HB 686

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 686 (Delegate Queen)
Economic Matters Finance

Financial Regulation - Modernizing Licensing of Non-Depository Institutions and Elimination of Branch License Requirements

This bill generally eliminates the requirement that each location of a non-depository financial institution licensed by the Office of the Commissioner of Financial Regulation (OCFR) obtain a separate license or registration, and instead institutes a new licensing and registration system whereby each financial institution obtains a single license or registration that covers all of its locations. The bill makes numerous other technical and conforming changes and modifies several current statutory requirements related to licensure (*e.g.*, bonding requirements, use of trade names, etc.). Finally, it gives OCFR greater discretion in setting and collecting fees from licensees and registrants. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: Special fund revenues decrease by approximately $3.0 million annually beginning in FY 2024, as discussed below. While OCFR may realize administrative efficiencies, special fund expenditures are likely not materially affected.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	($3,000,000)	($3,000,000)	($3,000,000)	($3,000,000)	($3,000,000)
Expenditure	0	0	0	0	0
Net Effect	($3,000,000)	($3,000,000)	($3,000,000)	($3,000,000)	($3,000,000)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary/Current Law: OCFR regulates State-chartered and State-licensed financial institutions operating in Maryland. These include depository institutions such as Maryland-chartered banks, trust companies, bank holding companies, and credit unions, as well as non-depository entities such as money transmitters, check cashers, consumer lenders, sales finance companies, installment lenders, mortgage lenders, mortgage loan originators, credit services businesses, debt management services providers, debt settlement services providers, consumer reporting agencies, and collection agencies. The activities of the office are set out in Titles 1 through 7, 11, and 12 of the Financial Institutions Article. In addition, the office supervises certain activities found in Title 12 and Title 14 of the Commercial Law Article and Title 7 of the Business Regulation Article.

Under current law, OCFR must generally issue a license for *each* location that a non-depository licensee operates. The per-branch fee varies based on the specific type of financial institution. The bill authorizes affected licensees to do business at each location listed by the licensee during the initial licensing process.

The bill's licensing changes apply to:

- consumer lenders;
- installment lenders;
- sales finance companies;
- mortgage lenders;
- mortgage loan originators;
- check cashers;
- money transmitters;
- debt management companies; and
- collection agencies.

Under the bill, OCFR is authorized (but not required) to impose an annual assessment on any licensee or registrant not more than once a year. Licensing and registration fees for each type of license or registration will be established annually by OCFR through a combination of fixed license fees and an assessment structure that matches the costs incurred by OCFR during the licensing and supervision process. Specifically, the bill establishes that, in calculating an assessment with respect to any licensed person, OCFR may consider:

- the costs incurred in supervising the licensed persons of that license category;
- the type of business conducted in the State by that licensed person;
- the volume of business that licensed person conducts in the State;

- assets of the licensed person; and
- any other factor OCFR considers appropriate.

Bonding requirements are similarly established for each financial institution rather than each branch of an institution. The bill establishes criteria and limits for bonding requirements established by OCFR for each type of licensee or registrant.

In general, licensees and registrants must continually update their roster of branches that are covered by licenses or registrations, as specified.

State Revenues: Overall, OCFR indicates that it intends to reduce the considerable fund balance in the Non-depository Special Fund by reducing fee assessments until the fund balance reaches targeted levels. Specifically, as described below, OCFR intends to maintain fund balances that more closely approximate the actual cost of regulating non-depository financial institutions as a group.

OCFR advises that, in fiscal 2023, it expects to receive about $3.0 million in licensing revenues from branch offices. Because the bill generally eliminates the requirement that each branch obtain a separate license, beginning in fiscal 2024, licensing revenues are expected to decrease by $3.0 million for the Non-depository Special Fund. OCFR forecasts a fund balance of approximately $18.0 million at the end of fiscal 2023, which is more than double the fiscal 2023 appropriation of $8.8 million. Under the bill, OCFR advises that, once the fund balance is reduced through lower collections, it intends to begin each fiscal year with a fund balance totaling at least 60% of the amount proposed in the State budget for that year, with an additional 20% of that amount reserved for indirect and/or unexpected costs.

To the extent the Non-depository Special Fund has insufficient funds to meet the target amount for a given year, OCFR is authorized under the bill to seek an assessment from licensees to replenish the fund to meet the target. After accounting for the ongoing revenue decrease due to the elimination of branch licenses, OCFR anticipates the fund balance will remain above the target through at least fiscal 2027, and potentially through fiscal 2028. Thus, the fund balance is likely sufficient to sustain four to five years of the reduced licensing revenues before any additional assessments are necessary.

Small Business Effect: Generally, the bill eliminates the requirement that non-depository financial institutions obtain separate licenses for each place of business. Thus, small business financial institutions that are affected by the bill likely realize cost savings, as they are no longer subject to multiple licensing fees. The bill likely also reduces the regulatory burden on such businesses, given that existing licensing processes for branch locations may entail significant staff time.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Maryland Department of Labor; Department of Legislative Services

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