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**BANKING BULLETIN # 31**

**August 27, 2007**

### **PROPERTY INSURANCE FOR PROSPECTIVE BORROWERS**

This bulletin is provided to restate a January 18, 1989 Memorandum originally issued by Commissioner Gretchen Babcock to the Vermont Bankers Association.

The Banking Division is aware that some mortgage lenders have requested borrowers to over insure their property in order to obtain a real estate loan. Apparently, some institutions are asking borrowers to insure the full amount of the mortgage loan even though the value of the structure(s) actually insured is considerably less due to a high land valuation.

The insurance industry does not permit individuals or businesses to obtain property insurance above the value of the property subject to loss. To do so would create the potential for unjust and possibly fraudulent insurance recoveries.

Thus, an insurance policy will not insure or pay for damages that do not exist and the face value of an insurance policy is not necessarily the amount that will be paid in the event of a loss. The value of underlying land is almost never subject to loss.

Accordingly, this bulletin is to advise mortgage lenders that borrowers cannot be required to obtain property insurance beyond the value of the structures and other improvements actually insured.

Paulette J. Thabault

Commissioner of Banking, Insurance, Securities and Health Care Administration

