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AB-1278 Mortgages: hazard insurance proceeds: interest. (2025-2026)

As Amends the Law Today

SECTION 1. Section 2954.85 of the Civil Code, as added by Section 1 of Chapter 103 of the Statutes of 2025, is amended to read:

2954.85. (a) *(1)* A financial institution that makes loans upon the security of real property containing only a one- to four-family residence and located in this state or purchases obligations secured by the property and that holds hazard insurance proceeds in a loss draft account pending property rebuilding or repair shall pay interest on those funds at a rate of at least 2 percent simple interest per annum. That interest shall be credited to the loss draft ~~account~~ *account, or paid directly to the borrower,* annually or upon termination of the account, whichever is earlier.

(2) (A) A payment made directly to the borrower pursuant to paragraph (1) shall be made by check, electronic funds transfer, including automated clearing house transfers, or another payment method agreed to by the borrower.

(B) A check issued pursuant to this paragraph that is uncashed 90 calendar days after delivery shall be canceled at no cost to the borrower and the amount credited to the loss draft account.

(C) For purposes of this paragraph, "check" means a draft, other than a documentary draft, payable on demand and drawn on a bank and which can be canceled by the issuer. "Check" shall not include a cashier's check, money order, or other instrument that cannot be canceled by the issuer.

(b) A financial institution shall not impose a fee or charge in connection with the maintenance or disbursement of hazard insurance proceeds held in a loss draft account pending rebuilding or repair of the real property securing loans made by the financial institution that will result in an interest rate of less than 2 percent per annum being paid on the hazard insurance proceeds held.

(c) For the purposes of this section, "financial institution" means a bank, savings and loan association, or credit union chartered under the laws of this state or the United States, or any other person or organization making loans upon the security of real property containing only a one- to four-family residence.

(d) This section shall not apply to hazard insurance proceeds held in a loss draft account that are required by a state or federal regulatory authority to be placed by a financial institution other than a bank in a non-interest-bearing demand trust fund account of a bank.

(e) Notwithstanding any other law, a financial institution may deposit hazard insurance proceeds in an interest-bearing account in a federally insured depository institution, a federal home loan bank, a federal reserve bank, or another similar government-sponsored enterprise.

(f) For funds held in a loss draft account as of the effective date of this section, the interest described in subdivision (a) shall begin to accrue on the effective date of this section.

(g) The provisions of this section are severable. If any provision of this section or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.