

Collateral Assignment - Do You Want Your Loan Resting On An "If"?

Over the last few years I have talked with a lot of loan officers. In every case, I am gently assuring them that we are moving through underwriting as quickly as we can, and that once I have a policy issued I will get them the policy number so that they can finish closing my client's loan. In almost every case, I am getting that call because the insurance was an afterthought in the business process.

Collateral Assignment Life Insurance is common to so many business loans today that it is almost like, "Ya, ya, we'll get to that," when it comes up with the bank. More stress is put on the financials, ratios, and personal asset reports, and after all of that financial work the loan can hinge on a medical underwriter's decision. This is why I prescribe to all of my clients that we have a straightforward conversation about their health before we ever take an application.

Below are two stories of collateral assignments; the endings show what can happen based on the approach:

Sam and Cynthia Smith are 50, they have run SCS, LLC (Sam is 100% owner), a government contractor doing financial investigations for ATF and FBI, for the last 10 years since he left KPMG. The Smiths, seeing a new opportunity, decide to start an 8A, CSS, Inc owned by Cynthia which will own and operate secure warehouse facilities connected to their ATF/FBI work. In order to start the business and have the capital to run the new organization they take out an SBA loan. They fly through the initial underwriting process and are told that the business needs to get a \$500,000 policy on Cynthia as a collateral assignment against the loan. Sam and Cynthia see their friend works for Southeastern Mutual Life, he gets Cynthia a Preferred quote and takes an application. During the application she mentions a few medications the Southeastern Mutual agent hasn't heard of but she does not disclose any serious health issues. After her medical exam and a review of her records Cynthia and the agent get a letter from the underwriter that they will not be issuing a policy due to concerns about her kidney function. The agent tries other markets, and comes back with a policy from Big Midwest Insurance that is 5X the price of the original quote. Begrudgingly, Cynthia and Sam accept it to get the loan completed.

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Neither scenario is far off from what I see on an everyday basis. A lot of work was put in on the front end for the loan, and insurance was an afterthought. It should not be that way, thorough preparation on the Life Insurance side can keep a business owner from hanging their loan on what an underwriter thinks of their health.

