Your Borrowers' Exposures to Loss are Not Static: 5 Overlooked Ways Your Borrowers' Protection Needs Are Changing

Once a loan closes, its financial parameters are established for the life of the loan. Unfortunately, many lenders forget that the borrower's exposure to loss isn't so tidy. Organizations continually explore new growth opportunities, markets and products in a rapidly changing world. It makes sense that the risk protection evolve with the organization and the socio-political environment in which it's working. Here are five, commonly overlooked areas that your borrowers may be putting themselves — and you — at risk.

Have you considered:

1. The scope and applicability of terrorism coverage?

Have you noticed the ever-changing response towards coverage for terrorism? Prior to the events of September 11, 2001 (9/11), most policies were silent regarding coverage for loss, damage or liabilities due to terrorism. Since such acts were not excluded, they were covered. However, post 9/11, carriers carved out such coverage through something known as "Terrorism Exclusions." Coverage for terrorism-related loss can be bought back for an additional premium. However, some markets are returning to the pre 9/11 policy structure.

Is terrorism is covered by your borrower's program? If so, what is the scope of such coverage?

2. Catastrophic weather-related perils and their impact on your collateral?

Your coastal customers may not be protected against catastrophic weather-related damage such as wind, flood or storm surge. Are you aware that many carriers are denying windstorm damage resulting from such catastrophic weather-related perils? Retentions for weather-related perils are rising as well.

Who is paying your borrower's claim when these events occur?

3. Sufficient limits and the impact of coinsurance provisions to your loss recovery?

A coinsurance policy can create issues unless you know the details of the provisions. Are you aware that even though the limit insured may exceed the value of your collateral, this may not be fully collectible if the borrower has not purchased limits that meet the coinsurance requirements in their property policy?

4. The Terms and Conditions regarding valuation provisions?

Are there restrictions to Replacement Cost Valuation on your borrower's policy? Older buildings may not meet all current zoning regulations and codes. Replacement Cost coverage does not include coverage for extra expenses involved in meeting more current codes and regulations.

Does your borrower have sufficient Law & Ordinance coverage?

5. Is your borrower's insurance carrier financially sound according to the AM Best ratings of carriers?

The double whammy of post-9/11 and the economic downturn was too much for many insurance carriers to support. We have seen many insurance carriers fail. While the insurance market has stabilized, constant monitoring is still required.

Have you vetted your borrower's current insurance provider to make sure it is financially sound and secure to support your borrower through tumultuous times…when your borrower and you will need it most?

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