Collateral Protection Insurance Product Overview

Collateral Protection Insurance (CPI) provides a vehicle through which an owner of intellectual property (IP) can utilize their IP as collateral for a loan. In essence, the issued policy protects against collateral default.

Target Markets

- Owners of IP rights who wish to leverage the value inherent in the IP to be used as loan collateral.
- Entities with a financial interest in the value of the IP when using collateralized IP for a loan.

Features & Conditions

- CPI can be coextensive with the term of the loan, usually three years; or, it can be typically renewed if the term is longer.
- Escrow agent, if any, ensures that the IP's maintenance fees are paid during the loan. term and steps in for the purpose of orderly liquidation of the IP if necessary.
- Coverage extends to defaults not cured within a sixty (60) day period.

Use of Loan Proceeds

Costs withheld from loan proceeds:

- Enforcement, Defense and CPI Insurance premium.
- Escrow amounts for USPTO maintenance fees | liquidation costs (if applicable) | 5 months interest beginning at default.
- Loan proceeds can be used to develop a business plan outlining development efforts to be taken.

Underwriting Requirements

Information needed to initiate underwriting includes:

- Completed CPI application.
- Proof that Applicant has unrestricted ownership (free and clear of any liens, assignments, loan obligations, etc.) in the IP to be collateralized, which is subject to a Security Agreement.
- Search fee (in most cases).
- Business plan clearly stating why the loan is needed, how the funds will be used and who will oversee execution of the plan.

Determined by Underwriting

- IP to be collateralized is deemed insurable by the established underwriting guidelines for purposes of the Enforcement and Defense coverage.
- Establishment of the Loan to Value ratios after valuation of the IP collateral.

Our expert consultants at IPISC can help with IP risk assessment and offer unique and innovative solutions.

Contact IPISC for additional information:

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Collateral Protection Insurance FAQs

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How much coverage is available for a borrower with qualified IP?

Policy limits are available up to $3 million (USD). Higher limits, up to $10 million (USD), require review by the carrier.

What information is required to apply?

Completed CPI Application | Business Plan |Financials |Patent/Product Information | Search Fee

Is Applicant required to carry Enforcement and Defense Insurance?

Yes. Loan proceeds are used to pay the insurance premium.

What is the policy term?

The policy term is typically three (3) years, with extensions generally available to match the loan term.

How is the premium for CPI calculated?

The target premium is between 9% -12% rate-on-line (3% -4% annually). Premium includes Enforcement and Defense Insurance premium, CPI premium and a contingency fee (5 months interest, if it becomes necessary to foreclose on the collateralized IP).

What information is required in the business plan?

Executive Summary | Business Description | Products and Services | Organization and Management |Marketing and Sales Strategy | Financial Plan. This information will be used to evaluate the following: Reasons for Seeking a Loan | Intended Use of the Loan Funds | Expected Results of these Activities.

Is the program available to companies with no revenue?

Yes. The program works for startups that are in the product development stage as well as for going concerns.

Does the Borrower have to use all of their IP as collateral?

No. The borrower can select the IP. However, if the patents are determined to be subservient to another patent within the portfolio, the policy requires that the dominant patent stands as collateral.

Is a personal guarantee required?

The lender will decide if a personal guarantee is required. However, it is the intent of the CPI policy to eliminate a need for a personal guarantee; and, since the policy limits are likely to be much higher than the net worth of the borrower, lenders (to date) have not required one.

Collateral Protection Insurance FAQs

What commercial risk does CPI protect against?

The commercial risk protected against by this policy is the possibility that the Intellectual Property (IP) collateral pledged for a loan will adequately cover the short fall if called upon.

What commercial risk does CPI *not* protect against?

The CPI policy does *not* protect against non-compensated losses resulting from misdeeds such as, but not limited to, material misrepresentations, fraudulent inducement or breach of contract.

How does CPI differ from an SBA Loan?

The SBA will not guarantee an IP-secured loan.

Are there specific banks that can do this type of transaction?

Yes. However, it is the intent that all banks will become acclimated to making CPI insured, collateralized loans.

