

FACILITY ASSOCIATION

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TO: ALL MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F05-049
DATE: October 4, 2005
SUBJECT: TRANSFER OF FACILITY ASSOCIATION RESIDUAL MARKET (FARM) RELATED FUNDS TO MEMBER COMPANIES

The Facility Association Board of Directors has authorized the transfer of Facility Association Residual Market (FARM) reserve-related funds that are not required to meet Facility Association's short term cash flow needs. Such funds are to be transferred to Members on a quarterly basis as they become available. These funds represent a portion of Facility Association's FARM reserve related funds, i.e. all funds that are not required to be held by Facility Association to meet its current cash flow demands. The FARM reserves upon which these funds are based include reserves held for Unearned Premiums, Outstanding Losses and IBNR (all based upon Facility Association's best estimate).

Transferring these funds to Members allow them to invest the funds based upon Members' own investment plans and policies. **Please note that any investment losses on funds held by Members will be borne solely by them.** Also, since 100% of all FARM policyholder payments will eventually be made directly by Facility Association, **FARM policyholder funds held by Members will eventually need to be returned to the Facility Association** to enable it to pay the policyholder claims to which these funds relate.

Facility Association made its first transfer of funds to its members June 2005 of approximately \$900 million. Based upon an updated Facility Association cash flow projection, Facility Association is now in the position to make a net transfer of funds to its members of approximately \$200 million. As the overall direction of this transfer is strongly positive, in most, if not all cases, members will be receiving a transfer in of additional Facility Association funds. However, members should be aware that the cash flow they will experience as a result of this transfer is actually the net effect of the notional collection of the funds previously transferred to them and the new level of funds now being distributed (Facility Association doesn't actually have to collect the previously distributed funds from members as long as the new level of the fund to be held is greater than the old one). The amount of funds to remain at your company is based on your company's updated share of the total FARM reserves which include Unearned Premiums, Outstanding Losses and IBNR. The cash flow that your company will experience is

simply the result of revising the level of FARM funds that your company should now be holding (based on Facility Association's best current estimate).

The transfer of these funds will be accomplished by electronic wire transfer (EFT) and will occur this Friday, **October 7th**.

IMPORTANT:

Please note that it is the member company's responsibility to follow-up with its bank if it does not receive an expected transfer of funds by noon on October 7th. This will insure that same day credit is received by your company for these funds.

Please be sure to advise Facility Association of any changes to your company's banking information previously provided (prior to the June 2005 transfer of funds). Please send any updated banking information immediately to the attention of Angela El Dewy, phone # 416-863-1750 ext. 4811, e-mail: adewy@facilityassociation.com at the Facility Association.

Reference:

Please refer to our past bulletins **F05-028**, **F05-030** and **F05-031** for further information regarding Members' Transfer of Funds.

The link to the website where these can be found is as follows:

<http://www.facilityassociation.com/membersbulletins-2005.asp>

Questions concerning this process or the dollar amounts involved should be referred to Angela El Dewy (see phone number above).

David J. Simpson, M.B.A., FCIP
President & CEO

Please forward a copy of this bulletin to your Chief Financial Officer.