

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE
Revised

House Bill 973 (Delegates Benson and Dobson)

Commerce and Government Matters

Mortgage Brokers - Insurance Agents - Collection of a Finder's Fee

This bill allows a mortgage broker, who also acts as an insurance agent for the same property or transaction, to collect a finder's fee for assisting the borrower obtain a mortgage, provided that the mortgage broker discloses to the borrower in a separate written agreement that: (1) the mortgage broker may collect a finder's fee in addition to any compensation that the mortgage broker may receive as an insurance agent in connection with the same property or transaction; and (2) the borrower is not required to hire the mortgage broker as a condition to obtaining insurance. This written disclosure must be made before the mortgage broker undertakes to assist the borrower in obtaining a mortgage.

The bill authorizes the Maryland Insurance Administration to deny, suspend, revoke, or refuse to renew a certification of qualification of an insurance agent who violates the provisions of this bill. The bill also allows an insurance agent who acts as a mortgage broker for the same property or transaction to collect a finder's fee.

The bill takes effect on October 1, 1999, and sunsets on September 30, 2002.

Fiscal Summary

State Effect: General fund revenues could increase by \$3,355,000 in FY 2000 assuming that 3,000 insurance agents become licensed as mortgage brokers, and 100 mortgage brokers become licensed as insurance agents. Out-year revenue projections reflect biannual licensing periods for mortgage brokers and insurance agents. General fund expenditures could increase by \$121,400 in FY 2000 and approximately \$400,000 annually thereafter.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	\$3,355,000	\$50,500	\$3,055,000	\$50,500	\$3,055,000
GF Expenditures	121,400	\$426,000	\$394,000	\$396,400	\$398,800
Net Effect	\$3,233,600	(\$375,500)	\$2,661,000	(\$345,900)	\$2,656,200

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

Local Effect: None.

Small Business Effect: Potential meaningful impact on small businesses.

Fiscal Analysis

State Revenues: Currently, there are approximately 2,400 licensed mortgage brokers and 30,000 licensed insurance agents in Maryland. Licensing fees are \$1,000 biannually for mortgage brokers and \$50 biannually for insurance agents. The Division of Financial Regulation expects 10% of all insurance agents to seek a mortgage broker license as a result of this bill. The Division of Financial Regulation advises that 3,000 licensees will generate \$3,350,000 in general fund revenue in fiscal 2000. The Maryland Insurance Administration expects 100 individuals currently licensed as mortgage brokers to seek an insurance agent license, which would generate approximately \$5,000 in fiscal 2000. Out-year revenues reflect biannual licensing.

State Expenditures: General fund expenditures could increase by an estimated \$121,400 in fiscal 2000, which accounts for the bill's October 1, 1999 effective date. This estimate reflects the cost of hiring an office clerk, a data device operator, and administrative specialist. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$ 96,100
Operating Expenses	<u>25,300</u>
Total FY 2000 State Expenditures	\$121,400

Future year expenditures reflect: (1) four additional staff positions including two financial examiners, an administrative specialist, and an office secretary; (2) full salaries with 3.5% annual increases and 3% employee turnover; and (3) 1% annual increases in ongoing operating expenses.

It should be noted that actual State revenues and expenditures will depend on the number of insurance agents that decide to become licensed as mortgage brokers as a result of this bill. The Department of Labor, Licensing, and Regulation (DLLR) expects 3,000 new licensees. However, the Department of Legislative Services advises that this number could be significantly less given the substantial licensing requirements, such as the continuing education requirements.

The Maryland Insurance Administration could handle any additional workload with existing budgeted resources.

Small Business Effect: Most mortgage brokerage firms are small businesses with an average of five employees. Under current law a person who acts as a mortgage broker and an insurance agent for the same property may not collect a finder's fee. This bill could have a meaningful, positive effect on mortgage brokerage firms to the extent that profits increase and competition is enhanced by permitting mortgage brokers who also procure insurance to collect a finder's fee. This bill could encourage mortgage brokers to provide insurance, and encourage insurance providers to engage in mortgage brokering.

Information Source(s): Department of Labor, Licensing, and Regulation; Attorney General's Office (Division of Consumer Protection); Department of Legislative Services

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