MORTGAGE BANKERS ASSOCIATION WHITE PAPER

BLANKET INSURANCE TERMS AND IMPACT: A LENDER GUIDE
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Property and Casualty insurance is a critical component in commercial real estate financing, from the time of loan origination through payoff. Yet the importance of the coverage provided and the complexity inherent in insurance is often underestimated and overlooked. This is particularly true of blanket insurance policies. When insurance is provided as a blanket policy structure, an additional level of complexity is added that complicates the review and analysis of the coverage provided. Blanket insurance policies can be structured in a number of different ways, often making it difficult to determine the level of risk that will ultimately be borne by the insured as opposed to the insurer. Further compounding the complexity is the fact that there are often a number of varied interests in the coverage (i.e. lender, borrower, insurance carrier, etc.) and the requirements of the loans and the servicing may vary among products and lenders. Oftentimes, the language contained in the loan documents does not provide sufficient detail regarding blanket insurance requirements to offer guidance to the reviewer of the amounts of coverage to ensure compliance.

This paper is being written to address the issues that surround blanket insurance policies when they are used to provide property and casualty coverage in connection with the financing of commercial and multifamily real estate. The paper also presents challenges faced when reviewing the coverage to determine compliance with the loan documents and established by the lender.

Although blanket insurance policies are not a new concept in the insurance industry, use of this insurance policy structure has steadily gained traction in the commercial and multifamily real estate finance marketplace as property owners seek more efficient ways to manage cash flow.
As a result, lenders are likely to encounter blanket insurance policies with increased frequency.

It is important for the reader to note as a foundation to the information provided in this paper, that the review and analysis of a blanket insurance policy is an art and not an exact science. This review and analysis requires the application of judgment by the reviewing party as to level of risk exposure that results from acceptance of a blanket policy. The degree of scrutiny and analysis applied to the blanket insurance policies during the review process is oftentimes primarily driven by the risk exposure of the property. For example, if the policy covers a large real estate portfolio comprised of multiple properties which are concentrated in catastrophe prone areas the review can be complicated. Or, the review can be relatively straightforward if the property in question is located in a geographic area that is not typically exposed to catastrophes or the geographic concentration of the portfolio of properties insured under the blanket insurance policy is limited in a manner that does not create a high level of risk. Since the review and analysis of a blanket insurance policy is driven by both the property financed and the portfolio of properties owned by the insured and covered under the blanket policy, each blanket insurance policy should be considered on a case by case basis in accordance with the requirements governing the loan, direction provided by the lender, the unique attributes of the loan and the specifics of the overall portfolio insured under the blanket policy.

As a result, the commercial and multifamily finance industry insurance experts who developed this paper, have elected to provide a look at some of the critical components to consider when reviewing a blanket insurance policy, rather than attempting to outline a specific process that would be applicable to blanket policies in general.

This paper is comprised of two sections. The first section is a primer on the insurance to assist in a high level understanding blanket insurance policies. The second section builds on the foundation established by this primer and ties the insurance fundamentals to commercial and multifamily real estate lending. To further support this information, appendices, case studies and examples are provided to help demonstrate the concepts addressed. By the conclusion of this paper, readers should have a better understanding of the complexities associated with blanket insurance coverage and an understanding of the typical components to consider in approaching the review of blanket insurance policy related to commercial and multifamily real estate lending. While many of the concepts addressed herein are applicable to insurance policies generally, the intent of this paper is to focus on blanket insurance as it relates to the mortgage financing of commercial and multifamily properties.
Part I — Insurance Primer

Insurance Generally

As previously indicated, property and casualty insurance coverage is a critical component of commercial and multifamily property finance. Lenders require insurance coverage for the financed property based on facts known at a point in time. However, the insurance market is complex and dynamic; therefore the possibility exists that insurance requirements set at loan origination may be unobtainable some years later. As a result, in commercial and multifamily real estate finance, the review of insurance policies must be evaluated and understood in relation to the current environment. The reviewer must have an understanding of the coverages that are required and what is available as well as the forms that may be used to document the coverage. For that reason, we begin this paper with a review of some overall concepts and mechanics related to insurance generally.

What is Insurance and What Does it Do?

Insurance is:

- A promise of compensation for specific potential future losses in exchange for a periodic payment;
- Designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss; and
- A product that can be purchased for a variety of risk exposures depending on the interests of the parties.

What does insurance do?

- Transfers the covered risk to the insurance carrier;
- Indemnifies the insured for losses associated with covered risks; and
- Provides for the sharing of the costs of losses among all insureds.
By transferring risk exposures to insurance companies, insureds exchange the possibility of incurring losses at some time in the future for the certainty of future protection through payment of a much smaller, periodic premium. This transfer of risk is accomplished through the issuance of the insurance policy.

**Insurance Policies Are Contracts**

Although all the rules of contract law apply to insurance policies, there are certain unique features, such as those outlined below, that distinguish insurance policies from other types of contracts and affect their enforcement:

- Insurance policies are conditional in nature because the insurer’s promise to pay is conditioned on the occurrence of a specified event.
- Insurance policies involve an unequal exchange of dollar amounts. The payment of a premium to the insurer by the insured is required as consideration for the coverage, however, payment by the insurer to the insured is only made if a loss occurs and if that loss is covered under the insurance policy.
- Insurance policies are contracts of utmost good faith. Since the insurance product is intangible, both the insured and the insurer (the parties to the contract) must rely on the representations and warranties of the other.
- Insurance policies are contracts of adhesion as one party drafts the language (insurer) and the other must adhere to it (insured).

**Policy Construction**

As discussed above, an insurance policy is a contract that states the rights and duties of the insurer as well as the insured. The policy sets out (among other things) the term of the policy, the coverage provided, the premium due and the deductible. The insurance policy also includes the following:

- Name of the insurer and the insured;
- Policy period;
- Consideration — both the insured’s premium and the insurer’s promise to pay if an insured loss occurs;
- Defined Terms;
- Insuring Agreement(s) — outlines what is covered in the policy;
• Exclusions — outlines what is not covered in the policy;
• Limit(s) — the maximum the carrier is obligated to pay;
• Valuation — indicates how value will be determined typically either replacement cost or actual cash value;
• Duties of insurer and insured; and
• Dispute resolution.

Provisions commonly found in property and liability policies include:
• Cancellation provision;
• Change provision;
• Examination of books and records;
• Inspections and surveys;
• Assignment; and
• Subrogation.

These concepts are found in all insurance policies and serve as the foundation for all insurance contracts, regardless of the coverage type.

In addition to the information listed above, an insurance policy will contain a Declarations Page and may include endorsements and/or amendments which customize the contract to the individual exposure(s) covered.

The Declaration Page is typically the first page of an insurance policy. It is attached to the body of the policy which covers the policy terms (i.e. coverage provided, valuation, common conditions, exclusions, etc.). The Declaration Page contains additional information specific to the related coverage such as the name of the insured, the location of the covered property, the policy term, deductibles, premiums and the amounts and limits of coverage and any endorsements to the policy. A new Declaration Page is generated in connection with each renewal.
Definitions Critical to Understanding this Paper

An **endorsement** is a written document attached to an insurance policy that modifies the policy by changing the coverage afforded under the policy. An endorsement can add coverage for acts or things that are not covered as a part of the original policy and can be added at the inception of the policy or later during the term of the policy; an addition to a written policy.

