SENATE RULES COMMITTEE AB 1278
Office of Senate Floor Analyses
(916) 651-4171

CONSENT

Bill No: AB 1278
Author: Harabedian (D)
Amended: 6/22/26 in Senate
Vote: 21

SENATE BANKING & F.I. COMMITTEE: 7-0, 6/17/26
AYES: Grayson, Niello, Cervantes, Hurtado, Reyes, Richardson, Strickland

SENATE JUDICIARY COMMITTEE: 13-0, 6/30/26
AYES: Umberg, Niello, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Stern, Valladares, Wahab, Weber Pierson, Wiener

ASSEMBLY FLOOR: 70-0, 1/29/26 (Consent) - See last page for vote

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SUBJECT: Mortgages: hazard insurance proceeds: interest

SOURCE: Author

DIGEST: This bill specifies the allowable payment methods by which a financial institution can satisfy its obligation to pay interest on funds held in a loss draft account, as specified.

ANALYSIS:

Existing law requires a financial institution that makes loans upon the security of real property containing only a one- to four-family residence and located in this state or purchases obligations secured by the property and that holds hazard insurance proceeds in a loss draft account pending property rebuilding or repair shall pay interest on those funds at a rate of at least 2% simple interest per annum. Requires the interest to be credited to the loss draft account annually or upon termination of the account, whichever is earlier. (Civil Code Section 2954.85)

This bill:

1) Allows the interest on hazard insurance proceeds to be paid with a check, as specified, drawn by a financial institution payable at or through a bank directly to the borrower.

2) Provides that a check that is uncashed 90 calendar days after delivery be cancelled at no cost to the borrower and the amount credited to the loss draft account.

Comments

According to the author:

> Beginning January 1, 2026, existing law requires financial institutions to pay borrowers 2% simple interest on post-loss insurance proceeds held in escrow following property damage or loss for certain properties impacted by the January 2025 Los Angeles-area wildfires. AB 1278 expands the methods by which borrowers may receive that accrued interest by authorizing financial institutions to pay interest directly to homeowners by check, ensuring disaster survivors can fully access the funds owed to them during the rebuilding process.

Background

Last year, the author of this bill authored AB 493 (Harabedian, Chapter 103, Statutes of 2025), which was one of many bills introduced in response to the wildfires in Los Angeles in January 2025. AB 493 requires that mortgage servicers pay at least 2% interest on funds held by the mortgage servicer that were paid by an insurer related to property damage caused by the fires.

When a home with an outstanding mortgage is damaged or destroyed, the insurance company typically pays out the claim to the lender, not directly to the homeowner who is the borrower on the mortgage loan. This practice is compelled by property insurance contracts that often contain a mortgagee, loss payee, or lenders loss payable clause, which are designed to protect a mortgage lender in the event that the property securing the mortgage is damaged, known as an insured loss event. Navigating through an insured loss event requires actions of the borrower/property owner, the insurer, and the mortgage servicer.[1]

[1] A mortgage servicer is an entity that interacts with borrowers after a loan has been originated and the borrower begins to repay the loan. A mortgage servicer collects payments from the borrower and manages any associated escrow account.

The mortgage servicer plays a key role, along with the insurance company, in working with a borrower when the borrower's property experiences an insured loss event. Mortgage servicers are expected to ensure the proof of loss claim is filed timely with the insurer and to monitor the disbursement of insurance loss proceeds. Mortgage servicers undertake a variety of activities in this process, including the following:

- Determining if the property can be legally rebuilt.
- Obtaining complete details on the damage to the property and determining the needed repairs.
- Discussing with the borrower any plans for repairing the property.
- Immediately issuing the borrower a check for any amount designated for contents (for example personal property) or living expenses.
- Depositing insurance funds retained by the servicer pending disbursement for repair or reconstruction.
- Reviewing and approving the final plans for repair, including obtaining the necessary bids to repair the property.
- Monitoring and inspecting repairs as completed to verify the repairs comply with the final repair plan.
- Disbursing funds for repairs, often based on periodic inspections of the progress of the repair work.[2]

The process for repairing or rebuilding a damaged home, particularly in an area affected by a widespread disaster, is often time-consuming and cumbersome. While the insurance proceeds usually arrive within weeks or a few months, the process for clearing debris, rebuilding damaged infrastructure, finding contractors, developing plans, and constructing the repair or rebuild of the home often takes more than a year, sometimes stretching over several years. During this time, the insurance proceeds are placed in a bank account by the mortgage servicer.

This bill allows the interest that accrues on hazard insurance proceeds to be paid to the borrower with a check or electronic payment methods. This change provides

[2] These activities were taken from the Fannie Mae servicing guide, which provides the duties and expectations for mortgage servicers who are servicing loans purchased by Fannie Mae, a government-sponsored enterprise that supports liquidity within the mortgage financing system. **https://servicing-guide.fanniemae.com/svc/b-5-01/insured-loss-events**

more flexibility to mortgage servicers in how they comply with the required payment of interest.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

This bill was ordered to the floor by the Senate Appropriations Committee pursuant to Senate Rule 28.8.

SUPPORT: (Verified 8/3/26)

California Association of Realtors
California Credit Union League

OPPOSITION: (Verified 8/3/26)

None received

ARGUMENTS IN SUPPORT: California Credit Union League writes in support, "representing credit unions serving more than 14 million Californians, we write to express our support for AB 1278, with the recent amendments. AB 1278 will give lenders and borrowers flexibility on how they wish to receive post-loss insurance payouts from an escrow account."

ASSEMBLY FLOOR: 70-0, 1/29/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Fong, Gabriel, Gallagher, Garcia, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Arambula, Bauer-Kahan, Chen, Ellis, Flora, Gipson, Lee, Ransom, Celeste Rodriguez, Valencia

Prepared by: Michael Burdick / B. & F.I. /
8/5/26 14:57:29

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