

STAND. COM. REP. NO.

1481

Honolulu, Hawaii

**MAR 21**, 2025

RE: S.B. No. 1142  
S.D. 1  
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 S.B. No. 1142, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO INSURANCE PROCEEDS,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Specify procedures regarding the disbursement of insurance proceeds for residential real estate that has been damaged or destroyed;
- (2) Require mortgage servicers to make certain disclosures to borrowers upon commencing the servicing of mortgages; and
- (3) Require mortgage servicers to retain all communications with borrowers for at least four years.

Your Committee received testimony in support of this measure from Lāhainā Strong; Council for Native Hawaiian Advancement; United Policyholders; Mortgage Bankers Association of Hawaii; and one individual. Your Committee received comments on this measure from the Department of Commerce and Consumer Affairs.

2025-2603 SB1142 HD1 HSCR HMSO



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 or servicers require that they are named in the homeowner's policy and that they are a party to any insurance proceeds related to the structure. Since the lender or servicer 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 and servicers may also put the money in an escrow account and pay for the repairs as work is completed. However, lenders and servicers are not required to pay interest on these accounts by law. This is the situation many residents find themselves in 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 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 to contact the consumer and putting the insurance proceeds in interest-bearing accounts.

Your Committee has amended this measure by:

- (1) Clarifying that the procedures for when a borrower is more than thirty-one days delinquent in making payments on their mortgage apply when a borrower is thirty-one or more days delinquent;
- (2) Changing the required rate for an interest-bearing account from the national rate for money market accounts to the greater of either:
  - (A) A rate of two percent simple interest per annum; or
  - (B) For a depository mortgage servicer, the rate of the money market account for the depository mortgage servicer or, for a non-depository mortgage servicer, the rate of the money market account at the deposit institution with which the non-



depository mortgage servicer conducts its banking business;

- (3) Deleting language that:
- (A) Required mortgage servicers to make certain disclosures upon commencing the servicing of mortgages; and
  - (B) Required mortgage servicers to retain all communications for at least four years;
- (4) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (5) 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 S.B. No. 1142, S.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1142, S.D. 1, 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



