

Date of Hearing: January 22, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 1278 (Harabedian) – As Amended January 14, 2026

Policy Committee: Banking and Finance

Vote: 8 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill revises how a financial institution that receives certain property insurance proceeds in a borrower's escrow account must pay interest on such proceed amounts to the borrower.

Instead of the existing requirement that the interest be credited to the borrower's account, this bill alternatively allows interest to be paid with a check subject to certain conditions.

FISCAL EFFECT:

Minor and absorbable costs to the Department of Financial Protection and Innovation to update related manuals, exam procedures, and trainings.

COMMENTS:

1) **Purpose.** According to the author:

AB 1278 makes technical clarifications to AB 493 from last year, which ensured homeowners receive interest on post-loss insurance payouts. Providing homeowners with every possible resource is critical to supporting recovery after a disaster, and AB 1278 makes it easier for banks to deliver post-loss insurance payouts to survivors.

2) **Escrow Accounts for Insurance Claims.** When a property is secured by a mortgage, a lender often utilizes an escrow account to hold insurance payout funds from a homeowner insurance claim. This process protects the lender by ensuring funds are appropriately used for repairs on the lender's collateral (the property). After a claim is approved, funds placed in escrow are released by the lender in stages as repairs progress, ensuring the work is completed properly and contractors are paid. After final repairs are verified, the remaining fund balance is released to the homeowner or contractor.

In *Gray v. Quicken Loans, Inc.* (2021) 62 Cal.App.5th 920, the California Court of Appeals upheld that a mortgage lender had no obligation to pay interest on insurance proceeds held in escrow to a homeowner impacted by the 2017 Thomas Fire. AB 493 (Harabedian), Chapter 103, Statutes of 2025, requires a financial institution to pay at least 2% simple interest per annum when insurance proceeds due to property damage or loss are held in a borrower's escrow account. The interest must be credited to the account. This bill adds an alternative payment method by also allowing a financial institution to pay interest via a check drawn

directly to the borrower. If the check is uncashed 90 days after delivery, the check must be cancelled and the interest credited to the borrower's account.

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