

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 643

(Senator Astle)

Finance

Economic Matters

Mortgage Lenders - Sole Proprietors - Qualifications for Licensure

This bill authorizes the Commissioner of Financial Regulation to issue a mortgage lender license to a sole proprietor who does not have the required three years' experience under specified conditions.

Fiscal Summary

State Effect: General fund revenues could increase by \$380,000 in FY 2005, which reflects licensing and examination fees to which the new licensees would be subject. General fund expenditures could increase by approximately \$83,700 in FY 2005. Out-years reflect annualization, inflation, and the two-year licensing cycle.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$380,000	\$50,000	\$350,000	\$50,000	\$350,000
GF Expenditure	83,700	102,400	108,400	116,900	121,900
Net Effect	\$296,300	(\$52,400)	\$241,600	(\$66,900)	\$228,100

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The commissioner may issue a mortgage lender license to a sole proprietor who does not meet the experience requirement if: (1) the applicant is a licensed insurance producer in good standing and holds an appointment for an insurer

that controls, is controlled by, or is under common ownership with a financial institution; (2) the applicant agrees only to broker loans to that financial institution; (3) the financial institution and insurer is identified in the application; (4) the commissioner approves the selection based on specified criteria; (5) the applicant meets all other requirements for a mortgage lender license; (6) the applicant has successfully completed at least 20 hours of classroom instruction in residential mortgage lending and passed an exam; (7) a representative of the financial institution signs the application; and (8) the financial institution agrees to supervise the applicant and be held jointly and severally liable for the applicant's mortgage brokering activities.

Generally, a sole proprietor issued a license under the bill may not: (1) help a borrower to get a loan from another financial institution; (2) be compensated based on the loan amount, interest rate, fees, or other terms of the brokered loan or receive a finder's fee; (3) handle borrower or other third party funds; (4) refer a borrower to another licensed mortgage lender; or (5) make mortgage loans. However, a sole proprietor issued a license under the bill may forward a check to a financial institution if the check: (1) is payable to the institution; and (2) covers costs for an appraisal, a credit report, or processing of an application.

Current Law: Generally, a person may not act as a mortgage lender unless the person is licensed. To qualify for a mortgage lender license, an applicant must satisfy the commissioner that the applicant is of good moral character and has sufficient financial responsibility, business experience, and general fitness: (1) to engage in business as a mortgage lender; (2) warrant the belief that the business will be conducted lawfully, honestly, fairly, and efficiently; and (3) command the public's confidence. An applicant who is sole proprietor must have three years of experience in the mortgage lending business.

An applicant for a mortgage lender license must also file a surety bond, pay an investigation fee, submit to an investigation by the commissioner, and if successful, pay the licensing fee. Licensees must meet continuing education requirements and are subject to regulation, investigation, and discipline by the commissioner.

State Revenues: It is anticipated that approximately 300 sole proprietors could become licensed under the bill. The licensing fee for mortgage lenders is \$1,000 for a two-year license. In addition, there is a one-time, nonrefundable investigation fee for applicants of \$100. General fund revenues from licensing fees would increase by \$300,000 every other year beginning in fiscal 2005. General fund revenues would also increase in fiscal 2005 by \$30,000 from the investigation fee.

Each licensee must be examined once every three years, with 100 examinations being performed during the course of a given year. The statutory fee for an examination is \$250 per day. A typical examination for this type of licensee takes two days. Thus, general fund revenues from examination fees would increase by \$50,000 annually beginning in fiscal 2005.

State Expenditures: With 300 new licensees, general fund expenditures could increase by an estimated \$83,700 in fiscal 2005, which accounts for the bill's October 1, 2004 effective date. This estimate reflects the cost of hiring one financial examiner and one administrative specialist to examine licensees and process licensing information. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$72,900
Other Operating Expenses	<u>10,800</u>
Total FY 2005 State Expenditures	\$83,700

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: HB 1096 (Delegate Love, *et al.*) – Economic Matters.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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