Policy Forms

**MONOLINE VERSUS PACKAGE POLICIES**

Insurance policies can be monoline (a policy that covers a single line of insurance only (such as property coverage)) or package (multiple lines are covered in the same policy (property and liability)).

Coverage parts may include, but are not limited to: commercial property, commercial general liability, crime, inland marine, equipment breakdown and auto. A commercial package policy combines coverages that could be purchased separately into one policy. The package policy will have a common set of conditions and a common Declaration Page. However, each individual coverage type will also include a set of conditions and a Declarations Page.

Example A illustrates the types of coverages that maybe contained in a commercial package policy.

**STANDARD POLICY OR MANUSCRIPT POLICY FORM**

Additionally, the insurer may document the insurance contract using either a standard form or a manuscript form of policy.

Standard Policy Forms are used across various coverage lines for all insureds looking to purchase that line of coverage. Use of these “off the shelf” forms is an efficient way for insurers to provide policies to a large number of insureds and promotes consistency in the policy terms. As noted previously, the Declaration Page to the policy ‘customizes’ the coverage to the particular insured and insured property. Standard Policy Forms may refer to industry wide forms such as forms developed by ISO (Insurance Services Office) or AAIS (American Association of Insurance Services); or may refer to forms developed by an individual insurer. Generally, the parties (to the insurance policy) do not negotiate the terms of the Standard Policy Form. Any customization is done through the Declaration Page and the use of endorsements. Standard Policy Forms are typically used where the exposure is homogeneous and the insurer can adequately predict potential losses across insureds and covered properties.
Manuscript Policy Forms are specifically negotiated between the insured and the insurer when the insurance coverage requested must be tailored to meet the needs of the insured. Manuscript policies are typically employed when writing coverage for large insureds or for specialty exposures and may contain both standard and non-standard terms. Common examples of the use of the Manuscript Policy Forms include: political risk, fidelity, directors and officers and environmental. Manuscript policies are used where the exposure is non-homogeneous and the insurer cannot adequately predict losses across insureds and covered properties. Similar to a Standard Policy Form, a Manuscript Policy Form will include a Declaration Page and may be further customized through the addition of policy endorsements.

Insurance Policy Limits

In addition to being either monoline or package, insurance policies can be written for exposures in connection with a single property, or for exposures in connection with multiple properties.

In order to manage exposure to certain types of risk, insurers may set limits as to the maximum coverage provided. Insurance limits set the maximum monetary amount that an insurer is obligated to pay in connection with a particular insurance claim. The limits applicable to related properties or risk exposures are specifically agreed upon at the inception of the policy and are based on the amount of coverage that the insured requires and the insurer is willing to provide. Based on the coverage provided and any limits, the insurer will review the details of the requested policy and determine the corresponding deductible and premium. The limits contained in an insurance policy may apply to specific coverages provided or the total coverage available over the policy period.

Policy limits are expressed in different ways, but are generally grouped into the following categories that are described below: Specified Limits; Scheduled Limits; Blanket Limits (including Per Occurrence Limits and Margin Clauses); Aggregate Limits or Sublimits

**Definitions Critical to Understanding this Paper**

**Policy limits** are agreed to by the insured and insurer. The limit may be based on the fair market value of the property or a probable loss amount. The insured may desire limits to cover a worst case scenario or limits that will allow the insured to assume a larger portion of the risk in exchange for lower premiums. The insurer will determine the insurable value based on its evaluation of the property. The insurable limit determined by the insurer may be higher or lower than that desired by the insured. In either case, higher policy limits increase both the premium due and deductible amount to be paid by the insured.
Specified Limit

A specified limit sets the maximum amount that the insurer will pay for each loss associated with a particular insured item or class of property (i.e. a specified limit may be set for all buildings at a specific location or for each building separately). An insurance policy can also include specified limits for several items or classes of property.

Example A: Specified Limit

Recall that each specified limit is truly a separate limit and the limits are exclusive of each other even if covered under the same policy. The limits cannot be commingled or considered as a collective amount.

SCENARIO BACKGROUND AND ASSUMPTIONS
To illustrate a specified limit consider this example where there is a building limit and personal property coverage limit:

<table>
<thead>
<tr>
<th>Building Limit</th>
<th>Business Personal Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>is $1,200,000.00</td>
<td>Limit is $800,000.00</td>
</tr>
</tbody>
</table>

THE CASUALTY
Assume a casualty occurs at the building that completely destroys the property. At the time of the loss the replacement cost at the time is determined to be:

| Building Replacement Cost is $1,500,000.00 | Business Personal Property Replacement Cost is $500,000.00 |

AFFECT ON PROCEEDS
Since there is a specified limit for each class of property there will be a shortage of proceeds for the building replacement. Although the Business Personal Property did not reach the specified limit it can not be applied to the building limit.

Insurance carrier will pay $1,200,000.00 and there will be a shortage of $300,000.00 that Insured must cover. Insurance carrier will pay $500,000.00

Refer to the Example A for an example of how a Specified Limit impacts the insurance proceeds available. This example indicates how specified limits negotiated between the insurer and the insured are applied in the event of a loss. In the example, the building limit negotiated and reflected in the policy caps the insurance proceeds at a level that is insufficient to cover the entire loss on the building (resulting in a required out of pocket payment by the insured) despite the fact that the insurance proceeds available to restore the personal property is greater than the loss incurred with respect to the personal property, demonstrating how the coverage related to specified limits is exclusively applied to the related loss.
Scheduled Limit

A scheduled limit sets (or rather schedules) the limit related to specific property or other insured items; or if an insured owns multiple properties and insures the properties on the same policy, sets (or schedules) the maximum coverage available for each property (or item).

For example, if an insured owns multiple properties, and wants to insure all of the properties on the same property insurance policy, each individual property location can be set out on a schedule which declares the total insurable value (TIV) of the specific property location. If the insurance policy contains a Scheduled Limit for each specific location, the TIV for the location is the maximum the insurer will pay in connection with damage to or destruction of the affected property. If the Scheduled Limit assigned to the damaged property is insufficient, the coverage associated with other undamaged properties cannot be applied to cover the insufficiency.

Example B: Scheduled Limit

Recall from our discussion earlier that with a scheduled limit the insured states the insurable value on a list, or schedule, for each insured property. Each insurable value stated on the schedule functions an actual limit for each of the locations.

