

Department of Legislative Services  
Maryland General Assembly  
2021 Session

FISCAL AND POLICY NOTE  
Third Reader - Revised

House Bill 1213  
Economic Matters

(Delegate Queen)

Finance

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Financial Institutions - Determination of Creditworthiness - Evaluation Rules  
and Alternative Methods

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This bill requires certain financial institutions (specifically, banking institutions, credit unions, savings and loan associations, community development financial institutions, and specified credit grantors) to adhere to specified federal regulations when evaluating an application for a primary residential mortgage loan or an extension of credit, including consideration of the following verifiable alternative indications of creditworthiness: (1) history of rent or mortgage payments; (2) history of utility payments; (3) school attendance; and (4) work attendance. In addition, upon request by the applicant, any entity subject to the bill's requirements must consider other verifiable alternative indications of creditworthiness presented (or made available) to the entity by the applicant.

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**Fiscal Summary**

**State Effect:** The Office of the Commissioner of Financial Regulation (OCFR) within the Maryland Department of Labor can handle any changes to supervision and enforcement activities with existing resources. Revenues are not affected.

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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**Analysis**

**Current Law:** Under the Maryland Mortgage Lending Law, a mortgage lender may not make a mortgage loan without giving due regard to a borrower's ability to repay the mortgage. "Due regard" to a borrower's ability to repay a mortgage loan includes

(1) consideration of the borrower's debt-to-income ratio, including existing debts and other obligations and (2) verification of the borrower's gross monthly income and assets by review of third-party written documentation reasonably believed by the lender to be accurate and complete. Acceptable third-party written documentation includes:

- the borrower's Internal Revenue Service form W-2;
- a copy of the borrower's income tax return;
- payroll receipts;
- the records of a financial institution; or
- other third-party documents that provide reasonably reliable evidence of the borrower's income or assets.

There are no comparable requirements for applications for other types of credit extensions.

Federal regulations specify the factors that federally chartered financial institutions can and cannot consider when evaluating loan applications.

**Small Business Effect:** Certain small business credit grantors and many of Maryland's State-chartered banks and credit unions are affected by the bill's requirements. OCFR advises smaller business entities operating in Maryland likely incur administrative costs associated with meeting the requirements of the bill. In addition, with limited exceptions, the bill's requirements do not apply to banks, credit unions, savings and loan associations, and community development financial institutions chartered by other jurisdictions (including federally chartered financial institutions, although they are subject to the federal regulations referenced in the bill). Accordingly, the bill may subject Maryland-chartered financial institutions to administrative burdens not required of some out-of-state financial institutions.

Small business owners applying for extensions of credit may benefit from the consideration of alternative factors in assessing their creditworthiness.

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## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Maryland Department of Labor; Department of Legislative Services

**Fiscal Note History:**  
rh/mcr

First Reader - February 23, 2021

Third Reader - March 29, 2021

Revised - Amendment(s) - March 29, 2021

Revised - Clarification - March 29, 2021

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