

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 493 (Harabedian)
Version: March 20, 2025
Hearing Date: June 24, 2025
Fiscal: Yes
Urgency: Yes
ID

SUBJECT

Property insurance notice of cancellation

DIGEST

This bill requires mortgage lenders that make loans secured by property containing one- to four-family residences pay two percent interest on any insurance proceeds following property damage or loss that is held by the mortgage lender.

EXECUTIVE SUMMARY

In early January 2025, extremely dry conditions and high winds in Los Angeles resulted in two of the worst wildfires in state history: the Palisades and Eaton fires. The fires burned 37,469 acres and damaged or destroyed almost 18,000 structures, including 373 mobilehomes, and resulted in 29 fatalities. In addition, just under 13,000 households were displaced by the Palisades and Eaton fires, exacerbating Los Angeles' ongoing housing and homelessness crises. Many homeowners were significantly affected by the wildfires, because their properties were covered by hazardous debris and ash, significantly damaged, or completely destroyed by the blazes. For those whose homes were damaged and destroyed, the process of rebuilding will be a long and arduous one. When homeowners receive insurance payouts to cover the cost to rebuild, the funds are typically held in an escrow fund by their mortgage servicer and are disbursed as needed as construction progresses. During that time, which may be many months or years, the funds may or may not be accruing interest. To ensure that homeowners' insurance proceeds retain their real value and that homeowners do not suffer financial hardship, AB 493 requires mortgage lenders to pay two percent simple annual interest on insurance proceeds covering property damage or loss while they are held by the mortgage lender. It also prohibits the mortgage lender from charging any fee or charge related to the maintenance or disbursement of the insurance proceeds that would result in an interest rate of less than two percent. The bill also contains an urgency clause. AB 493 is author-sponsored, and is supported by the Los Angeles County Board of Supervisors, the California Association of Realtors, and the California-Hawaii State

Conference of the NAACP. The Committee has received no timely opposition to the bill. AB 493 previously passed out of the Senate Banking and Financial Institutions Committee by a vote of 7 to 0.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Requires a financial institution that makes loans upon the security of real property to pay simple interest of at least two percent per annum on amounts received in advance for the payment of taxes and assessments, the payment of insurance, or for other purposes relating to such real property. Provides that the interest shall be credited to the borrower's account annually or upon termination of such account, whichever is earlier. (Civ. Code § 2954.8(a).)
- 2) Prohibits a financial institution from imposing any fee or charge in connection with the maintenance or disbursement of the funds described in (1), above, that will result in an interest rate of less than two percent per annum being paid on the funds received. (Civ. Code § 2954.8(b).)
- 3) Defines "financial institution" to mean 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. (Civ. Code § 2954.8(c).)
- 4) Exempts from its requirements funds 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. (Civ. Code § 2954.8(d).)

This bill:

- 1) Makes various findings related to the wildfires that burned various parts of the Counties of Los Angeles and Ventura in January 2025.
- 2) States that its provisions serve a significant and legitimate public purpose in response to the devastating impacts of the wildfires, is reasonable and necessary to support disaster-affected homeowners, and does not unreasonably impair existing contractual obligations. States that its provisions do not create new financial burdens on lenders but rather align insurance disbursement practices with established escrow interest requirements in order to protect homeowners from financial hardship in the aftermath of a disaster.
- 3) Requires that a financial institution that makes loans upon the security of real property containing only a one- to four-family residence, or that purchases

obligations secured by the property, pay a two-percent simple interest per annum on insurance proceeds following property damage or loss.

- 4) Specifies that a financial institution subject to the requirement in (3), above, may not impose a fee or charge in connection with the maintenance or disbursement of insurance proceeds following property damage or loss that would result in an interest rate of less than two percent per annum being paid to the borrower on the moneys received.
- 5) Specifies that its provisions apply to loans executed on or after January 1, 2026, and to loans executed before January 1, 2026 only if the property securing the loan is located within a federally or state-declared disaster area and is directly impacted by the wildfires subject to the state of emergency declared by the Governor on January 1, 2025. Specifies that this amendment shall not be construed to unreasonably impair the terms of those loans, and that its provisions are intended solely to ensure equitable treatment of borrowers whose escrowed funds are held for property-related expenses.
- 6) Specifies that its provisions are severable.
- 7) Makes various findings that an urgency statute and special statute is necessary, as provided.