SCENARIO BACKGROUND AND ASSUMPTIONS

Consider the following example to illustrate the impact of a scheduled limit:

<table>
<thead>
<tr>
<th>Location</th>
<th>Building</th>
<th>Loss of Rents</th>
<th>Personal Property</th>
<th>Total Insurable Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 South Street</td>
<td>$1,200,000</td>
<td>$200,000</td>
<td>$25,000</td>
<td>$1,425,000</td>
</tr>
<tr>
<td>100 West Street</td>
<td>$1,000,000</td>
<td>$175,000</td>
<td>$20,000</td>
<td>$1,195,000</td>
</tr>
<tr>
<td>100 North Street</td>
<td>$2,000,000</td>
<td>$250,000</td>
<td>$40,000</td>
<td>$2,290,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,825,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THE CASUALTY

The property at 100 South Street suffers a casualty which completely destroys the property. At the time of the loss the following replacement cost and losses are determined for the location:

| Building       | $1,500,000 |
| Loss of Rents  | $250,000   |
| Personal Property | $35,000 |
| **Total**      | **$1,785,000** |

EFFECT ON PROCEEDS

Although the total insured values for property are in excess of $4,000,000, the scheduled limits for the location apply. The value from one property cannot be applied to another property. Therefore the following shortage in proceeds will exist that the insured will be responsible for:

| Building       | $300,000 |
| Loss of Rents  | $50,000  |
| Personal Property | $10,000 |
| **Total Shortage** | **$360,000** |
Refer to Example B for an example of how Scheduled Limits impact the insurance proceeds available in the case of a loss. This example indicates how, a Scheduled Limit may act to cap the proceeds at an amount that is less than the amount necessary to restore the property even though the loss is less than the total coverage provided by the insurance policy.

**Definitions Critical to Understanding this Paper**

**Total Insurable Value** is a concept used in connection with property and casualty insurance. The TIV is the amount that would be required to replace or restore the property and generally includes property coverage, business interruption coverage and contents coverage. The TIV does not include the all value components of the property, such as the value of the land and is therefore not the same as the fair market value of the property.

**Blanket Insurance Coverage Limit**

A blanket coverage limit is a single policy for (1) two or more different kinds of property in the same location; (2) same kind of property in two or more locations; or (3) two or more different kinds of property in two or more different locations. In its simplest form, a Blanket Insurance Coverage Limit applies a single coverage amount across all properties or exposures insured. However, blanket policies are often layered with other limitations. Limits of coverage in a blanket insurance policy can be scheduled (the Scheduled Limit is the most the carrier will pay); Per Occurrence (the limit applies to all properties insured for a single event); or Per Occurrence with a Margin Clause (the limit applies to each event, but the carrier will only pay the margin clause percentage of the insurable value per property).

**What Is an Occurrence?**

**Definitions Critical to Understanding this Paper**

**Occurrence** is defined in the insurance policy and may vary among insurers.

Examples include:

- An accident or occurrence or series of accidents or occurrences arising out of one event
- An accident or occurrence or series of accidents or occurrences arising out of a single event or originating cause and includes all resultant and concomitant insured losses
- With respect to earthquake, one event shall be construed to be all losses arising during a continuous 72 hour period

Review of the policy is needed to determine how the occurrence is defined.
Definitions Critical to Understanding this Paper

An **statement of value (SOV)** is a matrix provided by an insured that provides the TIV for each property in the insured's portfolio that is insured under the blanket policy.

A Statement of Values (SOV) indicating the value of each insured property is required to be prepared by the insured when the limit provided is Per Occurrence, or Per Occurrence with a Margin Clause, in order to determine the coverage that exists for each of the insured properties and if the coverage amount is reasonably adequate based on the geographic dispersion.

**Margin Clauses**

Margin Clauses are nonstandard commercial property insurance provisions which provide that the maximum the insured can collect for a loss at a given location is a specified percentage of the values reported for that location on the insured’s SOV. The maximum is typically stated as a percentage greater than one hundred percent, such as one hundred and ten percent (110%) or one hundred and twenty-five percent (125%). A Margin Clause benefits the insured in the event that the TIV is underestimated on the SOV and benefits the insurer by limiting the amount that the insurer is obligated to pay.

**Per Occurrence Limit**

A per occurrence limit is typically expressed as a loss limit or an occurrence limit which is the maximum amount that the insurance carrier will pay in the event of a loss, or an occurrence, regardless of the number of properties exposed. This limit is typically reinstated after each loss, provided an aggregate limit does not also apply. Note that when a loss limit is included in the policy, there is no individual property limit (specified or scheduled) included. *Note: Per Occurrence Limits may also be referred to as Per Event Limits or Per Loss Limits.*

Refer to Examples C, D and E for examples showing how coverage under blanket insurance policies can affect the insurance proceeds available under these scenarios.

Example C, is the simplest form of Blanket Insurance Coverage providing $4,500,000 of coverage for a portfolio of properties. In this example, the casualty loss exceeds the stated TIV (similar to the loss in Example B), but because there are no other limits applicable to the coverage, the full Blanket Insurance Coverage Limit is available. The result is that the insured is fully compensated, as opposed to the $360,000 shortage that was incurred for the same loss under the scheduled limit (Example B).
Example C: Blanket Policy without Any Loss Limits

A blanket policy that does not have any loss limitations provides the blanket limit to each location covered by the policy.

SCENARIO BACKGROUND AND ASSUMPTIONS
Assume that the statement of values looks like the following and the policy has a blanket limit of $4,500,000:

<table>
<thead>
<tr>
<th>Location</th>
<th>Building</th>
<th>Exhibit A3</th>
<th>Total Insured Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 South Street</td>
<td>$1,200,000</td>
<td>$200,000</td>
<td>$1,400,000</td>
</tr>
<tr>
<td>100 West Street</td>
<td>$1,000,000</td>
<td>$175,000</td>
<td>$1,175,000</td>
</tr>
<tr>
<td>100 North Street</td>
<td>$2,000,000</td>
<td>$250,000</td>
<td>$2,250,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$4,825,000</strong></td>
</tr>
</tbody>
</table>

THE CASUALTY
The property at 100 South Street suffers a casualty which completely destroys the property. At the time of the loss the following replacement cost and losses are determined for the location:

| Building          | $1,500,000 |
| Loss of Rents     | $250,000   |
| **Total**         | $1,750,000 |

EFFECT ON PROCEEDS
Since there is no scheduled limit or other loss limitation the full blanket limit is available for the loss. Therefore, although the values provided are slightly below the actual loss costs, the policy will pay the full $1,750,000.00 and there is no shortage for the insured to cover.

Example D provides a look at how a stated margin clause impacts the coverage available. As in Example C, the casualty loss exceeds the stated TIV of the building. Although, the Blanket Insurance Coverage Limit remains at $4,500,000 for the portfolio of properties, in this case a margin clause of 110% is in place. To calculate the coverage, the TIV for the damaged property is multiplied by the Margin Clause resulting in $1,320,000 of insurance proceeds available to repair the building, resulting in a shortfall of $180,000.
Example D: Per Event/Occurrence Limit

SCENARIO BACKGROUND AND ASSUMPTIONS
Assume the statement of values in Example C, but that a per occurrence limit of $2,000,000 applies to the policy.

