AmWINS Group, Inc.

CLIENT ADVISORY

FIGHTING LENDING REQUIREMENTS

At a time when many borrowers are taking advantage of record-setting low interest rates by refinancing their loans, regulatory changes that have recently taken effect are causing lenders to be more cautious than ever to ensure the protection of their principal. As a result, lenders are transferring the risk of unpredictable events to insurance carriers.

This results in strict regulations set by the lending institution, which often doesn't fully understand the risk or what role insurance can play in mitigating the risk. This makes borrowers susceptible to increased lender controls – some of which can be irrelevant to the risk, and if required, can bring additional costs to your client.

This article will look at some examples of lender requests and possible ways to counter them. However, the best advocacy you can provide for your client is to be proactive. In order to avoid delays in closings or renewals, it is vital to fully understand lender requirements well before any closings or renewal date. This allows time to explain why certain requirements aren't relevant or to get appropriate coverage in place if they are.

REQUIRING STANDARD & POOR'S RATED CARRIERS

- Standard & Poor's ("S&P") is a credit rating agency that publishes financial research and analysis on organizations.
  1. There are other rating agencies available, such as A.M. Best, which will more than likely have ratings for the carrier you are seeking. If the carrier has a high A.M. Best or S&P rating, it can provide merit of the carrier's operations. Also, check to see if the carrier's holding company has an S&P rating.
  2. Educate the lender on the carrier. Lenders are sometimes not familiar with insurance carriers, particularly non-admitted carriers.
  3. S&P charges a very large fee to be rated by the agency and many insurance companies do not see the benefit of an S&P rating in addition to an A.M. Best rating.

REQUIRING LARGE OR FULL LIMITS

- Big limits are welcomed by lenders because they provide protection from shock catastrophes. However, there are circumstances when additional limits can be considered excessive. There are areas in the country which have high catastrophe accumulations for earthquake and wind, and capacity is hard to come by. It's important to consult with your client on buying a suitable loss limit if they wish to keep their costs down.
- Share evidence of what is probable. By utilizing catastrophe modeling software, multiple disaster scenarios can be assessed, and the results can be shared with the lender to provide evidence - including historical data and scientific research - that influences loss limits. Provide facts that warrant a lesser loss limit:
  - How far inland is the property?
  - Is it outside of a flood zone?
  - Does it have superior construction?
  - What kind of fire protections do the buildings offer?
  - What plans does your client have in place to mitigate losses?
  - What is your client's historical loss ratio?
  - Is there a spread of risk?

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CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker or marketing@amwins.com.

If you do not have a contact at AmWINS to help with your property risks, click here for a list of brokers on our website.

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Providing these facts will help educate the lender on a suitable loss limit, but be cautious not to recommend a reduced limit and always provide higher limit options in writing.

REQUIRING LOW DEDUCTIBLES

- Lenders often require lower deductibles in order to transfer as much risk as possible to protect the insured's finances; however, this can drive up the premium and limit carriers' participation. Some insureds prefer to retain the risk themselves to keep costs down.
  1. If your client's property lender has mandated low deductibles, consider structuring a program with a deductible buy-back.
  2. Provide historical loss information, and prove what your client can afford. If the additional premium for lower deductibles is more than the historical incurred losses from deductibles to the client, show the lender.

FLOOD AND STORM SURGE

- Ike, Katrina, and Sandy are a few names on carriers' minds when the word "flood" is mentioned. Flood and storm surge have an enormous impact on pricing and risk modeling systems.
  1. If any property is located in Special Hazard Flood Areas, or SHFA, the best route to obtain coverage will be with National Flood Insurance Program (NFIP). Information regarding NFIP can be found on FEMA's website.
  2. More often than not, if the property is located in a SHFA, lenders will require an excess limit. Interpretation of the catastrophe modeling results can help determine the appropriate excess limit by providing tangible references. If excess limits are needed, there are carriers and facilities available that specialize in flood limits that can help.

EXTENDED COVERAGES AND LIMITATIONS

- All-risk carriers will regularly provide sublimits or even exclude extended coverages such as ordinance and law, sinkhole collapse, EIFS construction, vacant property, mold, etc. If your direct markets refuse to work with you on certain coverages, the excess and surplus (E&S) market may be accessed. E&S carriers have flexibility of their terms and conditions and can agree to manuscript coverage wording in order to meet your client's unique needs.

It is no secret that providing creative solutions in these unique situations solidify your relationship with your client as trusted partner. Remember, the most important step is to pre-emptively request lender requirements before any closings or renewal date to avoid delays. Often there is an opportunity for a borrower to negotiate insurance requirements if it is addressed early in the borrowing negotiations. This also allows your team to pinpoint what coverages and limits are needed, and to expedite your client's closing.

AmWINS' Property Practice is specialized in placing complex property risks, with in-house CAT modeling and actuarial resources. Our brokers are ready to help you advocate for your clients when it comes to requests by lending institutions that impact their coverage.

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