

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 831
Finance

(Senator Charles)

Credit Regulation - Reverse Mortgage Loans - Escrow Accounts

This bill requires a reverse mortgage lender to establish an escrow account for the payment of (1) property taxes; (2) insurance premiums, as specified; (3) ground rents; (4) water and sewer facilities assessments; and (5) homeowners association or other ownership community charges. The escrow account must conform to requirements in the Commercial Law Article and allow for monthly collection and deposit of funds. A lender must make specified deductions from each distribution of funds to the borrower under the terms of the loan and make deposits into the escrow account, as specified. Finally, a lender is required to make an on-time payment from the escrow account required under the bill to the relevant collection entities for each homeowner expense discussed above.

Fiscal Summary

State Effect: The bill's expanded application of existing penalty provisions does not have a material impact on State finances or operations. If the Consumer Protection Division in the Office of the Attorney General (OAG) receives fewer than 50 complaints per year stemming from the bill, the additional workload can be handled with existing resources. No effect on revenues.

Local Effect: The bill's expanded application of existing penalty provisions does not have a material impact on local government finances or operations. No effect on revenues.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A reverse mortgage lender must deduct from each distribution of funds to the borrower under the terms of the loan, and deposit into an escrow account, an amount

of funds that is (1) proportional to the planned distribution of scheduled funds under the terms of the loan and (2) sufficient to cover the estimated costs of the eligible homeowners' expenses, as specified.

Current Law:

Escrow Accounts

An "escrow account" is an expense or escrow account, which tends to protect the security of a loan by the accumulation of funds for the payment of taxes, insurance premiums, or other expenses.

Reverse Mortgages

A "reverse mortgage loan" is a nonrecourse loan that (1) is secured by the borrower's principal dwelling; (2) provides the borrower with purchase money proceeds, a lump sum payment, periodic cash advances, a line of credit, or any combination of those payment plans based on the equity in or value of the borrower's principal dwelling; and (3) requires no payment of principal or interest until the full loan becomes due and payable.

In a reverse mortgage, the homeowner keeps the title to the home and, therefore, is responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses. If the homeowner does not pay property taxes, keep homeowner's insurance, or maintain the home, a lender might require the homeowner to repay the loan. As a result, a lender may require a "set-aside" amount to pay taxes and insurance during the lifetime of the loan. The "set-aside" reduces the amount of funds a homeowner can get in the form of payments.

A lender or an arranger of financing for a reverse mortgage may require a borrower to purchase title insurance, hazard, flood, or other peril insurance, and any other financial or insurance product that is required for a federally insured reverse mortgage loan. Except as specified, a lender or arranger of financing may not require a borrower to purchase an annuity, a long-term care policy, or other financial or insurance product as a condition to obtaining a reverse mortgage loan.

A lender or arranger of financing for a reverse mortgage loan not insured under federal law that violates the Reverse Mortgage Loans Act engages in an unfair or deceptive trade practice under the Maryland Consumer Protection Act (MCPA) and is subject to MCPA's civil penalty provisions. A lender or arranger of financing for a reverse mortgage loan insured under federal law is subject to federal penalties.

Maryland Consumer Protection Act

An unfair, abusive, or deceptive trade practice under MCPA includes, among other acts, any false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind, which has the capacity, tendency, or effect of deceiving or misleading consumers. The prohibition against engaging in any unfair, abusive, or deceptive trade practice encompasses the offer for or actual sale, lease, rental, loan, or bailment of any consumer goods, consumer realty, or consumer services; the extension of consumer credit; the collection of consumer debt; or the offer for or actual purchase of consumer goods or consumer realty from a consumer by a merchant whose business includes paying off consumer debt in connection with the purchase of any consumer goods or consumer realty from a consumer.

The Consumer Protection Division within OAG is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, issue a cease-and-desist order, or file a civil action in court. A merchant who violates MCPA is subject to a fine of up to \$10,000 for each violation and up to \$25,000 for each repetition of the same violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$1,000 and/or imprisonment for up to one year.

Small Business Effect: Reverse mortgage lenders that are small businesses may incur additional costs under the bill to create new forms for escrow accounts and set up payment mechanisms for property taxes in various counties as well as for numerous insurance companies.

Additional Information

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

Designated Cross File: None.

Information Source(s): Department of Housing and Community Development; Maryland Department of Labor; Department of Legislative Services

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