COMMENTS

1. Author's Statement

According to the author:

Currently, lenders hold post-loss insurance payouts in escrow accounts instead of disbursing them directly to homeowners. These funds are intended to support repairs and rebuilding efforts, but lenders often retain the interest earned while the money sits idle- sometimes for years.

This isn't just a matter of fairness- it's a matter of recovery. These funds rightfully belong to homeowners and should be fully available to help them rebuild their homes and communities.

AB 493 corrects this by requiring lenders to pass through at least 2% of the insurance proceeds—including any interest earned—to homeowners. This change ensures fairness, strengthens post-disaster recovery, and helps homeowners access every dollar they are owed.

2. The Eaton and Palisades fires

In early January 2025, extremely dry conditions and high winds in Los Angeles resulted in two of the most destructive wildfires in state history. The Palisades fire, which started on January 7th, burned a total of 23,448 acres and damaged or destroyed almost 8,000 structures in the Pacific Palisades and Topanga State Park area of West Los Angeles.¹ That same day, another major fire also broke out in the greater Los Angeles area: the Eaton fire. The Eaton fire consumed 14,021 acres and damaged or destroyed more than 10,000 structures, including significant portions of the city of Altadena.² About half of all properties in the Pacific Palisades and Altadena were destroyed by the Palisades and Eaton fires, and both fires together tragically took the lives of 29 civilians and injured a dozen firefighters. Real estate losses have been estimated to be as high as \$30 billion, and just under 13,000 households were displaced by the Palisades and Eaton fires.³ An estimated 9,592 single family homes and condominiums, 678 apartment units, 2,210 duplex and bungalow courts, and 373 mobilehomes were either heavily damaged or destroyed. Additionally, records show that about 770 rent-controlled units were destroyed in the Pacific Palisades. All told, the January wildfires in Los Angeles were some of the most tragic and destructive wildfires in state history.

Many homeowners were significantly affected by the wildfires. Many had their properties covered by hazardous debris and ash, significantly damaged, or completely destroyed by the blazes. The wildfires also interrupted numerous businesses and many people's jobs. Homeowners whose homes were damaged or destroyed found themselves searching for temporary housing while they worked to rebuild or clean up their properties, all while still having mortgage payments due. At the same time, rents throughout the region spiked, as thousands were displaced and in need of temporary housing. Thus, many homeowners have experienced significant financial strain as a result of the fires.

3. California law and the requirement to pay interest on insurance proceeds held in escrow

For those whose homes were damaged and destroyed, the process of rebuilding will be a long and arduous one. Rebuilding itself will take time, as property owners must clear debris, find a contractor and architect to complete the construction or repair, obtain the necessary permits, and actually complete construction. The process may take years.

¹ CalFire, "Palisades Fire," (3/27/2025) <https://www.fire.ca.gov/incidents/2025/1/7/palisades-fire>.

² CalFire, "Eaton Fire," (3/04/2025) <https://www.fire.ca.gov/incidents/2025/1/7/eaton-fire>.

³ Doug Smith and Sandhya Kambhampati, "Real Estate losses from fires may top \$30 billion, from old mobile homes to \$23-million mansions," Los Angeles Times (Feb. 21, 2025) <https://www.latimes.com/california/story/2025-02-21/real-estate-losses-from-palisades-and-eaton-fires-top-30-billion#:~:text=Los%20Angeles%20Housing%20Department%20records,the%20city's%20rent%20stabilization%20ordinance>.

During this time, the homeowner will likely be paying for temporary housing and covering the costs of the construction through each stage of the process.

When a homeowner with an outstanding mortgage is rebuilding with insurance proceeds, the insurance proceeds are typically disbursed not directly to the borrower, but instead to the company servicing their mortgage (the mortgage servicer). This is because the mortgage lender has a financial interest in the homeowner's property as the security for the loan that the mortgage lender provided. Thus, the lender has an interest in protecting the property and ensuring that the reconstruction or repairs are completed appropriately. When the mortgage servicer receives the insurance proceeds, it will typically hold the proceeds in an escrow account, and will disburse the funds as needed through the construction process.

