CBA 2026 Lending & Credit Conference

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Disaster Relief, Insurance & Lending: What You Need to Know Now

Speakers:

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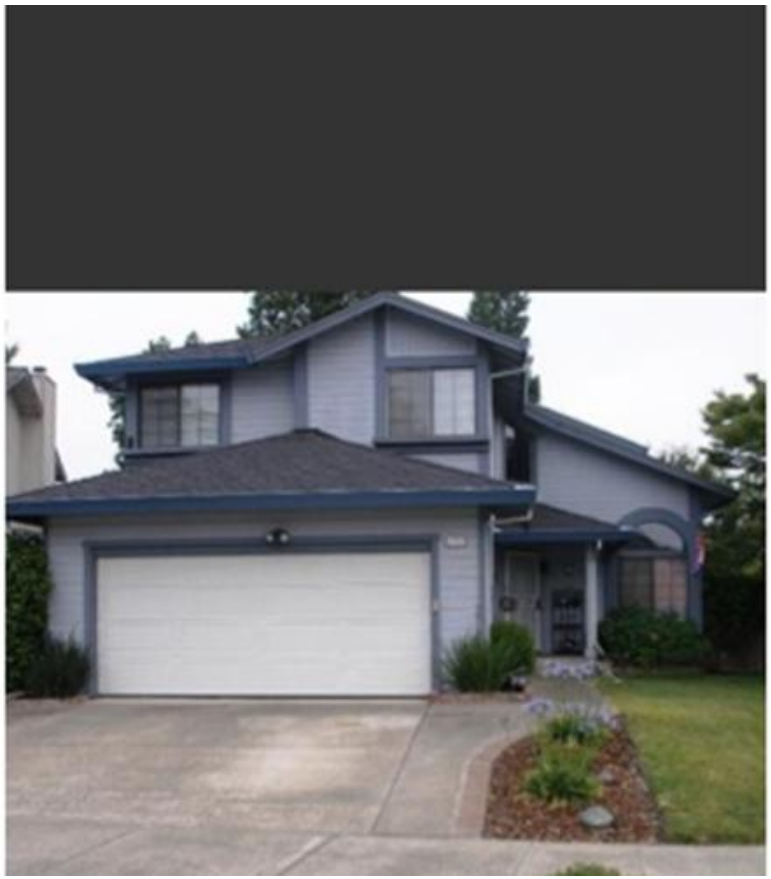
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Insurance: A Lender's Perspective

- **Insurance Is More Than a Loan Requirement**
  - Protects the property securing the loan and preserves collateral value.
  - Supports the borrower's ability to recover and continue debt service after a loss.
  - Requires ongoing monitoring - not just a closing checklist.

Personal experience with loss, insurance, and rebuilding





Insurance Challenges

- Increasing wildfire exposure and property losses.
- Insurer withdrawals, cancellations, and nonrenewals.
- Rising premiums, deductibles, and self-insured retentions.
- Difficulty obtaining adequate replacement coverage.
- Greater reliance on the California FAIR Plan and supplemental policies.
- Need to understand exactly what is covered, excluded, or subject to sub-limits (i.e. code upgrades).

What Should Lenders Evaluate?

- Replacement-cost coverage
- Deductibles and borrower's out-of-pocket
- Covered risks, exclusions, and limits
- Mortgagee and lender protections
- Business-income or rental-income coverage
- Policy expiration, cancellation, and nonrenewal
- Additional coverage for high-risk properties

Lender's Best Practices

- Verify coverage—not just the policy's existence.
- Identify replacement-cost gaps.
- Monitor renewals, cancellations, and nonrenewals.
- Control and track insurance proceeds after a loss.
  - New construction loan or an escrow account
- Maintain communication with the borrower during recovery.