THE CASUALTY
All of the properties lie within a hurricane prone area and all three are damaged by a hurricane in September. At the time of the casualty the reconstruction amounts are determined to be as follows:

<table>
<thead>
<tr>
<th>Property</th>
<th>Building</th>
<th>Loss of Rents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 South Street</td>
<td>$800,000</td>
<td>$100,000</td>
<td>$900,000</td>
</tr>
<tr>
<td>100 West Street</td>
<td>$300,000</td>
<td>$75,000</td>
<td>$375,000</td>
</tr>
<tr>
<td>100 North Street</td>
<td>$1,000,000</td>
<td>$175,000</td>
<td>$1,175,000</td>
</tr>
<tr>
<td><strong>Collective Loss</strong></td>
<td><strong>$2,450,000</strong></td>
<td><strong>$2,450,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

AFFECT ON PROCEEDS
Although the collective loss is less than the blanket amount, the per occurrence limit will apply and limit the amount the insurance carrier will pay. Despite the fact that multiple locations were damaged they were all damaged by the same event and therefore the per occurrence limit will apply.

The insured will be responsible for the $450,000 shortfall in proceeds, which is determined when the collective loss of $2,450,000 is compared to the per occurrence limit of $2,000,000.

Exhibit E sets out another type of limit commonly negotiated in blanket policies. In this case, a Per Occurrence limit is in place. So while the Blanket Insurance Coverage Limit remains at $4,500,000 for the portfolio of properties, the policy also includes a Per Occurrence Limit of $2,000,000. When all of the properties are hit by the same hurricane, neither the full blanket coverage nor the TIV are the keys to the insurance proceeds available. This example shows how though the cumulative loss is significantly less than the total Blanket Insurance Coverage Limit and while the loss at each property is significantly less than the related TIV, the insurance proceeds are still not sufficient to fully compensate the insured for the losses. In this example, the insurance proceeds available are capped at the Per Event/Occurrence Limit of $2,000,000.
Example E: Aggregate Limit

SCENARIO BACKGROUND AND ASSUMPTIONS
Assume the information in Example C, and that the assumptions in Example D apply and the following wind casualty losses occur within the policy period. In this example we will also explore the affect of an annual aggregate limit of $3,000,000 also applies for those properties that lie in a wind prone area.

100 South Street
- Building: $800,000
- Loss of Rents: $100,000
  - Total: $900,000

100 West Street
- Building: $400,000
- Loss of Rents: $75,000
  - Total: $475,000

100 North Street
- Building: $1,200,000
- Loss of Rents: $175,000
  - Total: $1,375,000
  - Collective Loss: $2,750,000

EFFECT ON PROCEEDS
Again the collective loss is less than the blanket amount, however the per occurrence limit will apply and limit the amount the insurance carrier will pay. Additionally, since there is a annual aggregate limit and a large portion of the annual amount was exhausted by the first wind casualty, that limit will factor into proceeds available for second wind casualty.

The insured will be responsible for the $1,750,000 shortfall in proceeds, which is determined when the annual aggregate limit of $3,000,000 less the proceeds paid for the previous wind casualty in September of $2,000,000 is compared is compared to the loss for the second wind event of $2,750,000. $3,000,000 (annual aggregate) — $2,000,000 (September casualty) — $2,750,000 (December casualty) = the shortage of $1,750,000.

Other Limits
A Blanket Insurance Coverage Limit does not guarantee that the insured has sufficient coverage as hereinafter discussed and as shown above. Additionally, Blanket Coverage Limits are often further limited by a Per Event or Per Occurrence Limit and may include Aggregate Limits or Sublimits.

As noted above, aggregate or sub limits that may also be applied to blanket insurance coverages act to set an additional limitation on insurance proceeds available in the event of an insured loss.

AGGREGATE LIMIT
An aggregate limit sets the maximum amount the insurance carrier will pay over the entire term of the policy regardless of the number and amount of losses. The limit can apply to the policy as a whole, a specific peril or a specific property.
SUBLIMIT
A sublimit further limits the insurer’s liability under the policy for certain types of property or losses.

An example of the impact of an Aggregate Limit is contained in Example E. This example builds from Example D. A hurricane in September damaged the properties and insurance proceeds of $2,000,000 were paid to the insured. Assume now, that in addition, the negotiated policy contains an Aggregate Limit of $3,000,000 applicable to wind damage.

In December of the same year, another hurricane damages the properties resulting in an additional $2,750,000 cost for restoration. As shown in Example E, only $1,000,000 (the $3,000,000 Aggregate Limit less the $2,000,000 Per Occurrence Limit paid 3 months earlier) is available to the insured, resulting in a shortfall of $1,750,000.

Layered Coverage

In some instances an insured cannot obtain the total coverage it requires from a single insurer. Common reasons that multiple insurers may be required include:

• The amount of coverage required;
• The location of the property to be insured;
• The geographic concentration of the properties;
• An insurer’s capitalization; or
• An insurer’s decision not to take on the entire risk.

In any of these cases, an insured (itself or working through a broker or agent) may arrange for its total insurance coverage by purchasing several policies from different companies in order to acquire the total needed. The resulting policy (which is comprised of separate policies with individual policy numbers, etc.) is referred to as layered.

Layered Coverage is a common feature of blanket insurance policies. In a layered policy, insurers cover specific types of risks or particular layers of insurance with each policy adding a growing layer or limit of coverage over and above the limits of the policies that comprise prior layers.

Typically there is a primary policy and insurer. While the form of any secondary policies generally follows that of the primary, this is not always the case. One or more of the secondary insurers may
opt to modify the form by taking exception to certain provisions of the contract language of the primary insurer and modifying those provisions with replacement terms.

Consider the following layered property coverage on a portfolio of loans totaling $300,000,000.

<table>
<thead>
<tr>
<th>INSURER</th>
<th>LAYER</th>
<th>AMOUNT OF INSURANCE</th>
<th>INSURER PAYMENT</th>
<th>TOTAL PAID TO INSURED</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>1</td>
<td>$6,500,000 p/o $15,000,000</td>
<td>$6.5 million</td>
<td>$6.5 million</td>
</tr>
<tr>
<td>BBB</td>
<td>1</td>
<td>$5,000,000 p/o $15,000,000</td>
<td>$5.0 million</td>
<td>$11.5 million</td>
</tr>
<tr>
<td>CCC</td>
<td>1</td>
<td>$3,500,000 p/o $15,000,000</td>
<td>$3.5 million</td>
<td>$15.0 million</td>
</tr>
<tr>
<td>DDD</td>
<td>2</td>
<td>12,500,000 p/o $25,000,000 xs $15,000,000</td>
<td>$12.5 million</td>
<td>$27.5 million</td>
</tr>
<tr>
<td>EEE</td>
<td>2</td>
<td>12,500,000 p/o $25,000,000 xs $15,000,000</td>
<td>$12.5 million</td>
<td>$40.0 million</td>
</tr>
<tr>
<td>FFF</td>
<td>3</td>
<td>$260,000,000 xs $40,000,000</td>
<td>$10.0 million</td>
<td>$50.0 million</td>
</tr>
</tbody>
</table>

In the above example, six insurers provide coverage on the $300,000,000 portfolio. The policy is layered in three parts. The first layer is $15 million, second layer provides an additional $25 million of coverage and the final layer provides an additional $260 million of coverage.

