SB 441

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 441 (Senator Bromwell, *et al.*)
Finance Referred to Commerce and Government Matters

Consumer Credit - Mortgage Lenders - Regulatory Reform and Anti-Fraud Protections

This amended bill alters the regulation of mortgage lenders by creating additional requirements, allowing the Commissioner of Financial Regulation to adopt regulations, increasing civil and criminal penalty provisions, exempting affiliates of specific depository institutions from licensing requirements, and altering the licensing and fee schedule from a one-year to a two-year term.

The bill also establishes a 17-member task force to examine fraudulent practices in the mortgage industry and to develop recommendations to combat such practices. The task force is required to submit its findings and recommendations to the General Assembly and the Governor by December 1, 1997. The portion of the bill that creates the task force is effective on July 1, 1997 and terminates on January 31, 1998.

Fiscal Summary

State Effect: Revenues will increase $903,500 in FY 1998. Expenditures would not be affected. Future year revenues reflect a two-year licensing cycle, licensing exemptions, industry growth, and annual civil violation fee assessments.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$903,500	($1,025,000)0	$961,500	($1,084,500)	$1,022,500
GF Expenditures	0	0	0	0	0
Net Effect	$903,500	($1,025,000)	$961,500	($1,084,500)	$1,022,500

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Revenues and expenditures could increase as a result of the bill's penalty provisions.

Small Business Effect: Potential meaningful impact on small business as discussed below.

Fiscal Analysis

Bill Summary: This bill includes the following provisions:

- requires mortgage lenders to obtain and pay for fingerprints and a State and national criminal background check as part of the licensing process for new applicants and those from whom the Commissioner of Financial Regulation requests such information;
- allows the Commissioner to stagger mortgage license expiration dates;
- increases surety bonding requirements for mortgage lenders;
- provides the commissioner the authority to impose a fine of $500 on mortgage lenders who practice without a license or move without notifying the commissioner;
- provides that applicants who provide false information on their mortgage lender license application may be charged with perjury and, if convicted, may be imprisoned for not more than ten years; and
- provides that mortgage lenders who willfully use or misappropriate more than $300 of a borrower's money may be charged with a felony and, if convicted, pay a fine of $100,000 and/or be imprisoned for not more than 15 years.

State Revenues: State revenues would increase by an estimated $903,500 in fiscal 1998 and decrease by $1,025,500 in fiscal 1999. This estimate is based on:

- the license term altered from a one-year to a two-year cycle;
- the altered license fees for mortgage lenders, changing from a $500 annual fee to a $1,000 biennial fee;
- the exemption of 103 bank subsidiaries and affiliates from mortgage lender license requirements;
- 1,900 mortgage lenders required to be licensed in 1998; and
- 12 penalty fees paid to the commissioner annually at a cost of $500 each.

The bill alters the license application and renewal process for 1,900 mortgage brokers in the State from a one-year to a two-year term. License fees would be adjusted to reflect the altered license term, changing from a $500 annual fee to a $1,000 biennial fee. This creates a biennial revenue increase and alternating revenue loss. In each year, the State would experience a $52,500 revenue loss as a result of the 103 subsidiaries and affiliates exempted from licensure and the associated $500 fee. The revenue projections in the out- years reflect the biennial licensing term, 3% net industry growth and the 12 fines assessed annually at $500 each. Exhibit 1 details the yearly revenue projections:

Exhibit 1

Revenue Changes Per Year

	FY 1998 ($1,000 fee- two-year renewal term)	**FY 1999** ($500 fee - one-year term)	**FY 2000** ($1,000 fee- two-year renewal term)	**FY 2001** ($500 fee - one-year term)	**FY 2002** ($1,000 fee- two-year renewal term)
103 Exempted Subsidiaries	($52,500)	($52,500)	($52,500)	($52,500)	($52,500)
Fine revenue (12x$500)	$6,000	$6,000	$6,000	$6,000	$6,000
3% Industry growth (1,900 licensees in 1998)	$950,000	($978,500)	$1,008,000	($1,038,000)	$1,069,000
Total	**$903,500**	**($1,025,000)**	**$961,500**	**($1,084,500)**	**$1,022,50**

Source: Department of Labor, Licensing and Regulation; Department of Fiscal Services

Small Business Effect: There are approximately 2,000 mortgage lenders in the State and it is estimated that the majority of them are small businesses. This bill could have a minimal, positive impact on these businesses to the extent that increasing the licensing term from a one-year to a two-year term reduces the administrative costs associated with annual filing.

This bill could also create a minimal negative impact on small mortgage lenders. New mortgage lenders would be required to pay $42 for a State and national criminal background check in order to be licensed in the State. This could also be required of any licensee upon request of the commissioner. Increased surety bonding requirements may also make it somewhat more difficult for small mortgage brokers to enter the business. In addition, for any mortgage lenders who violate the provisions of this bill, increased monetary and criminal penalties could be assessed.

Information Source(s): Department of Labor, Licensing, and Regulation (Office of Financial Regulation); Maryland Association of Mortgage Brokers; Department of Fiscal Services

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