During that time, which may be many months or years, the funds may or may not be accruing interest. Whether the insurance proceeds accrue interest depends on the type of mortgage involved. All mortgages in the United States are either "federally-backed" mortgages, in which they are owned, insured, or guaranteed by an agency of the federal government, such as the Fair Housing Administration (FHA), or they are privately-backed mortgages. Of privately-backed mortgages, a majority are what are called "conforming mortgages," in which they are backed by Fannie Mae or Freddie Mac, which are Government-Sponsored Enterprises (GSEs). The GSEs issue servicing guidelines that regulate the rules for the mortgages that they will back and outline the obligations of mortgage servicers of these loans. Fannie Mae's servicing guidelines require that insurance loss proceeds not disbursed to the borrower must be deposited into an interest-bearing account to yield interest for the borrower's benefit equivalent to the interest the borrower could expect to obtain from a savings or money market account.⁴ The guidelines require the mortgage servicer to disburse the accumulated interest to the borrower once the repairs have been completed, unless the borrower requests an earlier disbursement or applicable law allows for the interest to be applied to the unpaid principal balance on the mortgage. The servicing guidelines promulgated by Freddie Mac also require that insurance proceeds retained by the mortgage servicer be maintained in an account that pays interest to the borrower, though they do not place requirements on the interest rate that must be paid.⁵

In addition to these requirements for GSE-backed mortgages, California law includes provisions requiring financial institutions that make or purchase mortgage loans on property of four or fewer residential units to provide interest on various funds that it receives in advance. (Civ. Code § 2954.8.) This provision, Civil Code section 2954.8, applies to funds received for the advance payment of taxes and assessments on the property, insurance, or for other purposes related to the property, and requires that the

⁴ Fannie Mae, *Servicing Guide: Fannie Mae Single Family, B-5-01, Insured Loss Events* (Jul. 12, 2023), available at <https://servicing-guide.fanniemae.com/svc/b-5-01/insured-loss-events>.

⁵ Freddie Mac, *The Single-Family Seller Servicer Guide*, 8202.11, *Insurance loss settlements* (Jul. 15, 2020), available at <https://guide.freddiemac.com/app/guide/section/8202.11>.)

interest rate paid to the borrower on such amounts be a simple annual interest rate of at least two percent. In addition, a financial institution is prohibited from imposing any fee or charge in connection with the maintenance or disbursement of funds that the institution holds for disbursement and the required interest that would result in the interest rate on the held funds being less than the required two percent. (Civ. Code § 2954.8(b).)

While Civil Code section 2954.8 mentions insurance in its provisions, a question has remained whether it required that insurance proceeds from a property loss accrue interest. However, this question was addressed in *Gray v. Quicken Loans, Inc.*, a decision issued by the Second District Court of Appeal in 2021. (*Gray v. Quicken Loans, Inc.*, (2021) 61 Cal. App. 5th 524.) In that case, a homeowner in Ventura, William Gray, had their home destroyed by the Thomas fire in 2017. The insurance proceeds for repairing Mr. Gray's home were held by his mortgage servicer in an escrow account that did not bear interest while the repairs to Mr. Gray's home were being made. Mr. Gray sued, asserting that Civil Code section 2954.8 required that their mortgage lender pay interest on the insurance proceeds. However, the Court determined on a demurrer motion by the mortgage lender that the plain language of section 2954.8 did not fall within the scope of that section, and that Mr. Gray was not thus entitled to interest on his insurance proceeds.

4. AB 493 proposes to require that lenders provide homeowners with interest on insurance proceeds while they remain in escrow

Thus, under current state law, mortgage servicers are not required to place insurance proceeds for covering property loss in an escrow account that accrues interest. Yet the rebuilding process can be an incredibly long process, so insurance proceeds that do not accrue interest effectively decrease in real value while the rebuilding process takes place. To address this, AB 493 proposes to require that mortgage lenders that make a loan on property with four or fewer residential units provide the borrower at least two percent simple annual interest on insurance proceeds from property loss or damage that the lender holds in escrow. It would prohibit a mortgage lender from charging any fee or charge related to the holding or disbursement of these funds that would effectively reduce the interest to below two percent. AB 493 specifies that its provisions apply to loans executed on or after January 1, 2026, and that, for loans executed before that date, its provisions apply only if the property is located within a federally or state-declared disaster area and is directly impacted by the wildfires in Los Angeles and Ventura counties. AB 493 is also an urgency statute and will go into immediate effect upon enactment.