If an insured loss were to occur (ignoring any additional limitations on the coverage) in the amount of $50 million, payments would be made as shown below:

Layered policies may be subject to limits and exclusions (in the same manner as standalone policies) by an insurer at any point in the stack. When this occurs, the gap must be filled by another insurer or the insured will be required to come out of pocket to fund the gap.

For example, if Insurer BBB excludes wind coverage and a loss that would be covered under wind coverage occurs in the amount of $8.5 million, Insurer AAA would pay the first $6.5 million and the insured would have to pay the remaining $2.0 million because CCC’s wind coverage layer covers losses after the first $11 million is paid.
Part II — Impact on Lending

Blanket Policies and the Lending Industry

The primary focus of this paper is on commercial real estate finance, where the collateral is insured through a blanket insurance policy. As you saw in Part I of this paper, a blanket insurance policy is a single policy that insures:

- Different types of property at one location,
- The same type of property at different locations or
- Different types of property at different locations.

Blanket policies are often used when an insured owns a multiple properties, since in the purest form the blanket policy utilizes one limit for all coverages and locations. Another common use of blanket insurance policies is to provide coverage when the collateral property is located in an area that is subject to regional perils such as wind and earth movement (earthquake). When a lender allows (or does not prohibit) the use of blanket policies, it understands that though the blanket policy may be designed to provide coverage “as if the property were insured separately,” this cannot be guaranteed. Rather, review of a blanket insurance policy seeks to provide reasonable assurance that the coverage provided will be sufficient to restore the collateral property. Therefore, it is critical for the lender to understand both the characteristics of blanket policies (including how limits will affect the coverage provided) generally and the specific terms of the blanket policy in place for the collateral property.

As shown in Part I of this paper, property and casualty insurance is an extremely complex financial instrument with provisions that are subject to change and/or that can be combined in multiple ways to provide coverage specific to a property or portfolio of properties.

In this section lender considerations in setting insurance requirements are outlined and some typical provisions associated with blanket insurance coverage are discussed. Readers should
note that, though this paper strives to present common examples and considerations surrounding blanket insurance coverage with respect to commercial and multifamily properties, that it is not possible to cover every scenario. The information provided attempts to provide a firm foundation for understanding the complexities of blanket insurance coverage and insight into lender considerations when reviewing coverage provided through a blanket policy. Exhibit B contains key facts that lenders should understand when considering blanket insurance policies.

Why Blanket Coverage?

Given the complexities of this coverage type, why is it utilized by borrowers? There are two key reasons:

1. As a hedge against underinsurance of the properties in the entire portfolio. As mentioned previously, blanket coverage limits reduce the likelihood of underinsuring specific properties by providing an overall coverage limit rather than associating each property with an individual limit that is closely aligned with its insurable value. (The limit of coverage is the most the insurer will pay in the event of a loss.)

2. Blanket insurance can reduce the net overall premium cost for large real estate portfolios provided there is sufficient geographic dispersion.

Blanket insurance policies do not insure each property to its total estimated insurable value. Rather the insured and its lender must be confident that the overall per occurrence limit provided for in the blanket policy will be sufficient to cover damage to all or a group of the insured properties (thereby providing coverage as if the property were insured on its own). Geographic dispersion is critical if the blanket policy covers regional perils such as earthquake and wind.

Since blanket coverage is designed to provide coverage to each property without insuring each property separately, the net effect is a lower total premium than if each property was insured separately.

Why Insurance Is Important for Lenders

While insurance is important for all commercial and multifamily mortgage loans, it is especially important when the loans are non-recourse. In non-recourse lending, with limited exception, the lender is dependent solely on the cash flow generated by the property to allow for ongoing operation and pay the debt service. Because this cash flow is the only source for payment of the debt, lenders commonly require various insurance coverage to ensure that the property is
insured against perils common to the property type and region so that funds will be available to repair or restore the property following a casualty loss or in extreme cases to pay the entire principal due on the loan.

**Definitions Critical to Understanding this Paper**

- **Non-recourse debt** is debt for which the borrower is not personally liable. In non-recourse commercial/multifamily real estate lending, real property is pledged as collateral for the loan. Cash flow from the operation of the property provides the sole revenue stream to maintain the property and make the payments required by the lender. Following a default, the lender can seize the real estate, but has no recourse to other assets of the borrower. The REO sale of the property would provide the only proceeds available to satisfy the debt.

Insurance plays a critical role in non-recourse financing as a means of ensuring the continuing operation of the property following a casualty. Since cash flow generation is so critical to loan performance, any damage that interferes with the ability of the property to operate can potentially result in a default. In event of a casualty loss, the insured and the lender look to the insurance proceeds to restore the collateral property in a manner that restores the cash flow or provides sufficient proceeds to reduce the loan balance to zero.

**Determining Insurance Requirements**

The loan underwriter determines the specific insurance requirements for each collateral property. The required coverage should reflect the risks to which the property is exposed based on both the type and location. Loan documents detail insurance coverage requirements including the types and amounts of coverage, allowable deductibles, and insurer ratings. Loan documents do not commonly prohibit the use of blanket insurance policies.

One of the most challenging aspects in drafting the requirements for insurance in loan documents is the mismatch between the term of the loan and the term of the insurance coverage. While a commercial/multifamily loan commonly has a term of ten years or more, insurance is renewed annually. Loan documents require that the insured continue to maintain the required insurance coverage for each year that the loan is outstanding. However, as noted previously, the insurance industry is dynamic and responds to changes in the market. Coverage that was commonly available at loan origination and required in the loan documents may be more or less available during the term of the loan. Likewise, the price of insurance coverage varies over time, so that a borrower may originate a loan with individual insurance coverage, but determine during the loan term that a blanket policy will be more effective in providing coverage at a reduced cost.

The loan servicer (typically employed to, among other things, monitor the insured’s compliance with the insurance requirements from loan closing to payoff) is the party responsible for assessing
the insurance coverage on an annual basis. The loan servicer works with the borrower and its insurance agent to attempt to maintain (to the extent possible) the coverage required under the loan documents.

When insurance coverage is provided through a blanket policy, judgment is required to assess compliance with the requirements of the loan documents. It is important to note that at loan origination, the loan underwriter bases insurance requirements on the characteristics of the collateral property and if coverage is provided through a blanket policy, on the borrower’s real estate portfolio as it exists at the time of loan origination. However, there is no restriction on the borrower’s right to add new properties or delete existing properties from the blanket insurance coverage. Therefore, coverage deemed sufficient at one point in time (either at loan origination or during the life of the loan) may be deemed insufficient at another, leaving the lender more exposed than originally expected. While loan servicers monitor annual renewals for changes in coverage, their effort may be hampered by loan document drafting, servicing agreements, changes in available insurance coverages (including cost) or the inability to obtain complete information regarding the coverage.

