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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Consumer Protection and Commerce
Wednesday March 12, 2025
2:00 p.m.
Via Videoconference

On the following measure:
S.B. 1142, S.D., 1, RELATING TO INSURANCE PROCEEDS

Chair Matayoshi and Members of the Committee:

My name is Dwight Young, and I am the Commissioner of the Division of Financial Institutions of the Department of Commerce and Consumer Affairs' (Department). The Department offers the following comments.

The purpose of this bill is to require mortgage services to comply with certain requirements regarding the disbursement of insurance proceeds for residential real estate that has been destroyed or damaged.

The Department appreciates the intent of this bill and offers the following comments. 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. The Department prefers the language in S.B.1366, and H.B.1047 as it increases consumer protection in cases of damage or destruction to a mortgagor's property by requiring that both licensed Hawaii mortgage servicers and financial institutions contact the consumer and provide them with an option of putting their insurance proceeds in an interest-bearing account.

Thank you for the opportunity to testify providing comments.



Testimony of **Lahaina Strong**
Before the House Committee on
Consumer Protection and Commerce

In Consideration of Senate Bill No. 1142 SD1
RELATING TO INSURANCE PROCEEDS

To Chair Matayoshi, Vice Chair Chun and the honorable members of the committee,

We are writing on behalf of Lāhainā Strong, an organization deeply rooted in our community's resilience and advocacy. Originally formed in 2018 following the Hurricane Lane fire in Lahaina and revitalized after the devastating fires of August 8, 2023, Lāhainā Strong has become the largest grassroots, Lahaina-based community organization, with over 35,000 supporters. Our mission is to amplify local voices and champion community-driven solutions, which are more critical than ever as we continue rebuilding and recovering.

Lāhainā Strong **supports Senate Bill 1142 SD1**, which requires mortgage services to comply with certain requirements regarding the disbursement of insurance proceeds for residential real estate that has been destroyed or damaged.

In the wake of the August 8th wildfires, countless families encountered unnecessary delays and confusion when trying to access insurance funds to rebuild their homes. Many found themselves caught in a system where the release of funds was slow, with little transparency from mortgage servicers. SB1142 SD1 takes important steps to change this by establishing clear guidelines for the disbursement of insurance proceeds.

This bill requires mortgage servicers to disclose the conditions for fund release upfront, approve repair and rebuild plans within 30 days, and hold any withheld funds in interest-bearing accounts to benefit the homeowner. These actions will protect families from prolonged financial uncertainty, ensuring they can rebuild without additional setbacks or hardships.

By supporting SB1142 SD1, you help create a more transparent system that supports homeowners and prevents further displacement. It's a crucial step toward rebuilding not just homes, but entire communities, ensuring that insurance funds are used as they were intended—quickly and efficiently.

Lahaina Strong urges you to **pass SB1142 SD1** to provide disaster survivors with the support and clarity they need to rebuild their homes and remain in the communities they've always called home.

Mahalo for your consideration and commitment to the Lahaina Community.

Sincerely,

Lāhainā Strong

**Council for Native Hawaiian Advancement
91-1270 Kinoaiki St., Bldg. 1
Kapolei, HI 96707**

**Hawai'i State House of Representatives
Committee on Consumer Protection and Commerce
SB1142 – Relating to Insurance Proceeds**

RE: Strong support of SB1142

March 12, 2025

The Council for Native Hawaiian Advancement (CNHA) writes in strong support of SB1142 to refine insurance protections for disaster survivors. As an organization, CNHA has learned firsthand about the numerous pitfalls and lack of protections faced by disaster survivors in the wake of the Maui wildfires. It is important to learn from and fix our mistakes before disaster strikes again.

CNHA has been significantly involved in Maui wildfire recovery. Since August 2023, our resource center has assisted over 9,000 individuals, distributed over 11,000 donation kits, furnished over 700 homes, and housed over 1,000 individuals. We pride ourselves on the work we've been able to do, but we also know it's not nearly enough. CNHA data shows that the average homeowner payout for coverage was just \$550,000 while rebuild costs are estimated at \$600,000 to \$850,000. The overwhelming majority of policyholders were underinsured and now may be unable to rebuild their homes and their lives.

SB1142 creates significantly improves insurance and mortgage policies, such as holding insurance proceeds in an interest-bearing account. This legislation is a critical step in learning from previous disasters so future survivors won't feel the same pains. We humbly ask that you SUPPORT SB1142 and continue your work towards greater disaster resiliency.

Me ka ha'aha'a,

Madelyn McKeague
Director of Advocacy, CNHA

Testimony in Support of SB1142 SD1—Relating to Insurance Protections

Hearing Date and Time March 12, 2025 at 2:00 p.m.
Before the Committee on Consumer Protection & Commerce

Chair Representative Matayoshi, Vice Chair Representative Cory Chun, and
Members of the Committee on Public Safety:

Thank you for the opportunity to provide written and oral testimony on this
important matter—SB 1142 SD1.

I am writing to express my strong **support for Hawaii Senate Bill 1142 SD1 and to request a change in the minimum amount of interest the bill requires mortgage companies to pay.**

Introducing myself, I am Sherry Peterson. I am the Maui Roadmap to Recovery Liaison and Equal Justice Fellow working for United Policyholders. United Policyholders is a 501(c)(3) nonprofit that has been helping insurance consumers for over 30 years. United Policyholders has been providing free education, resources, support and community advocacy for survivors of the Maui Wildfires since August 2023.

In addition to working for United Policyholders, our organization and I are members of the Hawaii VOAD and I serve on the Long-Term Recovery Group's Construction Committee and Advocacy Committee.