5. Amendments

Amendments committed to by the author before the bill's hearing in the Senate Banking and Financial Institutions Committee make some notable changes to these provisions.

Primarily, they remove the provisions relating to how the bill applies to current loans. The amendments instead specify that, for funds held in a loss draft account as of the bill's effective date, the required interest must accrue beginning on the effective date of the bill. The amendments also specify that the bill's provisions do 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. Lastly, the amendments specify that the hazard insurance proceeds may be deposited in an interest-bearing account in a federally insured depository institution, a federal home loan bank, a federal reserve bank, or another similar GSE. A copy of the amendments is attached at the end of this analysis.

6. Legal considerations

AB 493 provides expansive requirements that would apply to mortgages currently in existence. Article I of the United States Constitution states that "no State shall ... pass any ... law impairing the obligation of Contracts." (U.S. Const. Art. I, Sec. 10.) This provision prohibits state governments from passing laws that infringe upon contracts, though it is firmly established that this prohibition only applies if a state or local law interferes with an existing contract.⁶ Accordingly, the Contracts Clause does not prohibit state and local governments from passing laws that limit or regulate the terms of future contracts. Case law on the Contracts Clause has typically differentiated between government interference with private contracts, and government interference with its own contracts. Under current law, government interference with a private contract will be unconstitutional if there is a "substantial impairment" of the contract, the law fails to reasonably serve a "substantial and legitimate public purpose," and does not have a reasonable relation to achieving the state's goal. (*Energy Reserves Group v. Kansas Power & Light* (1983) 459 U.S. 400, 411.) In that case, the Court upheld a Kansas law that prohibited the price to be paid for natural gas under a contract from being increased because of prices set by federal authorities, in conflict with contracts that specified that the price would be increased if federal regulators fixed a higher price. Thus, the Contracts Clause does not prohibit interference with a contract in all circumstances; even a contract that does interfere with a contract may still be constitutional if the second two factors in the *Energy Reserves Group* are met.

AB 493's provisions may affect existing contracts between a borrower and a mortgage lender, though it is also possible that such contracts are silent on the issue of interest for insurance proceeds held in escrow, or require interest but do not specify how much. To the degree that it does interfere with any current contract, that interference may not nonetheless be substantial. Furthermore, the state would have a substantial and legitimate public purpose in doing so, as AB 493's provisions help ensure that victims of

⁶ See, Erwin Chemerinsky, *Constitutional Law: Principles and Policies* (5th Ed., 2015) p. 657.

property loss, particularly in light of the devastating Los Angeles wildfires, can obtain the real value of the proceeds required to rebuild.

It is possible that AB 493 may be preempted by federal law regarding national banks and federally-or GSE-backed mortgages in some circumstances. However, AB 493 includes a provision aimed at accommodating federal regulation in this area and alleviating such preemption concerns. Specifically, it specifies that its provisions do not apply to funds 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.

SUPPORT

California Association of Realtors
California-Hawaii State Conference of the NAACP
County of Los Angeles Board of Supervisors

OPPOSITION

None received

RELATED LEGISLATION

Pending Legislation:

AB 610 (Pérez, 2025) requires, among other things, that the Commissioner of Financial Protection and Innovation of the Department of Financial Protection and Innovation to coordinate with mortgage lenders and servicers operating in the state to facilitate and monitor the implementation and promotion of mortgage forbearance, foreclosure prevention, and loss mitigation programs available to borrowers who experience a material decrease in household income or an increase in household expenses due to a wildfire, upon the declaration of a state of emergency due to wildfire. AB 610 is currently pending before the Assembly Housing and Community Development Committee.

AB 238 (Harabedian, 2025) authorizes a borrower experiencing financial hardship due to the wildfire disasters in Los Angeles County in January 2025 to request forbearance on their residential mortgage loan, and requires a mortgage servicer to offer mortgage payment forbearance of up to an initial 90 days, up to 12 months. AB 238 is currently set to be heard in this Committee on the same day as this bill.

