr>
<td>Program Management</td>
<td>497,551</td>
<td>700,700</td>
<td>910,910</td>
<td>1,047,547</td>
<td>1,204,678</td>
</tr>
<tr>
<td>Loss Control</td>
<td>77,000</td>
<td>150,150</td>
<td>195,195</td>
<td>224,474</td>
<td>258,145</td>
</tr>
<tr>
<td>Association Oversight</td>
<td>275,000</td>
<td>280,500</td>
<td>286,110</td>
<td>291,832</td>
<td>257,699</td>
</tr>
<tr>
<td>Captive Manager</td>
<td>50,000</td>
<td>51,000</td>
<td>52,020</td>
<td>53,060</td>
<td>54,122</td>
</tr>
<tr>
<td>Legal/Audit/Actuarial</td>
<td>31,000</td>
<td>31,620</td>
<td>32,252</td>
<td>32,897</td>
<td>33,555</td>
</tr>
<tr>
<td>Start-up Costs</td>
<td>200,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Letter of Credit Costs</td>
<td>0</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>0</td>
</tr>
<tr>
<td>Change in Deferred Acquisition Costs</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Underwriting Deductions</strong></td>
<td>4,238,179</td>
<td>4,638,381</td>
<td>5,925,221</td>
<td>6,764,354</td>
<td>7,718,396</td>
</tr>
</tbody>
</table>

Net Underwriting Income Before Stop Loss

Net Underwriting Income After Stop Loss

### Investment Income

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Investment Income</td>
<td>60,000</td>
<td>154,754</td>
<td>183,621</td>
<td>268,222</td>
<td>362,537</td>
</tr>
<tr>
<td>Other Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dividends to Policyholders</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Profit (Loss) Before Tax</strong></td>
<td>218,072</td>
<td>1,003,673</td>
<td>1,391,890</td>
<td>1,727,381</td>
<td>2,068,181</td>
</tr>
</tbody>
</table>

Federal Income Tax

Net Income

### Surplus Position

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Surplus</td>
<td>2,951,000</td>
<td>3,095,072</td>
<td>3,872,422</td>
<td>5,764,431</td>
<td>7,660,735</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>0</td>
<td>924,000</td>
<td>1,201,200</td>
<td>780,780</td>
<td>897,897</td>
</tr>
<tr>
<td>Loan Repayment</td>
<td>0</td>
<td>(986,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Income For Period</td>
<td>144,072</td>
<td>642,350</td>
<td>890,809</td>
<td>1,105,524</td>
<td>1,342,836</td>
</tr>
<tr>
<td>Ending Surplus</td>
<td>3,095,072</td>
<td>3,672,422</td>
<td>5,764,431</td>
<td>7,656,735</td>
<td>9,891,488</td>
</tr>
</tbody>
</table>
### Housing Partnership Insurance

#### Financial Projections

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>8,100,000</td>
<td>7,108,887</td>
<td>9,276,236</td>
<td>10,988,779</td>
<td>13,203,907</td>
</tr>
<tr>
<td>Premiums &amp; Other In Course of Collection</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Deferred Federal Income Taxes</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Deferred Acquisition Costs</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>8,100,000</td>
<td>7,108,887</td>
<td>9,276,236</td>
<td>10,988,779</td>
<td>13,203,907</td>
</tr>
</tbody>
</table>

#### Liabilities

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outstanding Loss and Loss Expense Reserve</strong></td>
<td>1,983,000</td>
<td>2,505,000</td>
<td>3,489,260</td>
<td>4,183,192</td>
<td>4,855,911</td>
</tr>
<tr>
<td>Loan from affiliate</td>
<td>989,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Loss payable</td>
<td>310,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accounts Payable and Accrued Expenses</td>
<td>78,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Federal Income Taxes Payable</td>
<td>264,000</td>
<td>365,337</td>
<td>533,797</td>
<td>665,295</td>
<td>804,037</td>
</tr>
<tr>
<td>Unearned Premium Reserve</td>
<td>1,360,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>5,064,000</td>
<td>2,890,337</td>
<td>4,023,077</td>
<td>4,848,487</td>
<td>5,659,948</td>
</tr>
</tbody>
</table>

#### Capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Capital</td>
<td>2,951,000</td>
<td>2,951,000</td>
<td>2,951,000</td>
<td>2,951,000</td>
<td>2,951,000</td>
</tr>
<tr>
<td>Capital Paid In</td>
<td>0</td>
<td>480,000</td>
<td>624,000</td>
<td>405,600</td>
<td>456,440</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>145,000</td>
<td>787,350</td>
<td>1,678,159</td>
<td>2,783,683</td>
<td>4,126,519</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>3,096,000</td>
<td>4,218,350</td>
<td>5,233,159</td>
<td>6,146,283</td>
<td>7,543,559</td>
</tr>
</tbody>
</table>

**Total Liabilities and Capital**

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,100,000</td>
<td>7,108,887</td>
<td>9,276,236</td>
<td>10,988,779</td>
<td>13,203,907</td>
<td></td>
</tr>
</tbody>
</table>