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DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

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Testimony of the Department of Commerce and Consumer Affairs

**Before the
Senate Committee on Commerce and Consumer Protection
Friday, February 14, 2025
9:30 a.m.
Via Videoconference**

**On the following measure:
S.B. 1366, RELATING TO RELATING TO INTEREST ON INSURANCE PROCEEDS
RELATED TO A MORTGAGE
LOAN.**

Chair Keohokalole and Members of the Committee:

My name is Dwight Young, and I am the Commissioner of 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 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. 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.

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 contact the consumer and provide them with an option of putting their insurance proceeds in an interest-bearing account.

DFI has been working with stakeholders and propose the following amendments:
Page 1 lines 5-6:

"§412:14- Interest on insurance proceeds related to a mortgage loan. (a) In the event of a state of emergency declared by the governor pursuant to section 127A-14, a Hawaii financial institution shall comply with the following requirements concerning the handling, processing, and disbursement of insurance proceeds paid to satisfy a claim associated with the damage or destruction of a residential property that is the subject of a mortgage, including but not limited to hazard insurance of any kind.

Page 3, line 2-5

(2) A Hawaii financial institution shall hold in an interest-bearing account, for the benefit of the borrower, any insurance proceeds that the financial institution does not immediately disburse to a borrower pending rebuild of a residential property. [~~Such an account must generate interest at a rate that is not less than the national rate for money market accounts, as determined according to title 12 Code of Federal Regulations section 337.7.~~] The financial institution shall ensure that the interest that accrues to the account is credited to the borrower's account monthly.

Page 3, line 9-11

(3) A financial institution [~~shall not charge the borrower a fee for the maintenance or disbursement of insurance proceeds. Additionally, the financial institution]~~ shall not charge the borrower a fee for the maintenance or disbursement of interest earned on

the insurance proceeds, as set forth in paragraph (2), held by the financial institution for the benefit of the borrower."

Page 12 line 5-8

(2) A mortgage servicer shall hold in an interest-bearing account, for the benefit of the borrower, any insurance proceeds that the mortgage servicer does not immediately disburse to a borrower pending rebuild of a residential property. [~~Such an account must generate interest at a rate that is not less than the national rate for money market accounts, as determined according to title 12 C.F.R. section 337.7.~~] A mortgage servicer shall ensure that the interest that accrues to the account is credited to the borrower's account monthly.

Page 12 line 12-15

(3) A mortgage servicer shall not charge [~~the borrower a fee for the maintenance or disbursement of insurance proceeds. Additionally, the mortgage servicer shall not charge~~] the borrower a fee for the maintenance or disbursement of interest earned from an interest-bearing account established pursuant to section 454M:-5(e)(2).

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 10, 2025

The Honorable Jarrett Keohokalole, Chair
The Honorable Carol Fukunaga, Vice Chair
Members of the Senate Committee on Commerce and Consumer Protection

Hearing Date: February 14, 2025
Hearing Time: 9:30am
Hearing Place: Hawaii State Capitol, Conference Room 229

Re: SB 1366 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 SB 1366 as it is written.

SB 1366 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 12, 2025

TO: Senator Jarrett Keohokalole
Chair, Committee on Commerce and Consumer Protection

Senator Carol Fukunaga
Vice Chair, Committee on Commerce and Consumer Protection

FROM: Tiffany Yajima / Mihoko Ito

RE: **S.B. 1366 – Relating to Interest on Insurance Proceeds Related to a Mortgage Loan**

Hearing Date: Friday, February 14, 2025 at 9:30 a.m.
Conference Room: 229

Dear Chair Keohokalole, Vice Chair Fukunaga, and Members of the Committee on Commerce and Consumer Protection:

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 appreciates the intent of this measure and submits this testimony with **comments** on S.B. 1366. Currently, this bill requires licensed mortgage servicers and financial institutions to pay interest at a national rate on insurance proceeds held for borrowers pending the rebuild of residential property. It also 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.

HBA suggests this bill be amended to more simply state that financial institutions pay interest on insurance proceeds held with the financial institution, and to remove all other remaining provisions. If this bill is modified to give financial institutions more latitude on the interest amount on insurance proceeds, then financial institutions would be less concerned about needing to charge a special administrative fee on such account.

HBA does not object to financial institutions paying a market-based deposit rate of interest on insurance proceeds held in a deposit account and held within a deposit product already provided by the financial institution.

The suggested interest rate index, while well-intended, is not a rate of interest commonly offered by financial institutions and can thus be difficult and costly for financial institutions to implement and administer.

If financial institutions are allowed to place insurance proceeds into one of the financial institution's existing interest-bearing deposit products, then financial institutions would not bear additional costs, expenses, burden and workarounds to make this accommodation, and would then also have no need to charge any extra administrative fee for the setup and maintenance of such an account.

HBA also suggests that the remainder of the bill's provisions while well intended are unnecessary and may contradict and conflict with the terms of a financial institution's mortgage loan which is a written contract between the homeowner/borrower and financial institution for repayment of the loan and which also addresses the application of insurance proceeds. This mortgage loan written contract for residential mortgage loans is the Fannie Mae and Freddie Mac mortgage contract (Form 3012). A statutory, such as this bill, alters such contract and could have serious unintended consequences for home mortgage financing in Hawaii.

HBA notes that a companion bill, H.B. 2047, was heard in the House and passed out of committee. HBA is in discussions with the Department of Commerce and Consumer Affairs Division of Financial Institutions on the companion measure and is in favor of moving that measure as discussions continue.

Thank you for the opportunity to submit this testimony.



Hawaii Credit Union League

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LATE

Testimony to the Senate Committee on Commerce and Consumer Protection
February 14, 2025
Conference Room 229

Comments Regarding SB 1366, Relating to Insurance Proceeds Relating to a Mortgage Loan

To: The Honorable Jarrett Keohokalole, Chair
The Honorable Carol Fukunaga, Vice-Chair
Members of the Committee

LATE

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 SB 1366, Relating to Insurance Proceeds Relating to a Mortgage Loan. This bill would 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, 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, and 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 that the intent of this bill is to help borrowers affected by disasters, we are concerned with the possible administrative impact. Managing and tracking interest payments on insurance proceeds would require system modifications and increased staff resources, which could be particularly challenging for smaller credit unions with limited operational capacity. Further, the bill's reliance on the "national rate" for money market accounts under 12 C.F.R. section 337.7 adds a layer of complexity. Credit unions may need clearer guidance on how to structure these accounts and ensure compliance.

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