



LOSS PAYEE VS. LENDER'S LOSS PAYABLE ENDORSEMENT: DOOR #1 OR DOOR #2?

As a business lender, your borrower must provide proof of insurance as a condition of your financial institution granting the loan. Now let's dig deeper.

You want to make sure your institution is covered for losses to equipment, machinery and inventory. Two provisions in the borrower's Personal Property Hazard Insurance policy can cover these eventualities: Loss Payee and the Lender's Loss Payment Endorsement. For either one, the insurance policy must be properly endorsed and your financial institution properly listed on the policy as the Loss Payee or Lender's Loss Payee. These are extra items to review, but important ones.

These provisions may sound similar, but they're very different. The big difference: the protections available to the lender. So before you make the deal, better check them out:

Behind Door #1: Loss Payee. Here's the problem: If there's a covered loss entitling the insured (the policyholder) to payment, the insurer will issue payment jointly to the policyholder and the lender. But if the policyholder hasn't complied with the terms of the policy - say they haven't paid the premium or they've committed wrongful acts that breach the terms of the policy - nobody gets paid. In these cases, forget about being a Loss Payee. Your financial institution receives nothing.

Behind Door #2: Lender's Loss Payment Endorsement. You're far better off under a Lender's Loss Payable Endorsement than being designated the Loss Payee. In the case of SBA loans, you've got no choice. You must choose Door #2. The SBA requires it. The SBA's Loan Authorization states in part, "...Insurance coverage must contain a LENDER'S LOSS PAYABLE CLAUSE in favor of Lender. This clause must provide that any action or failure to act by the debtor or owner of the insured property will not invalidate the interest of Lender..."

There are four major protections available behind Door #2. Your financial institution:

- has the right to receive loss payment even if the insured violated terms of the policy or because the loss was caused by the insured's wrongful acts

- receives notification from the insurer not less than 10 days prior notice of cancellation if the cancellation is because of nonpayment and not less than 30 days prior notice if the cancellation is for any other reason
- has the right to receive a loss payment even if the lender has begun foreclosure proceedings against the insured
- will receive written notice from the insurer of a pending cancellation at least 10 days before the policy's cancellation date if the insurance company decides not to renew the policy

Since the lender protections behind Door #2 so far exceed what's behind Door #1, we believe it's prudent to choose the Lender's Loss Payment Endorsement for all member business loans regardless of whether they're SBA. Also, when the insurance policies come up for renewal, it's a good idea to check the policy for the Lender's Loss Payment Endorsement to make sure it hasn't been dropped.

At J.R. Bruno & Associates, our JRB Team of former financial institution executives and SBA experts has decades of MBL experience and can assist your financial institution with a variety of issues. You may call me directly at 626.688.2125 to discuss your institution's needs. To check out our full range of services, go to www.jrbrunoassoc.com.

Joanna

Joanna Bruno
President
J.R. Bruno & Associates
870 Market Street, Suite 462
San Francisco, CA 94102
415.362.1200
626.688.2125 cell
joanna@jrbrunoassoc.com

Visit us at www.jrbrunoassoc.com