

New California Law Requires Payment of Interest on Hazard Insurance Proceeds Held in Loss Draft Accounts*

On August 29, 2025, Governor Newsom signed into law Assembly Bill (AB) 493, titled "Mortgages: hazard insurance proceeds." In a press release accompanying the law's enactment, AB 493 was touted as part of California's continued efforts to support survivors of the Los Angeles firestorm. The law would ensure that homeowners, rather than lenders, benefit from the interest earned on insurance payouts, particularly those impacted by California wildfires.

Currently, California law requires every financial institution that makes loans secured by real property containing only a one- to four-family residence located in California, and that maintains an escrow or impound account related to the loan, to pay interest of at least two percent on the account to the borrower. California Civil Code Section 2954.8(a). AB 493 expands this requirement to hazard insurance and requires hazard insurance proceeds to be held in a loss draft account (which is not defined in the bill, but seems to be a type of escrow or impound account holding the insurance proceeds) by adding new California Civil Code Section 2954.85.

AB 493 requires financial institutions that make loans secured by real property containing only one- to four-family residences and located in California, and that hold hazard insurance proceeds in a loss draft account pending property rebuilding or repair, to pay interest on those funds at a rate of at least two percent simple interest per year. The interest must be credited to the loss draft account annually or upon termination of the account, whichever is earlier. Section 2954.85(a). Financial institutions are also prohibited from imposing 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 if the fee or charge will result in an interest rate of less than two percent per year. Section 2954.85(b). For purposes of the statute, "financial institutions" include a bank, savings and loan associations, or credit unions chartered under the laws of California or the United States.

Note that AB 493 appears to apply to both consumer and commercial purpose loans, as long as the loan is secured by real property containing only a one- to four-family residence. For example, a commercial purpose loan secured by the business owner's family residence would be covered by this law, and maintaining hazard insurance proceeds related to the family residence would need to comply with AB 493.

* Janet Bonnefin has retired from the firm.

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The new law became effective immediately upon its signing on August 29, 2025. For funds already held in a loss draft account as of August 29, 2025, the interest described above must begin to accrue as of August 29, 2025. Section 2954.85(f).

Contact Harry Khalsa at **HKhalsa@ABLawyers.com** with questions about AB 493.