Impact of Lender Insurance Requirements on the Servicer

As noted above, in commercial/multifamily real estate finance, a loan servicer is often employed by the lender to monitor borrower performance under the loan documents. One of the items that the servicer is typically required to monitor is insurance coverage.

The types of coverage, amounts and other insurance requirements may vary across property types, locations and even lenders. As noted above, insurance requirements are typically set by the loan underwriter to ensure that there is sufficient insurance coverage on the collateral property to restored it (or pay the loan in full) in the event of a casualty. Servicers rely on the loan documents (and if applicable, the related servicing agreement) to determine the coverage that is required to be in place, any restrictions on deductible amounts and insurer financial ratings. However, because neither loan document provisions nor servicing agreement provisions related to insurance are standard, and because insurance coverages and costs are regulated at a state level and therefore not standard, varying approaches to assessing insurance compliance have developed among loan underwriters and servicers.

When a collateral property is separately insured (and absent other agreement), the loan servicer may judge insurance to be compliant if the coverage is the same as or greater than the coverage
accepted by the loan underwriter at closing. If the coverage is less than the coverage accepted at closing, the servicer will likely review the loan document insurance provisions to determine compliance.

When dealing with blanket insurance coverage, however, the analysis is more complicated. Since the loan underwriter determines compliance at a point in time and based on the entirety of the borrower’s real estate portfolio at that time, future determination of compliant coverage and the level of review that the servicer deems appropriate can vary.

Blanket insurance policies, pose particular challenges in the review process. Loan documents may not clearly define blanket requirements and the provisions may vary loan to loan. Example C provides a sample of loan document provisions related to blanket insurance coverage.

How much coverage is needed in a blanket policy?

Consider the following example:

At loan closing an insured owns a portfolio of loans totaling $800 million. The collateral property is a $100 million valued property in South Florida.

At closing wind coverage of $200 million is provided and accepted by the loan underwriter. Upon renewal: (a) the servicer receives evidence that $200 million of windstorm insurance is still in place on the $800 million portfolio; (b) conversely, at an annual renewal the servicer receives evidence that the wind coverage has been reduced to $150 million.

While in both cases the wind coverage is in excess of the collateral loan value, there is not enough information provided to determine if the collateral property is reasonable covered “as if it were separately insured.” Since the coverage being reviewed is “catastrophic” in nature, the servicer may decide to provide a more in depth review (provided the necessary information can be obtained from the insured). If however the coverage were for (a more localized event e.g. fire) rather than wind, the servicer may determine that no further review is warranted.

It would be difficult to prescribe a standard approach to monitoring blanket insurance coverage since the assessment is dependent on the properties covered, the locations of the properties, collateral loan balance, market capacity in the insurance industry and the price of the insurance.

So what steps does a loan servicer take when reviewing evidence of insurance provided through a blanket policy? The answer will vary depending on the level of review required, the information available and the loan servicer’s assessment of the risk. As noted in the introduction, review of blanket policies is an art and not a science, and as such there can be variance among lenders and servicers as to the amount of coverage that is considered “compliant.”
In practice, review of blanket insurance policies by servicers are generally made only on an exception basis and with respect to risks that are considered catastrophic (such as wind, earthquake, terrorism, etc.).

**Considerations When a Review of Blanket Insurance Is Undertaken**

- Do the loan documents require the insured to provide an SOV related to the loans covered under the blanket policy?
- What is the coverage under consideration?
- Have the properties on the SOV changed?
- Are the properties exposed to new perils?
- Have any perils been eliminated?
- Is the coverage readily available at commercially reasonable rates?
- Are properties located in different regions likely to be impacted simultaneously?

**Understanding Blanket Insurance Concepts**

When a review of a blanket insurance policy is undertaken, in addition to clear direction and access to information as discussed above, it is important: to consider concepts that are common when a blanket policy provides the insurance coverage on the collateral property, to understand that concepts and defined terms may vary across insurers, to understand any defined terms relevant to the policy being reviewed. However, defined, some of the more important concepts to consider in the review of blanket policies are:

- Definition of occurrence
- Type of loss limits
- Annual aggregates and sublimits
- Margin clause
- Availability of an SOV to identify the value of the subject property and the locations and values of other non-collateral properties
Definition of Occurrence

Understanding the definition of Per Occurrence Limits versus the Scheduled Limit is necessary to ensure that the insurance coverage on the collateral property meets the requirements of the loan documents. Under a Per Occurrence Limit, the insurer will pay for covered losses up to the limit provided for damage due to a single event. In a Scheduled Limit policy, the maximum the insurer will pay (for all losses during the term of the policy) is limited to the value of the collateral property shown on the SOV.

If coverage is provided on a Per Event/Occurrence Limit basis, the insurer’s definition of event/occurrence is critical to the amount of coverage provided. The definition of “event” or “occurrence” may impact the amount of coverage provided when an insured loss occurs. See Example C for examples of “occurrence” definitions.

Annual Aggregates and Sublimits

Many insurers will also limit exposure by placing annual Aggregate Limits, or Sublimits on certain types of losses. Aggregate Limits and Sublimits are primarily seen on coverage for catastrophic exposures such as terrorism, flood, earthquake and wind.

Margin Clauses

Insurers may limit their exposure through Margin Clauses as well. As noted previously, a Margin Clause is a non-standard commercial property insurance provision which states that the maximum amount the insured can collect for a loss at a given location is a specified percentage of the values reported for that location on the insured’s SOV. The maximum is normally stated as a percentage greater than one hundred percent, (i.e. 110% or 125%).

Statement of Value (SOV)

Regardless of whether the insurance is provided on a Per Occurrence Limit basis, Scheduled Limit or Per Occurrence Limit with a Margin Clause, an SOV is needed to understand the full exposure to the limit of coverage as follows:

PER OCCURRENCE LIMIT

The SOV is required by the insurer but completed by the insured. The SOV provides a value for every property insured on the blanket policy. Though the SOV documentation may vary across insurers, the documentation typically contains the total insurable value (TIV) of each property insured under the policy.
Since a Per Occurrence Limit is based on the occurrence of an event, it is necessary to ensure that the limit will not be breached for an event that could have an impact on multiple properties. The main concern is typically with areas that are exposed to significant catastrophic events such as terrorism, flood, wind and earthquake. If the TIV in those areas exceeds the Per Occurrence Limit this could result in insufficient coverage for some of the properties insured.

SCHEDULED LIMIT / LIMIT WITH APPLICATION OF A MARGIN CLAUSE

The SOV is used to determine the limit the carrier has on file to validate the coverage requirement.

**General Liability Insurance**

The review of blanket policies does not only apply to property coverage. General liability coverage is more than likely to be insured as part of a blanket policy as well. The due diligence necessary is in making sure that the Per Occurrence/Aggregate Limits are provided on a per location basis. If they are not, the excess coverage must be analyzed to ensure that each location has the same amount of coverage as they would have if they were insured separately.

**Case Study A**

In order to more fully demonstrate how lenders view blanket insurance, we complete this paper with a case study that brings to light the concepts discussed and the realities that a lender considers in determining that the blanket limits are "reasonable" in light of the loan document and servicing agreement provisions.

