

U.S. Small Business Administration Insurance Requirements for SBA Loans



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Hazard Insurance

- SBA requirements
- If the business is located in a state that requires additional coverage such as wind, hail, earthquake or other, on the hazard insurance, the borrower must provide a separate policy.

Hazard Insurance

- If loan proceeds will finance existing or new improvements on a leasehold interest in land, the underlying ground lease must include, at a minimum, detailed clauses addressing Lender's or assignee's right to hazard insurance proceeds resulting from damage to improvements.

Real Estate

- Coverage must be in the amount of the full replacement cost.
- If full replacement cost insurance not available must be for the maximum insurable value.
- Insurance coverage must contain a MORTGAGEE CLAUSE in favor of lender. Clause must provide any action or failure to act by mortgagor or owner of insured property will not invalidate interest of lender.
- Policy or Endorsements must provide 10 days prior written notice to lender of cancellation.

Personal Property

- Coverage must be for full replacement cost.
- If full replacement cost insurance not available, coverage must be for maximum insurable value.
- Insurance coverage must contain a LENDER'S LOSS PAYABLE CLAUSE in favor of lender.
- Clause must provide any action or failure to act by debtor or owner of insured property will not invalidate interest of lender.
- Policy or endorsements must provide at least 10 days prior written notice to lender of cancellation.



SBA Express and Export Express

- If lender does not require hazard insurance (for example, if it would impose an undue burden on a borrower given the small size of a loan), the lender must document the reason in its loan file.

Marine Insurance

- Coverage in amount of full insurable value on vessel(s) with lender designated as "Mortgagee" must be obtained when the vessel is collateral on the loan.
- The policy must contain Mortgagee clause providing interest of lender will not be invalidated by any:
- Act, omission, or negligence of mortgagor, owner, master, agent or crew of insured vessel;
 - Failure to comply with any warranty or condition out of mortgagee's control; or
 - Change in title, ownership or management of the vessel.
 - Policy must include Protection & Indemnity, Breach of Warranty, & Pollution coverage.
 - Policy or endorsements must provide at least 10 days prior written notice to lender of policy cancellation.

Flood Insurance

- SBA flood insurance requirements based on the Standard Flood Hazard Determination
- Only FEMA Form 086-0-32 may be used
- Mandatory purchase F/I by NFIP apply w/ equal force to condominium and cooperative units
- Policies for units will consist of separate policies obtained by individual unit owner for the particular unit & condominium or cooperative association for exterior of entire building.

Flood Insurance

- Any portion of a building collateral for loan located in special flood hazard area, lender must require Borrower to obtain F/I for the building under the NFIP.
- If any equipment, fixtures or inventory that is collateral for the loan (“Personal Property Collateral”) in a building, any portion located in a SFHA and that building is collateral for the loan, lender must require Borrower to also obtain flood insurance for the Personal Property Collateral under the NFIP.

Flood Insurance

- If any Personal Property Collateral is in a building any portion of which is located in a special flood hazard area & that building is not collateral for the loan, lender must require Borrower to obtain available flood insurance for the Personal Property Collateral. The lender may waive this requirement when the building is not collateral for the loan if it:
 - a) Uses prudent lending standards to determine that flood insurance is not economically feasible or not available; and
 - b) Includes a written justification in the loan file that fully explains why flood insurance is not economically feasible or, if flood insurance is not available, the steps taken to determine that it is not available.
- 5. Insurance coverage must be in amounts equal to the lesser of the insurable value of the property or the maximum limit of coverage available.
- 6. Insurance coverage must contain a MORTGAGEE CLAUSE/LENDER'S LOSS PAYABLE CLAUSE (or substantial equivalent) 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.

Life Insurance

- For loans processed under standard 7(a) over \$350,000, lenders may follow their internal policy for similarly sized non-SBA guaranteed commercial loans, except:
 - If the loan is not fully secured, life insurance is required for the principals of sole proprietorships, single member LLCs, or for businesses otherwise dependent on one owner's active participation, consistent with the size and term of the loan. The amount and type of collateral available to repay the loan may be factored into the determination of the appropriate amount of life insurance. If lender determines that the principal is uninsurable, lender must obtain written documentation from a licensed insurer of the same.

Other Insurance

Lender must include any other insurance appropriate to the loan, including but not limited to:

- 1. Liability Insurance;
- 2. Product Liability Insurance;
- 3. Dram Shop/Host Liquor Liability Insurance;
- 4. Malpractice Insurance;
- 5. Disability Insurance;
- 6. Workers' Compensation Insurance; and
- 7. Any State specific insurance requirements.



Escrow Accounts

Escrow Policy for Commercial Real Estate Taxes and Insurance

- When a lender is in a senior lien position on commercial real property financed with an SBA guaranteed loan (or if SBA is in a junior lien position and an escrow account does not exist with the senior lienholder), borrower and lender may agree to establish an escrow account for the purpose of collecting & paying real estate taxes, hazard insurance, flood & earthquake insurance when applicable.
- Amount collected for escrow account may not exceed 105% of amount charged in the current year by taxing authority or insurance company for the total requirement to pay the annual real estate taxes and insurance.
- Account must be FDIC insured & pay borrower a money market rate of interest, or rate typically paid on escrow accounts for commercial real property on non-SBA guaranteed loans, whichever is greater.



7(a) Small Loans & Express Loans

- For loans processed under “7(a) Small Loans”, SBA Express and Export Express, lenders may follow their internal policy for similarly sized non-SBA guaranteed commercial loans.

EWCP Loans

- Open account insured through Ex-Im Bank export credit insurance for comprehensive commercial & political risk (SBA or the PLP-EWCP lender may determine that export credit insurance is required to enhance the quality of export-related accounts receivable. If export credit insurance is obtained, the Lender must be named as Loss Payee on the export credit insurance policy.)
- Advance rates on foreign purchase orders/contracts or foreign receivables when sold on open account (no credit insurance or letter of credit to mitigate the foreign risk) shall not exceed 80%.

Thank you!

**Questions from the
Audience?**



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