Ongoing Insurance Risk Management

- Make insurance review part of ongoing portfolio monitoring.
- Encourage borrowers to review coverage limits regularly.
- Assess wildfire and other catastrophe exposure.
- Maintain a documented loss and insurance-proceeds process.
- Communicate early after a loss occurs.
- Coordinate with legal, servicing, insurance, and construction professionals

Additional Issues to Consider

- Self-insurance?
- Business resumption/interruption insurance?
- Pledging other collateral?



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More About California's FAIR Plan

- It's a state-mandated insurer of last resort
- Provides basic property insurance for homeowners and businesses in high-risk, wildfire-prone areas
- Basic policies cover damage from fire, lightning, smoke, and internal explosions
- Cap of $3 million for residential, may be higher for businesses
- Premiums are higher (perhaps 1.5 to 3 times as high)



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California's FAIR Plan

- Delays in processing FAIR Plan applications
  - Hearing it's taking 21 to 35 business days for some residential applications, and may be longer for commercial



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California Court Case Addressing the Use of Insurance Proceeds

- *Schoolcraft v. Ross* (Cal. App. 1978) is the seminal case addressing when a lender must release insurance proceeds to allow for repairs

- Court held that a lender must:

  - Act in accordance with the implied covenant of good faith and fair dealing; and

  - Permit insurance proceeds to be utilized for the cost of rebuilding when its security is not impaired



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How Should Lenders Handle Insurance Proceeds?

- Generally controlled by the loan docs
  - Review “use of insurance proceeds provisions” – often not very robust
  - Best to handle like a construction loan (budget, approve contractor, etc.)
- Communication with borrowers is key (hold their hands/help them with the process)



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DFPI's New Survey

- On October 15, 2026, the DFPI and BCSA ordered lenders to report how they handled disbursement of insurance proceeds to assist survivors of the 2025 Los Angeles wildfires
  - Required lenders to respond by October 29
- DFPI stated that since January 2025 it received more than 160 consumer complaints reporting delays/issues with insurance disbursements



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DFPI's New Survey

- States that California is investigating whether lenders have:
  - Delayed insurance proceeds payments to survivors,
  - Failed to provide a timely appeal process for decisions about releasing funds, or
  - Held insurance money even after a loan was fully paid
- States that lenders may be subject to enforcement under state and federal consumer protection laws



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Other Regulatory and California Law Issues



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Insurance Proceeds Related Law

- AB 493
  - Added new Cal Civ. Section 2954.85, and became effective August 29, 2025
  - Requires mortgage lenders that make loans secured by property containing 1- to 4-family residences to:
    - Pay 2% interest on **insurance proceeds** held by the mortgage lender following property damage/loss
  - Modified by AB 1278 enacted this year (allows interest to be paid directly to borrower or added to loss draft account)



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Other California Laws

- AB 1842 (the California Mortgage Relief Act) - becomes effective 1/1/2027
  - Creates a permanent framework requiring servicers to provide **forbearance** to residential mortgage borrowers whose residences become uninhabitable due to a federally declared disaster
  - Required to provide eligible borrowers with an initial 180-day forbearance period, extendable (in 90 day increments) up to 12 months
  - Has provisions addressing late fees, default rates, and credit reporting during the forbearance period
  - Must offer at least 1 post-forbearance home retention option that does not require the borrower to repay arrearages in a lump sum or increase the borrower's monthly payment above the pre-forbearance amount



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Other California Laws

- AB 1847 amends the California Mortgage Forbearance Act (CMFA) enacted in September 2025 in response to the January 2025 Los Angeles wildfires – effective 1/1/27
  - The CMFA generally requires servicers to provide eligible residential mortgage loan borrowers affected by the January 2025 wildfire disaster with an initial 90-day forbearance period extendable (in 90-day increments) up to 12 months
  - AB 1847 extends the maximum forbearance period from 12 months to 24 months and extends the deadline for impacted borrowers to request forbearance to January 7, 2029
  - AB 1847 also adds a requirement that borrowers affirm the secured property is uninhabitable due to the wildfire disaster, and permits servicers to request additional docs from borrowers seeking extensions beyond 12 months in certain situations



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We're adjourned!



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