

BEGINNING AUGUST 29, 2025, LENDERS MUST PAY INTEREST ON HELD INSURANCE FUNDS: AB 493

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On August 29, 2025, Assembly Bill 493 was signed into law and took effect immediately. The new law requires certain financial institutions to pay 2% annual interest on hazard insurance funds held in “loss draft accounts.”

Who is Covered?

California Civil Code § 2954.85 applies broadly to “financial institutions,” defined as any person or organization that makes or purchases loans secured solely by a one-to-four unit residential property (not mixed-use).

Key points include:

- Exemption: Financial institutions (other than banks) that are already required by regulators to place insurance funds into a non-interest-bearing trust account are exempt. (§ 2954.85(d))
- Authorized Accounts: Covered institutions may deposit hazard insurance proceeds into an interest-bearing account with a federally insured depository institution, a Federal Home Loan Bank, the Federal Reserve, or another government-sponsored enterprise. (§ 2954.85(e))

What Triggers the Obligation to Start Paying Interest?

This law applies when a lender holds insurance funds in connection with property damage, pending repair or rebuilding.

What is Required?

- Mandatory Interest: Lenders must pay borrowers 2% per year on funds in a loss draft account. (§ 2954.85(a))
- Crediting: Interest must be credited at least annually, or when the account is closed.
- Effective Date: For funds already held as of August 29, 2025, interest begins accruing from that date. (§ 2954.85(f))
- Fee Restrictions: Lenders cannot impose maintenance or disbursement fees that reduce the interest rate below 2%. (§ 2954.85(b))

What Should Lenders Do Now?

Private lenders should promptly review whether they:

1. Make or purchase loans secured by one-to-four unit residential properties;
2. Hold hazard insurance proceeds for repair or rebuilding; and
3. Fall under the exemption for non-bank financial institutions required to use non-interest-bearing trust accounts.

If not exempt, lenders must begin paying 2% annual interest on any held insurance funds.

Questions?

If you have questions about how AB 493 applies to your lending operations, please feel free to contact Michelle Rodriguez at mrodriguez@wrightlegal.net.



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