

STAND. COM. REP. NO.

674

Honolulu, Hawaii

FEB 14 , 2025

RE: H.B. No. 1047
H.D. 1

Honorable Nadine K. Nakamura
Speaker, House of Representatives
Thirty-Third State Legislature
Regular Session of 2025
State of Hawaii

Madame:

Your Committee on Consumer Protection & Commerce, to which was referred H.B. No. 1047 entitled:

"A BILL FOR AN ACT RELATING TO INTEREST ON INSURANCE PROCEEDS RELATED TO A MORTGAGE LOAN,"

begs leave to report as follows:

The purpose of this measure is to require Hawaii financial institutions and licensed mortgage servicers to pay interest on insurance proceeds held in escrow for the benefit of consumers and specify that a fee cannot be charged to the borrower in connection with the maintenance or disbursement of insurance proceeds received by the Hawaii financial institution or mortgage servicer.

Your Committee received testimony in support of this measure from the Department of Commerce and Consumer Affairs. Your Committee received testimony in opposition to this measure from the Mortgage Bankers Association of Hawaii. Your Committee received comments on this measure from the Hawaii Bankers Association and Hawaii Credit Union League.

Your Committee finds that, in the event of a natural disaster that damages a home, the insurance proceeds will generally be made to the mortgage lender (or servicer) and the borrower. This is due to the contractual provision within a mortgage where lenders require that they are named in the homeowner's policy and that

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they are a party to any insurance proceeds related to the structure. Since the lender has a financial interest in the property, this arrangement ensures that necessary repairs are made.

Your Committee further finds that, depending on the circumstances, lenders may also put the money in an escrow account and pay for the repairs as work is completed. However, lenders are not required to pay interest on these accounts if either the agreement or law requires it. This is the situation many residents find themselves after the 2023 Maui wildfires. While local banks have been offering interest on the insurance proceeds pending the rebuilding process, consumers with out-of-state mortgage servicers and banks have not been offered the same because existing law does not require insurance proceeds to be held in interest-bearing accounts. This measure will increase consumer protection in cases of damage or destruction by requiring all licensed mortgage servicers and Hawaii financial institutions to contact the consumer and provide the consumer with an option of putting the insurance proceeds in interest-bearing accounts.

Your Committee has amended this measure by:

- (1) Specifying that the provisions with respect to Hawaii financial institutions only apply in the event of a state of emergency declared by the Governor;
- (2) Deleting language that specified that the escrow accounts maintained by Hawaii financial institutions and mortgage servicers generate interest at a rate that is no less than the national rate for money market accounts;
- (3) Deleting language that prohibited Hawaii financial institutions and mortgage servicers from charging a fee for the maintenance or disbursement of insurance proceeds; and
- (4) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and



purpose of H.B. No. 1047, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1047, H.D. 1, and be referred to your Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



SCOT Z. MATAYOSHI, Chair