Prior Legislation:

SB 455 (McGuire, Ch. 873, Stats. 2023) required that, when a mortgage on a property located within the geographic area of a declared state of emergency or local emergency is transferred to a new mortgage servicer, the transferor mortgage servicer to provide the new mortgage servicer with any written records between the borrower and the mortgage servicer relating to the borrower's use of insurance proceeds to repair or replace property damaged or destroyed by the disaster, and required the new mortgage servicer to honor any previous written agreements between the borrower and the previous mortgage servicer.

PRIOR VOTES:

Senate Banking and Financial Institutions Committee (Ayes 7, Noes 0)

Assembly Floor (Ayes 77, Noes 0)

Assembly Appropriations Committee (Ayes 15, Noes 0)

Assembly Banking and Finance Committee (Ayes 8, Noes 0)

The people of the State of California do enact as follows:

SECTION 1. Section 2954.85 is added to the Civil Code , to read:

2954.85. (a) 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 annually or upon termination of the account, whichever is earlier.

(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.

SEC. 2. Section 50202 of the Financial Code is amended to read:

50202. (a) Escrow funds for a purpose authorized by the residential mortgage loan contract (1) shall be subject to and satisfy all applicable state and federal requirements, including Section 2609 of the federal Real Estate Settlement Procedures Act of 1974, as amended (12 U.S.C. Sec. 2601 et seq.) and all applicable provisions of the Civil Code, (2) shall be maintained in a depository institution as described in subdivision (b), and (3) may not be commingled with a licensee's funds.

(b) Except as provided in subdivision (f), or as authorized by Section 2954.85 of the Civil Code, a trust account shall be placed in a non-interest-bearing account in a federally insured depository institution, a federal home loan bank, a federal reserve

bank, or other similar government-sponsored enterprise, to be removed and used only for the following:

(1) Payments authorized by the borrower, allowed by the mortgage loan contract, or required by federal or state law.

(2) Refunds to the borrower.

(3) Transfer to another institution that is described in this subdivision.

(4) Forwarding to the appropriate servicer in case of a transfer of servicing.

(5) Any other purpose authorized by the residential mortgage loan contract.

(6) Compliance with a regulatory or court order.

(c) As used in this section, "trust funds" means funds collected by a licensee in connection with the making or servicing of a residential mortgage loan that the licensee holds on behalf of another.

(d) Notwithstanding any other provision of law, but subject to the limitations of Section 854, benefits accruing from the placement in a non-interest-bearing account of a commercial bank (including a national banking association) of funds received by a licensee who services mortgage loans under this law, shall inure to the licensee, unless otherwise agreed in writing by the licensee and the investor on whose behalf the licensee services the loan. A borrower shall receive at least 2 percent simple interest per annum on impound account payments covered by Section 2954.8 of the Civil Code.

(e) Trust funds are not subject to the enforcement of a money judgment arising out of a claim against the licensee or person acting as the servicing agent, and in no instance shall the trust funds be considered or treated as an asset of the licensee or person performing the functions of a residential mortgage lender or loan servicer.

(f) A licensee may, at the request of the owner of the trust funds, transfer the funds initially deposited in a non-interest-bearing trust account into an interest-bearing account in a federally insured depository institution if all of the following requirements are met:

(1) The account is in the name of the residential mortgage lender licensee in trust for the specified beneficiary.

(2) All of the funds in the account are federally insured.

(3) The funds in the account are kept separate and distinct from the funds of the licensee or funds of any other person for whom the licensee holds funds in trust.

(4) The licensee discloses to the person from whom the funds are received and the beneficiary of the account how interest will be calculated and paid, whether service charges will be paid to the depository and by whom, and possible notice requirements or penalties for withdrawal of funds from the account.

(5) All interest earned on the account will be paid to the owner of the trust funds or the beneficiary.

SEC. 3. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to provide critical safeguards and protect wildfire victims and those particularly vulnerable from harmful practices, including the withholding of interest on insurance payouts in the aftermath of wildfires, and to ensure fair treatment and financial security for those rebuilding their lives, it is necessary that this act take effect immediately.

