SLATT CAPITAL

PROPERTY INSURANCE
Commercial

Insurance is one of the most important and complicated pieces of the loan origination and servicing processes. Whether you are a borrower with a commercial property or whether you work in the commercial mortgage industry, chances are you have heard the rumblings about the current insurance market and the challenges it presents. Insurance carriers have become more conservative in their coverage practices due to the increase in natural disasters, leading to an increase in premiums and difficulties in obtaining insurance. Given this reality, more individuals have had to pay closer attention to their insurance policies, coverage amounts and endorsements, which has naturally led to more questions about what it all means. In this paper, we will provide a breakdown of the forms and coverages typically required by lenders to help navigate the complex insurance landscape.

When closing a loan and annually throughout the life of the loan, the lender requires evidence of insurance that shows a policy meets their requirements. Most times, this evidence is provided in the form of an ACORD Form.

What is an ACORD Form?

An ACORD form is an insurance industry standard, single-page form that is used to provide proof of property or liability coverage to a party that has an interest in a residential or commercial property and/or the contents of the property. It is a summary of the coverages detailed in the full policy documents.

What are the different types of ACORD forms?

ACORD 25 – Certificate of Liability Insurance.

ACORD 28 - Certificate of Property Insurance. This is the lender-required ACORD form for property insurance.

ACORD 27 – Evidence of Property Insurance. This is an outdated form that is not usually accepted by lenders, although occasionally exceptions can be made if all the same coverages listed on the Acord 28 can be identified on the ACORD 27.

Each lender has their own set of insurance requirements that their loans most must adhere to, however, the following is a list of the most common types of insurance coverages and endorsements required:

What are the Most Common Lender-Required Insurance Coverages?

Property Insurance – covers the replacement or repair of damage done to a physical building. The coverage amount can be underwritten at full replacement cost or at an agreed value that is determined by the appraisal or property valuation report. All correspondent lenders in Slatt's servicing portfolio require property policies to be underwritten at replacement cost. Most lenders also require the policy to be written as all-risk coverage. This means that all losses except for those specifically excluded are covered by the policy.

General Liability Insurance – protects the financial interests of insured parties against lawsuits or other third-party claims.

Excess/Umbrella Liability Insurance – an excess layer of coverage that exceeds the limits of a primary general liability insurance policy.

Wind/Hail Insurance – covers losses to property caused by windstorms or hailstorms.

Named Storm Insurance – different from wind/hail coverage, named storm coverage protects against damages done by a storm system that has been identified and named a tropical storm or hurricane by the National Hurricane Center of the National Weather Service.

Business Income/Loss of Rents – covers loss of income or rents resulting from damage to the physical property during the period of reparations. Coverage amount can be written as Actual Loss Sustained at a period of 12, 18, or 24 months, or it can be a set dollar amount equivalent to the property's annual rents.

Earthquake Insurance – covers losses to property from an earthquake related event.

EQSL Insurance (Earthquake Sprinkler Leakage) – separate from earthquake coverage, this protects the property from water damage caused by an earthquake related event.

Flood Insurance – covers losses to property from a flooding event. Typically required for properties located in FEMA flood zones A & V. The flood zone of a property can usually be found in the appraisal or on a flood determination certificate.

Terrorism Insurance – covers the replacement of damaged or destroyed property because of a terrorism event.

What are the Standard Lender-Required Endorsements?

Mortgagee Clause Endorsement

This clause protects the lender from incurring financial losses in cases where the mortgaged property becomes damaged, as it requires the insurer to guarantee payouts when any claims covered by the property insurance policy are made. This clause also indicates where the policy carrier should mail cancellation notices.

Lenders Loss Payable Endorsement

A loss payable clause is an insurance provision authorizing payment in the event of loss to a person or entity, other than the named insured, with an insurable interest in the covered property or jointly to the insured and the other person or entity.

Additional Insured Endorsement

An additional insured endorsement pertains to liability coverage and protects the additional insured(s) under the named insured's policy, extending the coverage to the additional insured(s).

Challenges Slatt Servicing is Seeing in the 2024 Insurance Market

1. The biggest challenge we are seeing is the increase of major carriers who are pulling out of certain markets due to their high predisposition to natural disasters. For example, many carriers have withdrawn coverage from California due to wildfires, Florida due to hurricanes, and Texas due to wind or other storm events. This has made it hard for some of our borrowers in these markets to obtain coverage. There are alternative insurance plans available such as the California Fair Plan, however, not all the lender's criteria can be met with these programs as they are intended as a temporary solution until a more traditional carrier can step in and bind coverage.
2. Due to the steep increase in premiums, borrowers are shopping for their renewal policies all the way up until the date of their current policy's expiration. While it is understandable that the borrower would and should get the best deal on coverage, this can pose challenges for all parties. Many loan documents require evidence of the renewal 30 days in advance of the expiration date, and as the servicer, we are tasked with providing confirmation of renewal to the lenders in accordance with the documents and ahead of the expiration date. Depending on the carrier, it can take up to 30 days to produce evidence of insurance, so it is imperative that borrowers start the renewal process early. If insurance escrows are collected for the loan, we can sometimes run up against due date deadlines due to tight turnaround times on these policies.

3. One of the ways borrowers are trying to save money with increased premiums is by increasing the deductible on the policy. While this typically makes the policy more affordable to the borrower, the higher deductibles have been exceeding the lenders' maximum allowances. While some lenders may be allowing for higher deductibles to ensure better coverage, these are handled on a case-by-case basis, especially since insurance is typically available, but just like interest rates, the market has to get used to the new reality of higher premiums. We are seeing requests for waivers of the deductible requirements at a higher rate than we have historically, and while we can always ask if a lender will make an exception, there is no guarantee that they will be able to grant the accommodation.