Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 182 (Chair, Economic Matters Committee)(By Request - Departmental - Labor, Licensing and Regulation)

Economic Matters Finance

Commissioner of Financial Regulation and State Collection Agency Licensing Board - Licensees - Revisions

This departmental bill requires seven categories of licensees (check cashers, collection agencies, consumer lenders, debt management companies, installment lenders, credit service businesses, and sales finance companies) to register with the Nationwide Mortgage Licensing System and Registry (NMLS); obtain and maintain a valid unique identifier issued by NMLS; and transfer existing licensing information to NMLS on or after July 1, 2017. The bill generally establishes that licenses are valid for one-year terms and eliminates a requirement for a State criminal history records check (CHRC) for mortgage lenders, check cashers, debt management services companies, and money transmitters.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by about $246,700 annually beginning in FY 2019 as a portion of licensure fees is used to pay NMLS registration fees, rather than remitted to the general fund. Likewise, revenues for the Nondepository Special Fund decrease minimally beginning in FY 2019 for fees associated with debt management companies. The timing of licensure fee revenue collections changes, but the impact is generally revenue neutral. Special fund revenues for the Department of Public Safety and Correctional Services (DPSCS) decrease by about $15,200 annually beginning in FY 2018 due to elimination of State CHRCs for specified license applicants. Expenditures are likely not affected.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	$0	($246,700)	($246,700)	($246,700)	($246,700)
SF Revenue	($15,200)	($15,200)	($15,200)	($15,200)	($15,200)
Expenditure	0	0	0	0	0
Net Effect	($15,200)	($261,900)	($261,900)	($261,900)	($261,900)

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

Local Effect: None.

Small Business Effect: The Department of Labor, Licensing, and Regulation has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary:

Definitions: "Branch location" means any location other than the principal executive office of a licensee (or license applicant) at which the licensee conducts (or the applicant will conduct) activities required to be licensed.

"Control person" means a person who has the power, directly or indirectly, to direct the management or policies of a licensee or license applicant, whether through ownership of securities, by contract, or otherwise.

"NMLS" means a multistate uniform licensing system developed and maintained by the Conference of State Bank Supervisors (CSBS), or by a subsidiary or an affiliate of CSBS, for the licensing of a person required to be licensed.

"Unique identifier" means a number or another identifier assigned by NMLS.

Application Process: Each licensee or applicant must apply for a license or renewal and obtain a valid unique identifier issued by NMLS when forming an account with the system on or after July 1, 2017, or if the Commissioner of Financial Regulation has yet to join the system by July 1, 2017, on the date specified by the commissioner.

The bill requires an applicant for a license to complete, sign, and submit the application to the commissioner according to the process the commissioner requires and provide all the information the commissioner requests. The application must include specified information, such as the applicant's name, principal executive office address, and the address of any branch locations. The bill requires the commissioner to keep any investigation or license fee if the application is withdrawn or denied.

Licensure Period: The bill also changes the licensure period for the affected categories of licensees from biennial to annual and makes conforming changes by generally lowering the amount of license fees by half. **Exhibit 1** shows licensure fees under current law compared to fees proposed under the bill. The bill also creates a structure within which existing licenses with two-year terms can be transitioned to a one-year license term that renews each year on January 1.

Exhibit 1
License Fees for Businesses Licensed through the Commissioner of Financial Regulation

License Type	Current Law (Biennial)	Proposed Under the Bill (Annual)
Check cashers	$1,000	$500
Collection agencies	$700	$350
Consumer lenders	$1,700	$850
Debt management	$1,000-$8,000 (varies by annual gross revenue)	$500-$4,000 (varies by annual gross revenue)
Installment lenders	$1,700	$850
Credit services	$1,700	$850
Sales finance	$250	$125

Source: Department of Legislative Services

Confidentiality Privileges of Licensees: While federal and state laws apply to any information or material that has been disclosed to the nationwide licensing system, the information and material may be shared with all state and federal regulatory officials having oversight authority without the loss of privilege or confidentiality protections. Additionally, the bill authorizes the commissioner to enter into information-sharing agreements with other government agencies.

Current Law: State law authorizes the commissioner to participate in a multistate automated licensing system for mortgage lenders, mortgage originators, and persons who engage in money transmission. Check cashers, collection agencies, consumer lenders, debt management companies, installment lenders, credit service businesses, and sales finance companies are all required to be licensed through the commissioner and must provide specified information as well as pay any applicable fees for licensure to the commissioner. However, the commissioner is not explicitly authorized to participate in a licensing system such as NMLS for those categories of licensees.

State Criminal History Records Check: Mortgage lenders, check cashers, debt management services, and money transmitters are required to undergo national and State CHRCs as part of the licensing process. Within Maryland, applicants can submit fingerprints electronically at approved sites. Applicants outside of Maryland submit fingerprints by mail to the Criminal Justice Information System Central Repository of DPSCS. The cost of the State CHRC is $18 per applicant.

