HB 1288

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1288 (Delegate Kullen, *et al.*)
Economic Matters Finance

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

This bill specifies that a lender (in the case of a mortgage or deed of trust) or credit grantor (in the case of a credit plan) may not require a borrower, as a condition to receiving or maintaining a mortgage, deed of trust, or credit plan secured by a lien, to maintain homeowner's insurance coverage against risks to any "improvements" on any real property in an amount exceeding the "replacement cost" of the improvements.

Under the bill, "improvements" means buildings and structures erected upon or affixed to real property that enhance the value of the real property. "Replacement cost" means the amount needed to repair damage to or rebuild improvements on real property to restore the improvements to their pre-loss condition. Replacement cost does not include the value of land.

Fiscal Summary

State Effect: Special fund revenues could increase minimally in FY 2007 from filing fees. Processing of the filings could be handled with the existing resources of the Maryland Insurance Administration (MIA). Enforcement of the bill's provisions could be handled with the existing resources of the Commissioner of Financial Regulation.

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.

State Revenues: Where the bill's definitions are different from those used by homeowner's insurers for their policies, the policy definitions will require amendment. Insurers that must amend definitions would be required to file forms with MIA and pay the $125 filing fee. The number of filings cannot be accurately predicted but is assumed to be minimal.

Additional Information

Prior Introductions: A similar bill, HB 1280 of 2005, received an unfavorable report from the House Economic Matters Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 27, 2006
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Analysis by: T. Ryan Wilson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510