- Subject Property: The Apartments at Manningsville
- The TIV for the collateral property is $120,076,35.
- Lender/Servicer has an insurable value on file of $75,000,000
- Lender/Servicer has a gross potential rent (GPR) on file of $32,260,000
- Subject Property is in Flood Zone A
- Borrower has an $500,000,000 loss limit blanket policy that covers all properties
- Borrower would not provide (and loan documents did not require) a Statement of Values for the entire portfolio. Instead and SOV only for those properties located in wind counties was provided by the borrower
- Agent has confirmed that there is no margin clause

Borrower provided a SOV only for those properties located in a wind county as defined by its insurer.

The counties that the insurer considers to be wind counties are listed on the SOV. The SOV does not have complete addresses so the lender/servicer cannot determine if there is any significant geographic concentration. The highest TIV on the SOV provided is for Shady Brook West Apartments at $142,301,216. The TIV for all properties in Florida is $2,262,254,131, and without complete addresses it is difficult to determine if there is any significant concentration. Additionally, the subject property is located in a flood zone.

CONCLUSION

The lender/servicer cannot make a determination on the compliance of the insurance coverage based on this limited information. Next steps:

1. Ask the borrower to provide a complete SOV including complete addresses to assist the lender in determining the geographically concentration of the properties;
2. Ask the borrower for a PML study to demonstrate how the loss limit amount was derived to provide the lender a view of the diligence done by the borrower and insurer;
3. Verify that there is no additional flood coverage;
4. Verify whether the coverage provided is per occurrence or an annual aggregate
Case Study B

Using the same example, assume that the subject property is located in Los Angeles and that there are no other properties covered by the blanket policy located in Los Angeles or the surrounding area. Next steps for the lender/servicer:

None. The policy is acceptable and no further diligence is needed. Why? Since none of the other insured properties are located in Los Angeles, the servicer reasonably concludes that no additional properties would be affected by an event causing a loss on the Los Angeles property and therefore, TIV for the collateral property (which is significantly less than the blanket limit) would be readily covered by the $500 million coverage available.

The cases above demonstrate some of the concepts presented in this paper and some of the ways in which a lender/servicer test the “reasonableness” of the blanket coverage. For example:

- The case study clearly demonstrates the importance of an SOV in analyzing a blanket policy. In the above example, the failure of the borrower to provide a complete SOV hinders the lender/servicer’s ability to determine if the coverage presented is reasonable.

- TIV typically includes the insurable value of the property, business income coverage and contents coverage. In the above example, the TIV for the subject property is $120,076,350. Given the stated total of the insurable value ($75,000,000) and annual gross rents ( $32,260,000) the stated TIV of $120,076,350 appears reasonable.

- The amounts and types of limits associated with the blanket policy may dramatically affect the proceeds available. A $500 million loss limit may be acceptable, but if that loss limit is further encumbered with sublimits (say $50 million for windstorm) or aggregate limits (say $50 million for flood), the assessment of the acceptability of coverage may yield a different result. Of course if the subject property is not in a wind or flood hazard area, neither of these additional limits will affect the determination.

Next Steps

Insurance (like other disciplines) has a language of its own that can be confusing to the uninitiated. Multiple concepts can be combined to provide a package of insurance coverage that meets the needs of the insured while managing the risk for the insurer. Often, a blanket policy may combine features discussed in this paper as separate concepts. For example, a blanket policy that covers “all risks” as well as earth movement may be structured as a combination of a standard and manuscript policy where the standard policy provisions relate to the “all risks” perils while the customized manuscript terms apply to the earth movement provisions.

Likewise, while a specified limit relates to one property and one or more insured perils, scheduled limits look much the same as an SOV. However, scheduled limit amounts relate to the insurable value of the property only while the TIVs included on the SOV include a total of the insurable value, business income and contents insurance. And, to further complicate matters, these may be further limited by the use of sublimits or aggregate limits.

As noted in the first section of this paper, the insurance coverage can be customized by agreement between the insured and the insurer. When dealing with insureds owning large real estate portfolios, the reviewer must be aware that the cost benefit analysis that drives the insured and insurer to come to agreement regarding coverage includes multiple layers of information (such as probable maximum loss models) that may not be readily available to the lender/servicer. As this paper has indicated, the review of blanket insurance policies is an art and not a science — the lender/servicer makes the best assessment possible of the coverage provided, but cannot ensure that sufficient proceeds will be available to cover the subject property under all circumstances.
Thoughts about Blanket Insurance

Because the review of blanket insurance coverage is not an absolute, in preparing this paper, we sampled rating agencies and servicers to identify any additional concerns that investing/lending/servicing community have in connection with the use of blanket insurance policies. Among the findings:

- Though loan documents are inconsistent in addressing blanket insurance policies and borrower delivery requirements, it is generally believed that there is no prohibition against the use of blanket policies;
- Investors agree that concentration of assets, impact of a single event, and, size of the largest asset in the portfolio are key considerations in the review;
- Investors express concern regarding the inability to understand the level of review performed;
- Servicers agree that concentration risk, catastrophic risk and loss limits are the critical factors that are reviewed in connection with a blanket policy;
- Servicers express concern regarding investor understanding of the potential impact of accepting blanket policies; and
- Participants are not aware of any losses stemming directly from the use of blanket insurance policies.

We hope that this paper provides a basis for understanding the complexity of blanket insurance policies, describing considerations in determining compliance of blanket insurance policies and providing a framework for further development of a blanket review process should the industry deem it necessary.
Conclusion

Outcome Can Differ — It is an Art not a Science

In commercial and multifamily real estate finance, the overall objective of the process of evaluating insurance provided under a blanket policy is to determine whether the coverage provided reasonably complies with the requirements set forth in the loan documents. Since blanket coverage is not prohibited under the loan documents, it is possible that in addition to loans originated with a blanket policy, a change from an individual policy to a blanket may be made during the life of the loan.

The nature of blanket insurance is to spread risk across a portfolio of real estate or risk exposures rather than insuring each property and exposure separately. In determining the amount of coverage, the insurer, insured and the lender/servicer assess the potential that an event could occur that would simultaneously damage multiple properties in the real estate portfolio. Insureds utilizing blanket policies may have modeling capabilities that recommend a level of insurance based on (among other things) the location, property age, construction, etc. A lender/servicer therefore is in the position of assessing whether the insurance coverage provided can reasonably be expected to provide proceeds to restore the property (or pay the loan) following an insured loss at a point in time. As with so much in the servicing of commercial/multifamily mortgage loans, the loan document terms will greatly affect the ability to perform a review of the blanket coverage.

Given the many variables that can come into play, there is not a standard way to approach the review needed to make this compliance assessment. These variables determine how detailed the evaluation of the coverage provided will be, whether additional information is needed to complete the analysis, or whether further guidance is required to determine compliance. The location of the subject property, the fact that the lender/servicer has imperfect information regarding the additional properties, the geographic concentration the properties in the portfolio, the different risk exposures to the property, and the details and structure of the loan are just a few of the considerations which impact each assessment. The characteristics of the properties covered in
each blanket policy determine the degree of the complexity of the review necessary to assess compliance. In some instances, the evaluation will be relatively short and easy; and in other instances the evaluation will be more complex. Furthermore, there is a level of judgment which must be applied to each assessment which renders this process as an art and not a science.

