

## Business Insurance Requirements for Business Loan

When you secure a loan to purchase a business, it is common for the lender to require disability insurance for the amount of the monthly loan payment and life insurance for the value and term of the loan. With disability insurance, there are three different types of products that can meet this requirement. For life insurance, term style life insurance is often the best choice. **The underwriting process can take 6-12 weeks and we recommend starting the process immediately after loan pre-approval. The duration of your specific underwriting process will be dependent to your health.**

### Business Reducing Term/Business Loan Protection

- This is the most business specific disability product. The plan is designed to line up to the loan exactly. For example – you have a \$500,000 loan with \$5,500/mo payments on a 10 year loan term. The business reducing term, sometimes called business loan protection, would be a policy that pays \$5,500/mo to the bank, for 10 years.
- The plus of this type of coverage is that it is loan specific, covers the full term of the loan, and tends to be less expensive than other types of coverage. The cost will vary based on your situation.
- The downside of this type of coverage is that it does not account for protection for any other business expenses and provides no income protection to the business owner.

### Business Overhead Expense

- This plan is designed to pay for key practice expenses, if the owner doctor becomes disabled. These would include paying a receptionist, paying utilities, paying rent, etc. You can choose to include your loan payment in business overhead expense, or combine the business overhead with a business reducing term/business loan protection plan.
- Policies typically cover \$10,000-\$20,000/mo in expenses, have a 30-60 day waiting period, and pay for 12-24 months. Your specific policy needs may vary from this.
- The plus side to this coverage is that it protects the practice from having to close its doors if the owner doctor becomes disabled. It allows for the doctor to either recover and return to work, or provides adequate time to sell the practice.
- The down side to this coverage, is if you buy it and include the business loan monthly payment, and you're disabled in such a way that after this policy pays out (12-24 months) you still own the practice and still have the loan obligation, this policy won't pay, whereas the business reducing term would pay for the whole loan term. Banks typically prefer the other style of policy.

### Personal Disability Income

- While this type of policy would satisfy a bank as "proof of disability" this is the least appropriate type of disability insurance to assign to a lender. Personal income disability is the most important insurance a doctor can own, because it protects your working income, and all the years you've invested in your education, to earn that income.
- Typically policies pay a set monthly amount, after a 90 day waiting period, and if you go on claim pay out through age 65. These terms will vary based on how you design the policy.
- Personal income protection is an absolute must have for a new practice owner.

### Term Life Insurance

- These policies are very straight forwards and line up exactly to the loan terms. A \$500,000 loan for 10 years would have a \$500,000 10 year term insurance policy assigned to the bank.

*This is a very general summary provided for educational purposes only. Specific policy structure, cost and benefits will be determined on an individual basis, and may vary based on insurance company.*

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The process to apply for life insurance includes a review of your health profile. This is done through collecting information on an application and a paramedical exam that includes a blood draw and urine sample. Normal underwriting without medical records can take 4-6 weeks. If records are ordered, it can extend the time from 6-12 weeks or longer, as it's completely at the doctor's discretion. The process and of health underwriting is:

- 1) Pre-screen for general health conditions and then run appropriate insurance quotes. Quotes are based on your general health profile and prices may change after underwriting is complete. From here we chose a company to apply with
- 2) Submit an application, then schedule and complete your health exam
- 3) The insurance company reviews the application and exam, and determines if they need to order medical records. If medical records are ordered, we have to wait until the clinic releases the records
- 4) After the records are reviewed, a final offer is made for coverage, and we determine the exact price. We determine if we accept the coverage, and if we want to make any changes to the policy, we can at this time.

*In order to provide you with an accurate quote, please complete the following information*

Name \_\_\_\_\_ Date of Birth \_\_\_\_\_ Height/Weight \_\_\_\_\_

State You Reside \_\_\_\_\_ Monthly loan payment \_\_\_\_\_ Loan Term \_\_\_\_\_ Principle Balance \_\_\_\_\_

List any current medication you are currently taking, or have taken in the past 3 years: \_\_\_\_\_  
\_\_\_\_\_

Do you have any chronic or maintenance health concerns: \_\_\_\_\_  
\_\_\_\_\_

Do you now, or have you in the last 5 years, smoked tobacco products or marijuana: \_\_\_\_\_

Do you have any family history of heart or kidney disease, stroke, cancer, diabetes, or other genetically linked disease? If yes, please explain: \_\_\_\_\_

Do you participate in any hazardous avocations (rock climbing, scuba diving etc.)? If yes, explain: \_\_\_\_\_  
\_\_\_\_\_

Do you have a need for personal life or disability insurance, outside of your business loan requirements?

If yes, please explain: \_\_\_\_\_

## **Business Insurance Requirements for Business Loan**

There is also a financial documentation requirement for the application process with these types of insurance. The insurance company needs to confirm financial need of the business, for the lending institution, and for your personal financial situation.

Various items we may need in order to secure coverage for you include:

- Current paystub showing year to date income
- W-2 for prior year's income
- Personal net worth statement showing assets and liabilities
- The past two years of business financial information. These may include tax returns, profit and loss statements, and balance sheets showing assets and liabilities of the company.
- Business appraisal or outline of business net worth and/or value of the company
- Outline of business loan details including principle balance, interest rate, term length, monthly payments and all insurance requirements for the bank

Once you complete your applications for coverage, we will need many of these documents to submit along with your application. The insurance company will review and let us know if they need clarification on any items, or additional income or financial documentation.

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**Medical Professionals Financial Group**   [www.medicalpfg.com](http://www.medicalpfg.com)   [mmartin@medicalpfg.com](mailto:mmartin@medicalpfg.com)   503-697-0817