# Lender Insurance Requirements: Understanding "Additional Insured" vs. "Loss Payee"

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In virtually every commercial real estate financing, the lender's protection package includes specific insurance requirements. Borrowers are often required to provide evidence of coverage not only for the property itself, but also to ensure the lender is properly named on the applicable insurance policies. Two of the most commonly used designations—Additional Insured and Loss Payee—serve different purposes, protect against different risks, and appear on different types of insurance. Understanding the distinction is essential to avoid delays at closing and to ensure future claims are handled correctly.

## Why Lenders Require Insurance Rights

Lenders rely on insurance to protect the value of their collateral and reduce exposure if the property suffers a casualty or if a liability claim arises. Typical requirements include:

- Property Insurance (All-Risk / Special Form)
- General Liability Insurance
- Business Interruption / Rental Income Coverage
- Flood Insurance (if applicable)
- Builder's Risk (for construction projects)

Within these coverages, lenders require specific endorsements that define their rights in the event of a claim. This is where the differences between "Additional Insured" and "Loss Payee" become critical.

## Additional Insured: Liability Protection

## Purpose

An Additional Insured designation extends the borrower's liability coverage to the lender for third-party claims. It is used on Commercial General Liability (CGL) and sometimes umbrella/excess liability policies.

## What It Protects

- Covers the lender if someone is injured on the property and makes a claim.
- Allows the lender access to the borrower's defense and indemnity under the policy.
- Helps ensure the insurer cannot subrogate against the lender (i.e., sue the lender to recover amounts paid).

## Key Features

- Applies to liability policies, not property policies.
- Protects against third-party claims, not damage to the building.
- Does not give the lender rights to insurance proceeds following a casualty.

## Typical Lender Requirement

"Lender shall be named as Additional Insured under the liability policies using ISO Form CG 20 10 or equivalent."

This requirement is commonly seen in financings tied to **Joint Ventures & Equity Investments** where multiple parties share liability exposure.

## Loss Payee / Mortgagee: Rights to Property-Casualty Proceeds

## Purpose

A Loss Payee (or Mortgagee on forms using lender-specific language) designation gives the lender the right to receive property insurance proceeds in the event of physical damage to the building.

## What It Protects

- Ensures insurance proceeds for fire, flood, or other casualty are paid to the lender or jointly to lender and borrower.
- Requires the insurer to give the lender notice of cancellation or non-renewal.
- In the case of a standard mortgagee clause, it protects the lender even if the borrower's acts or omissions would invalidate the borrower's coverage.

## Key Features

Applies to property insurance, including:

- Special form/all-risk
- Flood
- Boiler & machinery
- Builder's risk

This designation:

- Gives the lender priority in the application of proceeds—typically toward restoration or loan repayment.
- Often includes the "lender's loss payable endorsement" (ISO 438 BFU or equivalent).

## Typical Lender Requirement

"Lender shall be named as Mortgagee and Loss Payee on the property policy via a Lender's Loss Payable Endorsement with standard mortgagee clause."

## Key Differences at a Glance

| Category | Additional Insured | Loss Payee / Mortgagee |
|---|---|---|
| Applies to | Liability policies (CGL, umbrella) | Property policies (special form, flood, builder's risk) |
| Purpose | Protects lender against third-party liability claims | Protects lender's interest in collateral and insurance proceeds |
| What it Covers | Slip-and-fall, bodily injury, property damage claims by third parties | Fire, flood, explosion, or casualty damage to the property |
| Payment Rights | No rights to proceeds | Receives or controls casualty proceeds |
| Notice Rights | Typically not required | Must receive cancellation / non-renewal notice |

| | | |
|---|---|---|
| Protects Against Borrower Misconduct | No | Yes—under standard mortgagee clause |

## Practical Considerations for Borrowers

- **Insurer forms matter:** Lenders will often reject certificates that simply state “loss payee” without the proper ISO endorsement.
- **Builder’s risk policies frequently cause delays:** Developers and contractors often overlook lender-required lender’s loss payable endorsements.
- **Check your liability umbrella:** Umbrella policies sometimes drop the Additional Insured designation unless specifically endorsed.
- **Premium financing can affect lender rights:** Lenders may require a non-cancellable premium financing agreement or assignment of return premiums.
- **Certificates of insurance are not enough:** Lenders typically require full copies of policies, declarations, and endorsements—not just ACORD certificates.

## Bottom Line

While both “Additional Insured” and “Loss Payee” designations are standard tools in commercial real estate finance, they serve distinct purposes:

- **Additional Insured** status protects the lender from third-party liability claims.
- **Loss Payee / Mortgagee** status protects the lender’s collateral and proceeds following a casualty loss.

Ensuring the correct endorsements are in place early in the process avoids closing delays and ensures that both the borrower and lender are properly protected.

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