

JAN 23 2026

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## A BILL FOR AN ACT

RELATING TO INSURANCE PROCEEDS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1 SECTION 1. Chapter 454M, Hawaii Revised Statutes, is  
2 amended by adding a new section to be appropriately designated  
3 and to read as follows:

4 **"§454M- Disbursement of insurance proceeds; disclosure**  
5 **of mortgage interest rate; retention of communications.** (a)  
6 Upon the request of a borrower, a mortgage servicer shall  
7 promptly disclose to the borrower the specific conditions under  
8 which the mortgage servicer will disburse insurance proceeds to  
9 the borrower if the residential real estate that is the subject  
10 of a mortgage is damaged or destroyed and an insurance company  
11 pays insurance proceeds to satisfy a claim associated with the  
12 damage or destruction. A mortgage servicer may provide the  
13 information electronically.

14 (b) If residential real estate is damaged or destroyed, a  
15 borrower, after consulting with a contractor licensed pursuant  
16 to chapter 444, shall create a repair plan or rebuild plan for  
17 the residential real estate. The repair plan or rebuild plan



1 shall include specific milestones that require the mortgage  
2 servicer to disburse insurance proceeds in certain amounts upon  
3 reaching the specified milestones, as described in subsection  
4 (d) (2) or (e) (2). If a mortgage servicer employs inspectors for  
5 the purpose of determining when the milestones are attained, the  
6 mortgage servicer shall notify the borrower of the specific  
7 criteria that the inspectors use to make those determinations.

8 (c) The borrower shall submit the repair plan or rebuild  
9 plan to the mortgage servicer for approval. The mortgage  
10 servicer shall indicate approval or denial of the plan within  
11 thirty days of receipt.

12 (d) If a borrower is not delinquent in making payments on  
13 the mortgage or a borrower is less than thirty-one days  
14 delinquent in making payments on the mortgage, a mortgage  
15 servicer shall disburse the insurance proceeds to the borrower  
16 as follows:

17 (1) If the amount of the insurance proceeds is less than  
18 or equal to \$40,000, the mortgage servicer shall  
19 disburse the entire amount to the borrower in one  
20 payment; or



1                   (2) If the amount of the insurance proceeds is more than  
2                   \$40,000, the mortgage servicer shall initially  
3                   disburse to the borrower an amount that is equal to  
4                   \$40,000 or thirty-three per cent of the total  
5                   proceeds, whichever amount is greater. Thereafter,  
6                   the mortgage servicer shall disburse the remaining  
7                   proceeds based on periodic inspections and progress on  
8                   the work in accordance with the milestones established  
9                   in the repair plan or rebuild plan pursuant to  
10                   subsection (b) and, where required by federal law or  
11                   regulation, after approval by the federal home loan  
12                   financial institution or applicable federal agency.

13                   (e) If a borrower is thirty-one or more days delinquent in  
14                   making payments on the mortgage, a mortgage servicer shall  
15                   disburse the insurance proceeds to the borrower as follows:

16                   (1) If the amount of the insurance proceeds is less than  
17                   or equal to \$5,000, the mortgage servicer shall  
18                   disburse the entire amount to the borrower in one  
19                   payment; or

20                   (2) If the amount of the insurance proceeds is more than  
21                   \$5,000, the mortgage servicer shall initially disburse



1           to the borrower an amount that is equal to twenty-five  
2           per cent of the total proceeds; provided that the  
3           amount of this initial disbursement shall not exceed  
4           \$10,000 or the amount by which the total proceeds  
5           exceed the sum of the unpaid balance on the mortgage,  
6           any interest accrued on the mortgage, and any advances  
7           made on the mortgage. Thereafter, the mortgage  
8           servicer shall disburse the remaining proceeds in  
9           amounts not to exceed twenty-five per cent of the  
10           remaining proceeds, in accordance with the milestones  
11           established in the repair plan or rebuild plan  
12           pursuant to subsection (b); provided that the mortgage  
13           servicer shall not disburse any remaining proceeds  
14           until the mortgage servicer or the mortgage servicer's  
15           agent has inspected the repairs, if any, that have  
16           been made pursuant to a repair plan established  
17           pursuant to subsection (b).