Background: The Commissioner of Financial Regulation advises that the bill is intended to transition seven licensee categories (check cashers, collection agencies, consumer lenders, debt management companies, installment lenders, credit service businesses, and sales finance companies) to NMLS. According to the commissioner, the vast majority of current licensees, which include mortgage lenders, mortgage originators, and money transmitters, are already processed through NMLS. As of December 31, 2016, 17,037 licensees were registered with the commissioner. Of the total number of licensees, 13,335 (78%) were processed through NMLS, while the remaining 3,702 (22%) were *not* processed through NMLS.

The commissioner advises that utilizing the technological and operational infrastructure of NMLS to manage the licensing and oversight of all license categories results in efficiencies to the agency in terms of use of staff, fiscal resources, and overall regulatory management. Some of the anticipated efficiencies include:

- less administrative time spent on processing State fees;
- more complete maintenance of electronic records;
- ease of coordination with other participating state agencies;
- streamlined renewal processing;
- better protection for consumers by enabling the commissioner to weed out bad players in the covered industries; and
- providing a single platform and process for out-of-state companies to apply for a license and conduct business in Maryland.

Nationwide Mortgage Licensing System and Registry: According to the commissioner, NMLS was originally established to provide a platform for mortgage licensing. More recently, however, NMLS has been expanded to accommodate other categories of licenses. Pursuant to prior State legislation, the commissioner transferred all mortgage lender and originator licenses to NMLS in 2009-2010 and money transmitter licenses in 2012.

The goal of NMLS is to employ the benefits of local, state-based financial services regulation on a nationwide platform that provides for improved coordination and information sharing among regulators, increased efficiencies for industry, and enhanced consumer protection. NMLS was created by CSBS and the American Association of Residential Mortgage Regulators and began operations in January 2008. It is owned and operated by the State Regulatory Registry L.L.C., a wholly owned subsidiary of CSBS.

State Criminal History Records Check: According to the commissioner, the State CHRC requirement is time-consuming and does not provide a significant benefit. The State CHRC can be particularly burdensome for out-of-state applicants, who must submit fingerprints by hard copy through the mail. In contrast, the national CHRC is generally performed electronically through NMLS, and results are typically released within 48 hours of submission.

The commissioner advises that State CHRCs do not appear to provide additional value when compared to the national CHRCs. A comparison of national and State CHRC results for 339 recent applicants found 330 were identical. For each of the nine remaining cases, the national CHRC contained additional information not included in the State one.

The commissioner also notes that a majority of states, including Pennsylvania, Virginia, North Carolina, and Massachusetts, do not require separate state CHRCs; these states instead rely solely on national CHRCs.

State Revenues: According to the commissioner, the cost to register with NMLS is $100 annually and $20 for each additional branch license. The commissioner advises that NMLS has agreed to waive any fees for licensees transitioning to the system in fiscal 2018. Thus, although the bill takes effect in fiscal 2018, there is no effect associated with NMLS in the first year. However, beginning in fiscal 2019, NMLS will charge its standard fees for use of the system.

Under the bill, the commissioner proposes to include the NMLS fee as part of current licensing fees, which results in no additional fees being charged for licensees. All revenues from the licensees that are affected under the bill (aside from debt management licensees, which represent a small proportion of the total licensees) are paid into the general fund. Thus, by diverting a portion of licensure fees to pay for NMLS registration, the amount of fees paid into the general fund declines. The commissioner estimates that, under the bill, general fund revenues decline by approximately $246,700 annually beginning in fiscal 2019. Special fund revenues decline minimally each year beginning in fiscal 2019 to pass on a portion of the licensure fee for debt management companies to NMLS.

Although the bill is generally revenue neutral over the long term, the pattern of revenue collection changes with approximately the same amount collected each year due to annual renewal. Currently, about three-fourths of the licensees affected renew in even-numbered fiscal years while the remainder renew in odd-numbered fiscal years. This impact has not been accounted for in this analysis.

Finally, the bill reduces the number of applicants for State CHRCs and, consequently, also reduces fees paid to DPSCS. The commissioner indicates that, in fiscal 2016, there were 844 State CHRCs performed on licensees that, under the bill, are no longer required to be done. Each State CHRC is $18. Assuming the number of applicants remains fairly constant in future years, special fund revenues for DPSCS decrease by approximately $15,192 annually beginning in fiscal 2018.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; Nationwide Mortgage Licensing System and Registry; Department of Legislative Services

Fiscal Note History: First Reader - February 6, 2017
mm/kdm Third Reader - March 27, 2017
Revised - Amendment(s) - March 27, 2017

Analysis by: Eric Pierce

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: **Migration of Licenses to NMLS**

BILL NUMBER: HB 182

PREPARED BY:

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_x_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

We do not believe there will be any impact on small businesses as a result of this legislation.