



STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAII'
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
KA 'OIHANA PILI KĀLEPA
335 MERCHANT STREET, ROOM 310
P.O. BOX 541
HONOLULU, HAWAII 96809
Phone Number: (808) 586-2850
Fax Number: (808) 586-2856
cca.hawaii.gov

JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA

NADINE Y. ANDO
DIRECTOR | KA LUNA HO'OKELE

DEAN I. HAZAMA
DEPUTY DIRECTOR | KA HOPE LUNA HO'OKELE

Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Consumer Protection and Commerce
Tuesday, February 4, 2025
2:00 p.m.
Via Videoconference**

**On the following measure:
H.B.1047, RELATING TO RELATING TO INTEREST ON INSURANCE PROCEEDS
RELATED TO A MORTGAGE
LOAN.**

Chair Matayoshi and Members of the Committee:

My name is Dwight Young, and I am the Commissioner for the Department of Commerce and Consumer Affairs' (Department) Division of Financial Institutions. The Department supports this administration bill.

The purpose of this bill is to (1) support mortgagors during disasters and other instances of damage to property by requiring licensed mortgage servicers and financial institutions to pay interest on insurance proceeds held for the benefit of consumers, (2) provide that a fee shall not be charged to the borrower in connection with the maintenance or disbursement of insurance proceeds received by the financial institution, and (3) provides that the minimum interest rate paid on insurance proceeds be based on the national rate for money market accounts, as determined according to title 12 C.F.R. section 337.7 and will be credited to the borrower monthly.

The August 8, 2023 wildfires in the counties of Hawaii and Maui caused extensive loss of life and damage. Destruction of infrastructure has hindered victims' ability to rebuild, leaving insurance proceeds sitting in escrow accounts until the rebuilding process is possible. Local banks have been offering interest on the insurance proceeds, but it is not required by law, and consumers with out-of-state mortgage servicers and banks have not been offered the same because current laws do not require insurance proceeds to be held in interest bearing accounts. This law will increase consumer protection in cases of damage or destruction to a mortgagor's property by requiring that all licensed Hawaii mortgage servicers and financial institutions contact the consumer and provide them with an option of putting their insurance proceeds in an interest-bearing account.

An additional consumer benefit would allow the mortgagor the ability to receive any insurance proceeds that exceeds the outstanding loan balance. The creditor will have the remaining balance of the loan secured, while the mortgagor will have financial flexibility with access to the insurance funds that exceed the mortgage balance.

Thank you for the opportunity to testify, and we respectfully ask the Committee to pass this administration bill.



Mortgage Bankers Association of Hawaii
P.O. Box 4129, Honolulu, Hawaii 96812

February 3, 2025

The Honorable Scot Z. Matayoshi, Chair
The Honorable Cory M. Chun, Vice Chair
Members of the House Committee on Consumer Protection and Commerce

Hearing Date: February 4, 2025
Hearing Time: 2:00pm
Hearing Place: Hawaii State Capitol, Conference Room 329

Re: HB1047 Relating to Interest on Insurance Proceeds Related to a Mortgage Loan

I am Linda Nakamura, representing the Mortgage Bankers Association of Hawaii ("MBAH"). The MBAH is a voluntary organization of individuals involved in the real estate lending industry in Hawaii. Our membership consists of employees of banks, savings institutions, mortgage bankers, mortgage brokers, financial institutions, and companies whose business depends upon the ongoing health of the financial services industry of Hawaii. The members of the MBAH originate and service, or support the origination and servicing, of the vast majority of residential and commercial real estate mortgage loans in Hawaii. When, and if, the MBAH testifies on legislation or rules, it is related only to mortgage lending and servicing.

The MBAH supports the intent of the bill and opposes HB1047 as it is written.

HB1047 supports mortgagors during disasters and other instances of damage to property by requiring licensed mortgage services and financial institutions to pay interest on insurance proceeds held for the benefit of consumers. It provides that a fee shall not be charged to the borrower in connection with the maintenance or disbursement of insurance proceeds received by the financial institution. It provides that the minimum interest rate paid on insurance proceeds be based on the national rate for money market accounts, as determined according to title 12 C.F.R section 337.7, and be credited to the borrower monthly.

