SB 325

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 325 (Senator Pugh)
Finance Health and Government Operations

Life Insurers - Reserve Investments - Loans Secured by Real Estate

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This bill specifies that existing provisions related to the maximum term (30 years) of a real estate loan which may be considered a reserve investment by a life insurer only apply when the loan exceeds 75% of the fair market value of the real estate in reserve and is (1) primarily improved by a residence or (2) farm property used for farming purposes and the loan amount on any one farm property does not exceed $500,000.

Fiscal Summary

State Effect: The bill does not directly affect State government operations or finances.

Local Effect: The bill does not directly affect local governmental operations or finances.

Small Business Effect: None.

Analysis

Current Law: An insurer may consider a bona fide mortgage loan to an officer or employee of the insurer as an admitted asset if the loan (1) is approved and ratified by the board of directors of the insurer; (2) is secured by a first mortgage on a principal residence of an officer or employee; and (3) does not exceed the amount allowed for any other mortgage investment as specified by law. Insurance Law specifies the following requirements for life insurers that wish to consider such loans as reserve investments.

- Generally, a life insurer may include a loan from an investment in an amount that does not exceed 85% of the fair market value of the real estate.

- Even so, a life insurer may not include a loan from an investment in an amount that exceeds 75% of the fair market value of the real estate in reserve and capital stock investments unless the real estate is (1) primarily improved by a residence or (2) farm property used for farming purposes and the loan amount on any one farm property does not exceed $500,000.

- Moreover, a life insurer may include a loan from an investment in an amount that does not exceed 95% of the fair market value of the real estate under certain circumstances. The real estate has to be improved by a dwelling primarily intended for occupancy by at most four families, and another specified mortgage insurance company has to guarantee or insure the part of the loan that exceeds 85% of the fair market value of the real estate.

All such loans for a life insurer must be secured by first mortgages, or deeds of trust, on unencumbered fee-simple or improved leasehold real estate in a state or a province of Canada. They also have to provide for the amortization of principal over a period of no more than 30 years, with payments made at least annually. Furthermore, a life insurer may not place more than 3% of its admitted assets in loans in which the amount of the loan exceeds 90% of the fair market value of the security of the loan.

Additional Information

Prior Introductions: None.

Cross File: None designated; however, HB 697 (Delegate Davis – Health and Government Operations) is identical.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

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