18           (f)   If a borrower has made advance payments to a  
19           contractor or to purchase materials, as evidenced by paid  
20           receipts, the mortgage servicer may reimburse the borrower for  
21           those payments.



1                   (g) For the purposes of disbursement of insurance proceeds  
2 as described in subsections (d) and (e):

3                   (1) A mortgage servicer shall make the first disbursement  
4 of insurance proceeds to the borrower:

5                   (A) Within fourteen days after the mortgage servicer  
6 receives the insurance proceeds if the mortgage  
7 is insured by the federal government or  
8 securitized by the Federal National Mortgage  
9 Association or the Federal Home Loan Mortgage  
10 Corporation; or

11                   (B) As soon as reasonably possible and no later than  
12 thirty days after the mortgage servicer receives  
13 the insurance proceeds if the mortgage is not  
14 insured by the federal government or securitized  
15 by the Federal National Mortgage Association or  
16 the Federal Home Loan Mortgage Corporation; and

17                   (2) A mortgage servicer may disburse funds directly to a  
18 designee of a borrower if:

19                   (A) The designee is agreed to by the borrower and  
20 mortgage servicer; and



1                   (B) The designation is permitted by federal and state  
2                   law and any associated rules.

3                   (h) Notwithstanding any other provision of this section, a  
4                   mortgage servicer shall promptly disburse to a borrower any  
5                   amount of insurance proceeds that exceed the remaining amount  
6                   that the borrower owes on the mortgage unless:

7                   (1) The property is an affordable residential rental  
8                   property that is subject to rent or income  
9                   restrictions as required by federal, state, or county  
10                   program requirements; and

11                   (2) The insurance proceeds that exceed the remaining  
12                   amount that the borrower owes on the mortgage are  
13                   necessary to return the property to the same condition  
14                   in which the property existed before the damage or  
15                   destruction.

16                   (i) A mortgage servicer shall hold in an interest-bearing  
17                   account any insurance proceeds that the mortgage servicer does  
18                   not immediately disburse to a borrower as required by this  
19                   section. A mortgage servicer shall ensure that any interest  
20                   credited to the account is credited and disbursed to the  
21                   borrower. The account shall generate interest at either:



1       (1) The rate of two per cent simple interest per annum; or  
2       (2) As follows:  
3           (A) For a depository mortgage servicer, the rate for  
4           the depository mortgage servicer's money market  
5           accounts; or  
6           (B) For a non-depository mortgage servicer, the rate  
7           for the money market account at the deposit  
8           institution with which the non-depository  
9           mortgage servicer conducts its banking business,  
10       whichever rate is greater.  
11       (j) Nothing in this section shall be construed to:  
12       (1) Prohibit a mortgage servicer from releasing insurance  
13       proceeds in amounts greater than required by this  
14       section;  
15       (2) Prohibit or limit a mortgage servicer from  
16       distributing additional money that is made available  
17       during a declared state of emergency or natural  
18       disaster; or  
19       (3) Prohibit a mortgage servicer from complying with  
20       federal rules, regulations, and requirements.  
21       (k) For the purposes of this section:



1        "Rebuild plan" means a written plan to rebuild residential  
2        real estate that is subject to a mortgage and has been  
3        destroyed.

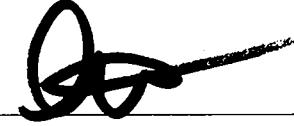
4        "Repair plan" means a written plan to repair residential  
5        real estate that is subject to a mortgage and has been damaged."

6        SECTION 2. This Act does not affect rights and duties that  
7        matured, penalties that were incurred, and proceedings that were  
8        begun before its effective date.

9        SECTION 3. New statutory material is underscored.

10       SECTION 4. This Act shall take effect upon its approval.

11

INTRODUCED BY: 



# S.B. NO. 2951

**Report Title:**

Mortgage Servicers; Destroyed and Damaged Residential Real Estate; Disbursement of Insurance Proceeds

**Description:**

Requires mortgage servicers to comply with certain requirements regarding the disbursement of insurance proceeds for residential real estate that has been destroyed or damaged.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