Insurance products and the market change frequently. Adverse loss experience may force an insurer to adjust its contracts and products to reflect the exposures in the market. Insurance is also very fluid. To adequately perform the necessary review, it is important to understand the both the insurance market and the conditions of the loan. The complexities of the insurance products that provide the required insurance coverage and the variable nature of the insured’s real estate portfolio create a challenge for the lender and the servicer in determining compliance, and an unknown change in the insured’s portfolio may affect the assessment. An absolute answer cannot be achieved, as there is no way to know if the blanket insurance coverage will unquestionably provide full coverage in every circumstance.

Sound due diligence at loan closing, well structured loan documents and servicing agreements, and an experienced review will go a long way toward ensuring that the lender/servicer is able to reasonably assess compliance of the blanket insurance policy at the time of the review.
## Exhibit B: Blanket Insurance Fact Sheet

### Typical Portfolio Types that Lenders see with this Coverage
- Real Estate Investment Trusts (REITS)
- Real Estate Developers
- Real Estate Investors
- Owners of Business Chains

### Typical Property Classes that Lenders see with this Coverage
- Multifamily
- Retail, office
- Mobile home parks

### Critical Data Necessary for Due Diligence
- Is the limit a loss limit (aka occurrence limit) or a scheduled limit?
- Is it a loss limit (aka occurrence limit), what is the definition of occurrence?
- Are there any annual aggregates? Are there any sub-limits?
- Is there a margin clause?
- Was a statement of values (SOV) provided?

### Statement of Values (SOV)
Itemized listing of each property insured including the total insurable value (TIV)

### Percentage of Portfolio
A study of 50,000 loans showed an average of 25% being insured on blanket insurance policies

### Limit of Coverage
Maximum amount the insured can collect for a loss.

### Aggregate Limit
Maximum amount the insured can collect for a loss and for the entire policy term.

### Probable Maximum Loss (PML)
The value of the largest possible loss that might occur to determine the potential loss severity.

### Margin Clause
Maximum the insured can collect for a loss at a given location represented as a specified percentage of the values reported for that location on the insured’s SOV schedule. Typically 110–125%.

### Layered Coverage
A combination of several policies with each adding an additional layer or limit of coverage above the limits of the policy that comes before it.

### Following Form
Written form which has precisely the same terms as the other Property Insurance Policies covering a particular Property.


\section*{Exhibit C}

\textbf{EXAMPLES OF MORTGAGE PROVISIONS PROVIDING FOR BLANKET COVERAGE}

The insurance required by this Security Instrument may, at the option of the Borrower, be effected by blanket and/or umbrella policies issued to Borrower covering the Property provided that, in each case, the policies otherwise comply with the provisions of this Security Instrument and allocate to the Property, from time to time, (but in no event less than once a year), the coverage specified by this Security Instrument, without the possibility of reduction or coinsurance by reason of or damage to any other property (real or personal) named therein. If the insurance required by this Security Instrument shall be effected by any such blanket or umbrella policies, Borrower shall furnish to Lender: (1) original policies or certified copies thereof, or an original certificate of insurance together with reasonable access to the original of such policy to review such policy's coverage of the Property, with schedules attached thereto showing the amount of insurance provided under such policies applicable to the Property and (ii) an Officer’s certificate setting forth (A) the number of properties covered by such policy (B) the location by city (if available) otherwise county and state of the properties, (C) the average square footage of the properties, (D) a brief description of the typical construction type included in the blanket policy and (E) such other information as the Lender may reasonably request.

\textbf{MORTGAGE PROVISIONS PROVIDING FOR BLANKET COVERAGE}

Any insurance required by this Loan Agreement may, at the option of the Borrower, be effected by blanket and/or umbrella policies issued to Borrower covering the Property and other properties of the Borrowers’ Affiliates provided that, in each case, the policies otherwise comply with the provisions of this Loan Agreement and allocate to the Individual Property, from time to time, the coverage required under this Loan Agreement, without the possibility of reduction or coinsurance by reason of or damage to any other property (real or personal) named therein. If the insurance required by this Loan Agreement shall be effected by any such blanket or umbrella policies, Borrower shall furnish to Lender (certificate of insurance evidencing same, with schedules attached thereto showing the amount of the insurance provided under such policies that is applicable to each Individual Property.)
Exhibit D

EXAMPLES OF OCCURRENCE DEFINITIONS

The term “occurrence” is defined as follows:

1. Except as hereinafter defined, “loss occurrence: shall mean an accident or occurrence or series of accidents or occurrences arising out of one event.

2. Each loss occurrence which involves the perils of tornado, windstorm, cyclone, hurricane or hail shall include all loss or damage wherever occurring occasioned by these perils which arise out of one atmospheric disturbance during a continuous period of 72 hours.

3. Each loss occurrence which involves the period of earthquake, a series of earthquakes shall include all losses or damage sustained during a continuous period of 72 hours.

4. Each loss occurrence that involves the perils of theft, vandalism, Malicious mischief, or riot/civil commotion shall include the sum total of all losses of property and/or interest insured herein resulting from one or more fraudulent or dishonest acts committed by a person(s) acting alone or in collusion with others.

5. The Insured shall have the right to elect the moment from which the time periods referred to in ii), iii) and iv) above shall be deemed to have commences, however, no elected time period shall commence within any previous occurrence.

6. Should the time period in ii), iii), or iv), extend beyond expiration or cancellation date of this policy and commence prior to the expiration or cancellation date, the Company shall be liable as if such period fell entirely within the term of this policy.

Occurrence means any one loss, disaster, casualty, incident or series of losses, disasters casualties or incidents not otherwise excluded by this Policy and arising out of a single event or originating cause and includes all resultant or concomitant insured losses. The occurrence must occur during the policy period.

If more than one event for Wind & hail, Named Storm, Riot Strike or Civil Commotion, Vandalism and Malicious Mischief, Earth Movement, Flood or terrorism covered by this policy occurs within any period of 72 hours during the term of this policy, such covered events shall be deemed to be a single occurrence. When filing proof of loss, the Insured may elect the moment of which the 72 hour period shall commence, which shall not be earlier than the time when the first loss occurs to the Insured Property.

The term ‘occurrence’ shall mean any one loss, disaster, casualty or series of losses, disasters or casualties arising out of one event. When the term applies to loss or losses from the perils of tornado, cyclone, hurricane, windstorm, hail, flood, earthquake, volcanic eruption, riot, riot attending a strike, civil commotion, and vandalism and malicious mischief, or any other insured peril, one event shall be construed to be all losses arising during a continuous period of 72 hours. When filing proof of loss, the Insured may elect the moment of which the 72 hour period shall commence, which shall not be earlier than the time when the first loss occurs to the Insured Property.
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