



## Do I need hazard insurance?

**A:** Hazard insurance is one part of your homeowners insurance policy. The hazard coverage includes a wide variety of potential threats to your property. While your homeowners policy contains liability insurance covering medical bills or legal costs in the event of an accident, basic hazard insurance only covers property damage or destruction.

When originating your purchase-assist mortgage, the lender will require your purchase of hazard insurance coverage for a 12-month period. However, the level of coverage you need to obtain depends on the terms of your mortgage.

Lenders include a hazard insurance provision in your mortgage documents to protect their interest against potential hazards such as fire, wind, theft or vandalism.

However, hazard insurance does not cover all possible threats. Hazards excluded from homeowners insurance policies requiring additional riders or separate policies include earthquake, flood or high-risk fire zone coverage.

The hazard insurance provision grants your lender the option to:

- retain and apply any insurance proceeds to the mortgage balance; or
- release the proceeds to you to reconstruct the destroyed or damaged property.

Your lender is required to allow you to rebuild, unless they can show their security interest will be impaired by the reconstruction of the improvements as proposed by you.

When the insurance proceeds are inadequate to restore the lender's interest, they may:

- apply the insurance proceeds to the mortgage balance; or
- call the mortgage due as a result of failure to maintain adequate coverage.

Further, hazard insurance only covers personal property up to a set amount. Thus, owners with expensive art, jewelry or other belongings need to consider additional "floater insurance" to cover those items.