Office of Senate Floor Analyses
(916) 651-1520 Fax: (916) 327-4478

CONSENT

Bill No: AB 493
Author: Harabedian (D), et al.
Amended: 6/26/25 in Senate
Vote: 27 - Urgency

SENATE BANKING & F.I. COMMITTEE: 7-0, 6/18/25
AYES: Grayson, Niello, Cervantes, Hurtado, Limón, Richardson, Strickland

SENATE JUDICIARY COMMITTEE: 12-0, 6/24/25
AYES: Umberg, Niello, Allen, Arreguín, Ashby, Caballero, Durazo, Laird, Stern, Wahab, Weber Pierson, Wiener
NO VOTE RECORDED: Valladares

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 77-0, 4/1/25 - See last page for vote

SUBJECT: Mortgages: hazard insurance proceeds

SOURCE: Governor Gavin Newsom

DIGEST: This bill requires a financial institution to pay interest of at least 2% per annum on amounts received from insurance proceeds following property damage or loss.

ANALYSIS:

Existing law:

1) Requires a financial institution that makes loans upon the security of real property (i.e., mortgage loans) to pay interest of at least 2% per annum on amounts received in advance for the payment of taxes and assessments, the payment of insurance, or for other purposes relating to such real property. Provides that the interest shall be credited to the borrower’s account annually or

upon termination of such account, whichever is earlier. (Civil Code Section 2954.8(a))

2) Prohibits a financial institution from imposing any fee or charge in connection with the maintenance or disbursement of money described in 1) that will result in an interest rate of less than 2% per annum being paid on the moneys so received. (Civil Code Section 2954.8(b))

3) Defines "financial institution" to mean a bank, savings and loan association or credit union chartered under the laws of this state or the United States, or any other person or organization making loans upon the security of real property containing only a one- to four-family residence. (Civil Code Section 2954.8(c))

4) Exempts moneys which are required by a state or federal regulatory authority to be placed by a financial institution other than a bank in a noninterest-bearing demand trust fund account of a bank. (Civil Code Section 2954.8(d))

5) Requires licensees of the California Residential Mortgage Lending Act to place funds received in escrow in a non-interest-bearing account, unless otherwise specified. (Financial Code Section 50202)

This bill:

1) Contains an urgency clause, stating: In order to provide critical safeguards and protect wildfire victims and those particularly vulnerable from harmful practices, including the withholding of interest on insurance payouts in the aftermath of wildfires, and to ensure fair treatment and financial security for those rebuilding their lives, it is necessary that this act take effect immediately.

2) Establishes a parallel law to 1) – 4) of the Existing Law section above, applied to hazard insurance proceeds held in a loss draft account.

3) Provides that, for funds held in a loss draft account as of the effective date of this bill, the minimum 2% interest shall begin to accrue on the effective date of this bill.

4) Makes a conforming change to the California Residential Mortgage Law related to depositing funds received in escrow.

Comments

Purpose. According to the author:

> AB 493 ensures that homeowners receive the interest earned on insurance payouts held in escrow after a disaster, such as a wildfire. Current law requires lenders to pay interest on escrowed funds for property taxes and insurance premiums but does not extend this requirement to disaster-related insurance proceeds. This bill closes that loophole and guarantees fair treatment for homeowners as they rebuild.

To further illustrate the purpose, a homeowner from Altadena provided the following correspondence to the author's office in response to a constituent survey:

> [Mortgage servicer] is holding in a special escrow account our insurance money. They are earning interest on this money while charging us interest on our loan. As of tomorrow they will have an amount that far exceeds the amount of our mortgage in this escrow account. So they are in fact making a profit off of our disaster.

This bill is sponsored by Governor Gavin Newsom who made the following statement in support of the bill:

> Homeowners rebuilding after a disaster need all the support they can get, including the interest earned on their insurance funds. This is a commonsense solution that ensures that they receive every resource available to help them recover and rebuild.[1]

Insurance proceeds and mortgage servicing. 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

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[1] **https://www.gov.ca.gov/2025/02/10/governor-newsom-sponsors-legislation-to-provide-interest-for-disaster-affected-homeowners/**

insured loss event requires actions of the borrower/property owner, the insurer, and the mortgage servicer.[2]

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.[3]

How are insurance proceeds treated by mortgage servicers today? 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. The account may pay interest on the deposit balance: sometimes a market rate, other times a rate far below market, such as 0.01%. In other cases, the account may pay no interest at all.

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[2] 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.

[3] 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**

For those funds receiving a below market rate of interest, the real value of the insurance proceeds deteriorates over time, making it marginally more challenging for the homeowner to repair the property without borrowing or using savings to augment the insurance proceeds.

One of the factors that may influence the rate of interest paid on insurance proceeds is the type of mortgage loan owed by the homeowner. Mortgages backed by the federal government impose duties and expectations on the servicer, as reflected in guidelines promulgated by a federal agency or government-sponsored enterprise, like Fannie Mae or Freddie Mac. Regarding interest on insurance proceeds, Fannie Mae guidelines require funds to be deposited in an account that yields "interest equivalent to the interest the borrower could expect to obtain from a savings or money market account," suggesting the borrower should expect a market rate of interest.[4] Freddie Mac guidelines, however, are far less specific, stating that funds "must be maintained in a federally insured account that pays interest to the Borrower."[5] Nongovernment-backed mortgages are typically serviced in accordance with private contractual agreements or internal policies, in the event that the servicer is also the holder of the loan. The lack of legal requirements to pay interest likely means that many borrowers are receiving little, if any, interest revenue as they wait to rebuild, while the bank receiving such deposits enjoys a near costless source of capital to finance its own profit-making activities.

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

SUPPORT: (Verified 7/15/25)

Governor Gavin Newsom (Source)
California Association of Realtors
California-Hawaii State Conference of the NAACP
County of Los Angeles Board of Supervisors
Eden Housing
1 individual

OPPOSITION: (Verified 7/15/25)

None received

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[4] https://servicing-guide.fanniemae.com/svc/b-5-01/insured-loss-events#:~:text=Depositing%20the%20Insurance%20Loss%20Proceeds%20Not%20Disbursed,-The%20servicer%20must&text=Be%20for%20the%20borrower's%20benefit,savings%20or%20money%20market%20account.
[5] https://guide.freddiemac.com/app/guide/section/8202.11

ARGUMENTS IN SUPPORT: The California Association of Realtors writes in support:

> AB 493 (Harabedian) protects consumers and ensures that banks do not receive a windfall based on the extreme disaster that occurred due to the horrific events of the first week of January in Los Angeles. Further, this legislation promotes the responsible stewardship of borrower funds as well as helps to foster trust in financial institutions in our State. Homeowners and not lenders should be the ones to benefit from the interest generated by insurance payouts.

ARGUMENTS IN OPPOSITION: None received

ASSEMBLY FLOOR: 77-0, 4/1/25
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, DeMaio, Dixon, Elhawary, Ellis, Essayli, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wilson, Zbur, Rivas
NO VOTE RECORDED: Alvarez, Davies, Wicks

Prepared by: Michael Burdick / B. & F.I. /
7/16/25 16:22:41

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