Since September, 2023 I have provided support for the recovery of disaster survivors in several capacities. In March 2024 I began working for United Policyholders. In working directly with individual policyholders, I am acutely aware of the challenges Lahaina homeowners faced when their homes were destroyed or damaged in this disaster.

The majority of those homeowners are underinsured by anywhere from 23% to 60% according to the Maui County CDBG-DR Draft Action Plan February 24,

2025. The majority of homeowners are scrambling for funds to rebuild or repair their homes. Every penny matters.

When an insured home is damaged or destroyed, the insurance company writes a check to the mortgage company and the insured homeowner. The insured homeowner must then endorse the check and send it to the mortgage company. The mortgage company then deposits the check holding it until the owner rebuilds. Presently, in our state, there is no requirement the mortgage company place the money in an escrow account and pay the interest to the insured homeowner. **The mortgage company gets to keep all the interest it accrues while holding the homeowners' money.**

And to make matters even more unfair, the insured homeowner still must make mortgage and **interest** payments on the destroyed/damaged property. At the rate of interest to be paid to insured homeowners, banks will still make money on the escrowed insurance proceeds. The national rate for money market accounts is the weighted average of rates paid by all insured depository institutions and credit unions. This information is available on the FDIC website.

As of June 17, 2024, the national deposit rate for money market accounts was 0.67%.

As of March 11, 2025, the national average interest rate for a 30-year fixed mortgage is 6.72%. The average interest rate for a 15-year fixed mortgage is 5.71%. Based on my observations, the payout to insureds began at about \$300,000—some lower, some higher. At \$300,000.00, .067% would provide the insured homeowner interest of \$2,010.00 if interest is not compounded.

Cal. Civ. Code § 2954.8 (a) provides at least 2% simple interest per year. Said “interest shall be credited to the borrower's account annually or upon termination of the escrow account, whichever is earlier.” The 2% would provide the insured homeowner \$6,000.00 a year.

The Maui County Draft CDBG-DR Action Plan dated February 24, 2024 reports 52.7% of those living in the burn scar were Low to Moderate Income. Low to Moderate Income families and individuals have limited resources, and thus a harder time recovering from a disaster. Every dollar matters.

We request the interest amount in the bill be changed to 2% simple interest per year.

The Maui Wildfires of August 8, 2023 brought to the forefront issues that could affect every insured homeowner on each of our Islands. Imagine either you or someone in your family, a friend were a survivor and your home or there home was destroyed. Wouldn't you want the monies received from the insurance company that must go to the bank to hold to receive interest? Of course the answer is yes.

Thank you for considering my support for Hawaii Senate Bill 1142 SD1.

Sincerely,

Sherry Peterson
Equal Justice Fellow
United Policyholders Roadmap to Recovery Liaison



Mortgage Bankers Association of Hawaii
P.O. Box 4129, Honolulu, Hawaii 96812

March 10, 2025

The Honorable Scot Z. Matayoshi, Chair
The Honorable Cory M. Chun, Vice Chair
Members of the House Committee on Consumer Protection and Commerce

Hearing Date: March 12, 2025
Hearing Time: 2:00pm
Hearing Place: Hawaii State Capitol, Conference Room 439

Re: SB 1142 SD1

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 SB 1142 SD1 and provides the following comments.

SB 1142 SD1 requires mortgage servicers to comply with certain requirements regarding the disbursement of insurance proceeds for residential real estate that has been destroyed or damaged.

Providing interest on insurance proceeds is not a common practice amongst all servicers. 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 and it takes approximately nine to twelve months to complete a system conversion. If servicers are unable to do so, many servicers may opt to not service Hawaii mortgages.

SB1142 SD1 states that "A mortgage servicer shall hold in an interest-bearing account any insurance proceeds that the mortgage servicer does not immediately disburse to a borrower as required by this section. The account shall generate interest at a rate that is

not less than the national rate for money market accounts, as determined by title 12 Code of Federal Regulations section 337.7.” According to section 337.7 of Title 12 of the Federal Regulations, the national rate is defined as the weighted average of rates paid by all insured depository institutions and credit unions on a given deposit product, for which data are available, where the weights are each institution’s market share of domestic deposits. The purpose of the national rate is to define the national rate cap and not to dictate the rate required to be provided to consumers by each depository institution or credit union. The MBAH suggests that the bill be amended to state that the interest paid on insurance proceeds will be the current prevailing rate at each deposit institution or credit union at the time the insurance proceeds are deposited. For non-depository servicers, the interest paid on insurance proceeds will be the current prevailing rate at the deposit institution the non-depository servicer conducts their banking business with.

Section J of the bill states “Immediately upon commencing the servicing of a mortgage, and at any time thereafter at the request of the borrower, a mortgage servicer shall (1) disclose to the borrower the interest rate associated with the mortgage; and (2) provide the borrower, in writing, with a primary point of contact for the purpose of communicating with the mortgage servicer.” Providing the borrower with a primary point of contact for the purpose of communicating with the mortgage servicer would be difficult as servicing personnel terminate or are hired frequently at any given servicer. A servicer’s customer service department or their online services provide sufficient points of contact for the purpose of communications between the borrower and servicer.

The MBAH is willing to work with the parties involved with this bill to find a solution that SB 1142 SD1 is trying to address.

Thank you for the opportunity to present this testimony.

Linda Nakamura
Mortgage Bankers Association of Hawaii

SB-1142-SD-1

Submitted on: 3/11/2025 6:41:52 AM

Testimony for CPC on 3/12/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Kazuo Flores	Individual	Support	Written Testimony Only

Comments:

Aloha,

I'm writing in support of SB1142 SD1.

Mahalo Kazuo Flores