

Insurance solutions for commercial lenders



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It is a loan officer's biggest fear: A borrower defaults on a commercial real estate-backed loan and the collateral property is environmentally impaired. Costs to the lender can escalate quickly. It loses the unpaid loan amount, plus interest and fees. After foreclosure, the lender also faces the cost of cleaning up the contaminated property and possibly third-party bodily injury and property damage claims arising from the location.



This scenario is not unusual, even when a lender does everything right. A lender may adhere to stringent loan underwriting guidelines and conduct Phase I environmental site assessments to identify any possibilities of environmental risk. It may also develop environmental policies and procedures in an attempt to manage environmental risk. It could also require financial collateral, including indemnities or escrows from the borrower, to further manage the potential environmental exposure.

Too often, hindsight shows that all of these risk management methods only added time and expense to the loan approval process. The lender still lacked the risk management tool it most urgently needed: sound environmental risk transfer protection.

Building on experience

Zurich is dedicated to helping lenders and their insurance brokers address specialized and complex environmental risks. For more than 20 years we have worked shoulder-to-shoulder with lenders to craft a risk transfer solution that decisively addresses the environmental exposure

associated with commercial real estate-backed loans – plus easing and speeding up loan processing. The result is Lender Environmental Protection, a policy that responds to the wish list we heard from lenders nationwide.

Lender Environmental Protection enables lenders to:

- Shield assets by protecting collateral and insuring environmental liability arising from collateral properties
- Expedite loan processing and reduce costs by minimizing or eliminating traditional environmental due diligence processes
- Better manage cash flow in the event of a claim

As pioneers in creating this insurance, Zurich has been a strong, consistent market leader. We have helped our customers lower loan-processing fees, accelerate loan turnarounds, protect their assets, and gain a clear competitive advantage, year after year. In a turbulent marketplace Zurich has maintained its position as a market leader.



Because we have a deep understanding of our customers' environmental exposure, we also anticipate emerging issues and changing market needs – and regularly enhance Lender Environmental Protection to address them. Our insight led us to offer Lender Environmental Protection on a stand-alone and portfolio basis. It enables us to offer industry-leading program terms and conditions.

Our knowledge of customer needs was also the catalyst to the development of the Lender Environmental Automated Processing (LEAP®) system, our proprietary application processing system for portfolio accounts that lets lenders process loan coverage application requests online at rapid-fire pace.

Coverage designed to fit your risk

Zurich's Lender Environmental Protection is designed expressly for enterprises that originate, hold or invest in loans backed by commercial real estate. Typical customers include commercial banks, savings and loan companies, credit unions, capital market lenders, life insurance companies, pension funds or any financial institutions which originate commercial real estate backed loans. The policy provides collateral value protection in the event of a loan default and a newly discovered pollution event at the covered location. When this occurs, the policy can pay the lesser of the outstanding loan balance and extra expenses, or the estimated clean up costs¹.

Foreclosure is not required prior to making a claim. The policy also provides coverage for:

- First-party cleanup costs for claims made after the lender has foreclosed on a covered location
- Third-party bodily injury and property damage claims, including defense costs, caused by a pollution event during the policy period

Commitment grounded in financial strength

The worst environmental damage occurs slowly, seeping into the ground or water over time, and may go undetected for decades. This type of unseen hazard is the reason businesses need the protection of an insurer that has the staying power to be there when a claim occurs. In the long run, an insurer's protection is only as good as its financial strength. Zurich's financial strength ensures long-term protection to meet the environmental insurance needs of our clients.

Few insurers can match Zurich's technical knowledge, financial strength and commitment to environmental liability on all fronts. It is the reason Zurich has been a leader in the market for more than 20 years.

Additional policy highlights

Zurich's policy includes numerous attractive features, including:

- Coverage on a single transaction or master portfolio basis
- Multi-year policies, up to the term to maturity of the insured loan
- A waiver of subrogation against borrower in possession
- Assignment of interest may be assigned to a successor lien holder
- Claim reopens for discovery of new and/or additional cleanup costs
- Natural resource damage is included
- Primary insurance wording
- Governmental authority definition includes voluntary cleanup programs
- Automatic 60-day extended reporting period (ERP)
- No minimum deductible is required

Limits up to \$25 million. Higher limits may be available subject to underwriting considerations. Lender Environmental Protection is often purchased by the borrower for the benefit of the named insured lender.

LEAP®

The Lender Environmental Automated Processing system known as LEAP® is Zurich's proprietary internet web based application processing system for loan portfolios that allows us to provide exceptional service to our customers by processing their loan coverage requests for insurance electronically. It allows the lenders access "24-7" to process and check the status of their loans. Lenders complete the electronic disclosure form and then submit to Zurich. Response time on straightforward loans may be less than five minutes. Loans that are referred to a Zurich underwriter for review will be responded to within three business days from receipt.

Case study

As part of its risk management efforts, a major financial institution wants to implement a new program that will: 1) streamline the environmental due diligence process for loans with real estate as collateral; 2) offer a cost effective alternative to traditional due diligence borne by the bank's borrowers; and 3) provide an efficient mechanism for transferring the environmental risks to a financially secure company.

A customized due diligence and insurance program is designed by Zurich in association with the bank to cover the bank's commercial loan portfolio.

After the program's inception, one of the loans has an event of default. The bank's preforeclosure due diligence investigation reveals the presence of preexisting environmental contamination from a past dry cleaning operation. Significant solvent contamination is present in the soils beneath the property but groundwater has not yet been impacted. In lieu of foreclosing on the property, the bank makes a claim for the outstanding loan balance and extra expense associated with the loan.

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¹ subject to a 50 percent threshold that provides the insured the option of an estimated cleanup cost or outstanding loan balance claim payment if the estimated cleanup costs are 50 percent or more of the outstanding loan balance

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