Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1280 (Delegate Kullen)
Economic Matters

Credit Regulation - Loans Secured by Real Property - Insurance Coverage Requirements

This bill provides that in determining the replacement value of improvements on real property under insurance coverage required under a mortgage, deed of trust, or credit plan secured by a first lien, a lender (in the case of a mortgage or deed of trust) or credit grantor (in the case of a credit plan) may use the value placed on the improvements by the insurer. The bill prohibits a lender or credit grantor from using the value placed on the improvements by its appraisal of the real property. The bill treats a lender under a first mortgage or deed of trust and a credit grantor like a lender under a secondary mortgage and provides that any property insurance coverage required must bear a reasonable relation to the existing risk of loss.

Fiscal Summary

State Effect: Enforcement could be handled with the existing resources of the Commissioner of Financial Regulation. Revenues would not be affected.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Generally, a lender may not require a borrower, for purposes of a first mortgage or deed of trust or a secondary mortgage, to provide or purchase property insurance in an amount exceeding the replacement value of the improvements on the property. Similarly, a credit grantor may not require a borrower, for purposes of a revolving or closed end credit plan secured by a first lien, to provide or purchase property insurance in an amount exceeding the replacement value of the improvements on the property. In determining the replacement value of the improvements, the lender may: (1) accept the value placed on them by the insurer; or (2) use the value placed on them as determined by the lender's appraisal of the property. For a secondary mortgage, any property insurance coverage required by a lender must bear a reasonable relation to the existing risk of loss.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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