Will the subject IP be lost in the event of a loan default?

Yes. If the policyholder is unable to reconcile the default, the insurance carrier has the option of taking possession of the intellectual property.

Is Applicant required to secure insurance and the lender concurrently?

The loan closing entails executing the CPI policy documents, the Enforcement and Defense policies and the loan documents. The lender is identified prior to closing.

Is there a chance to reconcile a late payment?

The policyholder has 60 days from receipt of notification to reconcile a late payment.

What are examples of Offsetting Compensation or Recovered Costs?

The sale of products and/or royalties received after default during run-off is an example of offsetting compensation. Money recovered from litigation, fines, awards and penalties collected from an adversary is an example of recovered costs.

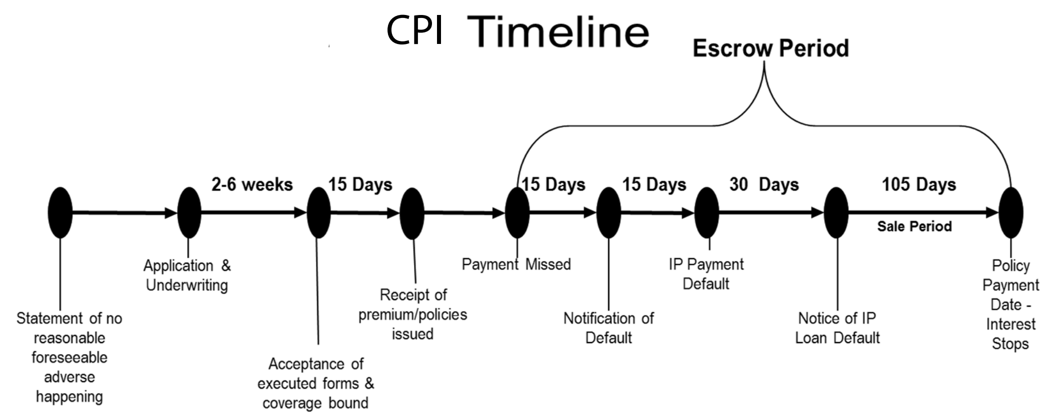
What is a "Reasonably Foreseeable Adverse Happening?"

Applicant or the lender must make a statement of no "Reasonably Foreseeable Adverse Happening" when applying for the CPI policy. Please refer to the specimen policy definition.

Can you describe the Escrow Agent's role?

The Escrow agent, if any, ensures that the IP's maintenance fees are paid during the loan term and ensures orderly liquidation of the IP upon the occurrence of a collateral default.

Collateral Protection Insurance Timeline



CPI Policy Binding Process

Binding of the CPI policy takes place after the:

- statement of “no reasonable foreseeable adverse happening” is received
- application is underwritten
- executed formal quote forms, executed loan greement and payment are all received

Escrow Period

In the event of a missed payment, the lender must supply to the insurance company a notification of default payment. Payment not received within the next 15 days results in a payment default and, in addition, a second payment may be due. Payment not received within the next 30 days will result in a loan default.

The Escrow Agent actively attempts to sell the intellectual property (IP) used as collateral, and notifies the lender and the insurer of the activity. Activities begin with the first missed payment through the end of the sale period. The escrow period,which begins with the first missed payment and includes the notification default, payment default, loan default and policy payment date. During the escrow period, the escrow agent uses the escrowed monies to pay the accrued interest to the lender.

End of Escrow Period

At the end of the escrow period, foreclosure is affected and the insurer has the option of taking possession of the collateral IP in lieu of a sale of the IP for the full amount of the outstanding balance. The policy reimburses the outstanding loan amount in the event of a collateral shortfall. Interest does not accrue thereafter.

If an investor in the insured, or other interested party, has offered to pay the outstanding loan balance, the lender and the insurance company must accept the payment and relinquish claim to the IP, provided the purchase completely relieves the insurance company’s obligation, and the lender is fully compensated to the extent required by the policy.

The CPI policy term can be coextensive with the term of the loan, usually three years with extensions or renewals generally available to match the term of the loan.

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