



J.R.Bruno
& ASSOCIATES



Consultants to the Business Lending Community
SBA and MBL Specialist

OUTSOURCE COLLABORATOR

Business Lending News

PROTECT YOUR GUARANTY: ENSURE PROOF OF INSURANCE IS SUFFICIENT, SUPPORTED - AND DOCUMENTED

The last thing you want is denial of a claim on an SBA loan. So what's the first thing you want? Proper documentation to support proof of insurance and the proper endorsements are among the first things to consider - and are an important layer of protection of your SBA Guaranty. Up front: Make sure all insurance requirements are in your Authorization and are properly documented. And it's just as important not to require coverage above and beyond what's called for. Yet some lenders do. If you're one of them, you must properly amend the Authorization with a 327 action or Memo to file, whichever is appropriate.

SBA's updated [SOP 50 10 5 \(I\)](#) requires lenders to ensure that there's sufficient insurance to cover what's needed based on the nature of the business. Subpart B Chapter 5, pg. 173 of the SOP details the insurance requirements for an SBA loan. Here's the hitch: While the SOP tells you what coverage and endorsements are required, there's no mandatory requirement for the necessary support documentation.

Without a mandatory requirement, many lenders opt for an Acord 25 or Acord 27 form as proof of insurance. Yet this might not be enough. We attended the insurance breakout session at NAGGL's Annual Conference in October where it was pointed out that Acord forms don't guarantee the protection you need as the lien holder. Language heading up the [Acord form](#) states it loud and clear:

"This certificate is issued as a matter of information only and confers no rights upon the certificate holder. This certificate does not affirmatively or negatively amend, extend or alter the coverage afforded by the policies below. This certificate does not constitute a contract between the issuing Insurer(s), authorized representative or producer, and the certificate holder."

Lenders Beware. NAGGL session leaders shared that several lenders have fallen victim to relying on Acord forms: When it came time to make a claim, lenders found that the actual insurance policy didn't carry the proper endorsements. The upshot: Lenders had no claim.

So armed with that...what do you need to do to ensure perfected insurance? The proper documentation to support proof of insurance as well as the proper endorsements are another layer of protection of your SBA Guaranty. You need to obtain:

- Copy of the Policy Declaration Page
- Copy of the Lien holder Page
- Copy of the appropriate endorsement page, e.g., the Lender's Loss Payee for Business Personal Property, Mortgagee for Real Estate insurance

To be complete, the insurance policy must:

- include the correct borrower's name

- reflect an adequate coverage amount
- include a description of the coverage (business personal property, building coverage)
- list the correct collateral location address(es)
- reflect that the lender is the lienholder with the proper endorsement
- contain at least a 10 day notice for cancellation in the policy or endorsement

Wait, there's more. Remember the other types of insurance you should consider based on the nature of the business. Dram/Liquor Liability, Product Liability, and Garage coverage are just a few.

Bottom Line: Protect your guaranty and your bottom line. Make sure all insurance requirements are met - and document, document, document!

Joanna Bruno
Founder

J.R. Bruno & Associates
855.572.4722
jrbruno@jrbrunoassoc.com
www.jrbrunoassoc.com

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