Providing interest on insurance proceeds is not a common practice. Servicers who do not and who are unable to systemically provide interest on insurance proceeds will need to work with their servicing system vendor to update their system, and if their servicing system vendor is unable to do so, the servicer will need to find another vendor who is able to provide this. This will place a large financial burden for servicers who need to update their systems or to convert to another system as it takes nine to twelve months to complete a system conversion. Therefore, we request that the effective date be moved

from 7/1/2025 until 1/1/2027 to accommodate systems and programming changes that are required.

Thank you for the opportunity to present this testimony.

Linda Nakamura
Mortgage Bankers Association of Hawaii



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GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 3, 2025

TO: Representative Scot Matayoshi
Chair, Committee on Consumer Protection and Commerce

FROM: Tiffany Yajima / Mihoko Ito

RE: **H.B. 1047 – Relating to Interest on Insurance Proceeds Related to a Mortgage Loan**

Hearing Date: Tuesday, February 4, 2025 at 2:00 p.m.
Conference Room: 329

Dear Chair Matayoshi, Vice Chair Chun, and Members of the Committee on Consumer Protection and Commerce:

We submit this testimony on behalf of the Hawaii Bankers Association (HBA). HBA represents seven Hawai`i banks and one bank from the continent with branches in Hawai`i.

HBA submits these **comments** on H.B. 1047, which requires licensed mortgage servicers and financial institutions to pay interest on insurance proceeds held for borrowers pending the rebuild of residential property.

This measure requires that the minimum interest rate paid on insurance proceeds be based on a “national rate” for money market accounts. However, it is unclear what the “national rate” would be. Local financial institutions place insurance proceeds in interest bearing accounts based on each bank offerings and at the request of the customer, most of which accrue interest at money market accounts or otherwise based on the type of deposit accounts the customer chooses.

In addition, this measure also requires that a fee shall not be charged to the borrower in connection with the maintenance or disbursement of insurance proceeds received by the financial institution. Under this scenario, financial institutions are required to manage insurance proceeds on behalf of the borrower without the ability to offset administrative costs consistent with each bank’s customer consented terms and conditions at account opening.

HBA is interested in and willing to work with all parties to find a solution to the issue that this measure seeks to address. HBA believes that the application of insurance proceeds should be governed by the loan documents and that lenders

should have the ability to recoup costs for protecting its collateral, including costs of inspections of property to ensure that the proceeds are used for the intended purpose and reinvested in the collateral.

Thank you for the opportunity to submit this testimony.



Hawaii Credit Union League

Your Partner For Success



1654 South King Street
Honolulu, Hawaii 96826-2097
Telephone: (808) 941.0556
Fax: (808) 945.0019
Web site: www.hcul.org
Email: info@hcul.org

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Testimony to the House Committee on Consumer Protection & Commerce
Tuesday, February 4, 2025, 2:00PM
Conference Room 329

Comments on HB 1047, Relating to Insurance Proceeds Related to a Mortgage Loan

To: The Honorable Scot Matayoshi, Chair
The Honorable Cory Chun, Vice-Chair
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League (HCUL), the local trade association for 45 Hawaii credit unions, representing over 877,000 credit union members across the state.

HCUL offers the following comments regarding HB 1047, Relating to Insurance Proceeds Related to a Mortgage Loan. This bill supports mortgagors during disasters and other instances of damage to property by requiring licensed mortgage servicers and financial institutions to pay interest on insurance proceeds held for the benefit of consumers, provides that a fee shall not be charged to the borrower in connection with the maintenance or disbursement of insurance proceeds received by the financial institution, provides that the minimum interest rate paid on insurance proceeds be based on the national rate for money market accounts, as determined according to title 12 C.F.R. section 337.7 and will be credited to the borrower monthly.

While we understand the intent of this bill, we have concerns with the significant operational, financial, and compliance challenges it poses to credit unions and other mortgage servicers in the state. The requirement to pay interest on held insurance proceeds will increase costs for credit unions, which may ultimately be passed down to members. Unlike larger financial institutions, many credit unions operate on a not-for-profit model and have limited resources to absorb these additional regulatory burdens.

Thank you for the opportunity to provide comments on this issue.