Additional Bond Insuring Agreements

Insuring Agreement D - Forgery or Alteration

Insuring Agreement D provides coverage for losses resulting from forgery or alteration of negotiable instruments (except an Evidence of Debt) and instructions to pay, including counterfeit items. Actual physical possession of a written original item is required, although, substitute checks and, under certain circumstances, instruments transmitted electronically are covered.

For Example

- A bookkeeper of a corporate customer signs the business owner's name on a company check and deposits the funds into her personal account at another bank. The forgery is detected when the business owner reviews his monthly statements.
- A corporate customer reports a discrepancy on his monthly statement. Upon investigation, it is determined that someone has obtained one of the customer's cancelled checks and created counterfeit checks that were negotiated at several financial institutions in the area. The bank reimburses the customer for the missing funds.

Insuring Agreement E - Securities

This agreement covers losses resulting directly from extending credit on the faith of Stock Certificates, Deeds or like instruments, Certificates of Origin or Title, Guarantees, Evidences of Debt and Security Agreements, which are forged, altered, lost, stolen, or in some cases, counterfeit. Coverage for loan participations may also be purchased. The bank must have relied in good faith upon the original instrument, and the bank or its authorized representative must have had actual physical possession of the written, original instrument prior to extending the credit.

For Example

- The bank acquires loans originated by a mortgage broker. A borrower subsequently defaults on a note and it is found that the Certificates of Deposit used as collateral had been altered.
- The bank accepts a certificate of title as collateral for a loan. The bank relies on this collateral prior to granting the loan. The borrower defaults on the loan and it is later proven that the certificate of title is counterfeit.

Insuring Agreement G - Fraudulent Mortgages

The Fraudulent Mortgages Agreement covers losses resulting directly from the financial institution accepting or acting upon real property mortgages, deeds of trust, and like instruments pertaining to real property on which a signature is legitimate but defective because it was obtained through fraud, trick, or under false pretenses. (Note that Insuring Agreement E only provides coverage if the document is forged, altered, lost or stolen.)

For Example

- A borrower obtains a loan secured by land jointly owned with his wife. After a year of making payments, the borrower falls behind and the bank files for foreclosure on the land. During the proceedings, it is proven that the wife did not "knowingly" sign the mortgage for the property and thought she was signing another unrelated document. The bank is precluded from foreclosing on the property.