SECTION 1. The Legislature finds and declares all of the following:

- (a) On January 7, 2025, a state of emergency was declared in the Counties of Los Angeles and Ventura due to multiple wildfires, including the Palisades, Eaton, Hurst, Lidia, Sunset, Woodley, and Hughes Fires, driven by severe windstorm conditions. These wildfires devastated communities across the greater Los Angeles area, burning over 47,900 acres and destroying or damaging more than 16,250 structures, including homes, small businesses, schools, childcare facilities, and places of worship. With initial estimates ranking this disaster among the most destructive in California history, entire neighborhoods have been left in ruin, leaving residents and others affected by the wildfires traumatized and uncertain about the fate of their homes, properties, businesses, and community spaces.
- (b) The amendments made to Section 2954.8 of the Civil Code by this act serve a significant and legitimate public purpose in response to the devastating impacts of the wildfires on affected homeowners.
- (c) The Legislature affirms the principle of equitable treatment by ensuring that borrowers impacted by the Los Angeles wildfires receive interest on insurance payouts consistent with existing Civil Code provisions for escrow accounts. This amendment does not create new financial burdens for lenders but rather aligns insurance disbursement practices with established escrow interest requirements to protect homeowners from financial hardship in the aftermath of a disaster.
- (d) To limit any impact on existing contracts, these provisions apply prospectively to loans executed on or after the date of enactment. However, a narrow exception applies to loans secured by properties in federally or state-declared disaster areas subject to the state of emergency declared by the Governor in the Counties of Los Angeles and Ventura on January 7, 2025. In these cases, the amendments made to Section 2954.8 of the Civil Code by this act only applies to escrowed insurance payouts, ensuring borrowers receive the same interest they would have accrued if the funds had been held for tax or other property-related expenses under existing law.
- (e) The Legislature further finds that this action is reasonable and necessary to support disaster-affected homeowners and does not unreasonably impair existing contractual obligations. Instead, it serves a compelling state interest in fairness, financial recovery, and housing stability following one of the most destructive wildfire events in California's history.

SEC. 2. Section 2954.8 of the Civil Code is amended to read:

2954.8. (a) 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 receives money for payment of taxes and

assessments on the property, for insurance, including insurance proceeds following property damage or loss, or for other purposes relating to the property, shall pay interest on the amount so held to the borrower. The interest on these amounts shall be at the rate of at least 2 percent simple interest per annum. This interest shall be credited to the borrower's account annually or upon termination of the account, whichever is earlier.

(b) No financial institution subject to the provisions of this section shall impose any fee or charge in connection with the maintenance or disbursement of money received for the payment of taxes and assessments on real property securing loans made by the financial institution, or for the payment of insurance, including insurance proceeds following property damage or loss, or for other purposes relating to such real property, that will result in an interest rate of less than 2 percent per annum being paid to the borrower on the moneys so received.

(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 does not apply to moneys that are required by a state or federal regulatory authority to be placed by a financial institution other than a bank in a noninterest-bearing demand trust fund account of a bank.

(e) The amendment of this section made by the 1979-80 Regular Session of the Legislature shall only apply to loans executed on or after January 1, 1980.

(f) (1) The amendments made to this section by the act that added this subdivision shall apply to loans executed on or after January 1, 2026, except as specified in paragraph (2).

(2) For loans executed before January 1, 2026, the amendments made to this section by the act that added this subparagraph shall apply only if the property securing the loan is located within a federally or state-declared disaster area and directly impacted due to the wildfires in the Counties of Los Angeles and Ventura subject to the state of emergency declared by the Governor on January 7, 2025. This amendment shall not be construed to unreasonably impair the terms of those loans, and its provisions are intended solely to ensure equitable treatment of borrowers whose escrowed funds are held for property-related expenses.

(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.

SEC. 3. The Legislature finds and declares that a special statute is necessary and that a general statute cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution because of the immediate need to protect those impacted by the wildfires that began on January 7, 2025, in the Counties of Los Angeles and Ventura with regard to escrowed insurance payouts, thereby ensuring borrowers receive the same interest they would have accrued if certain funds had been held for tax or other property-related expenses.

~~SEC. 4. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are: In order to provide critical safeguards and protect wildfire victims and those particularly vulnerable from harmful practices, including the withholding of interest on insurance payouts in the aftermath of wildfires, and to ensure fair treatment and financial security for those rebuilding their lives, it is necessary that this act take effect immediately.~~