

Department of Legislative Services  
Maryland General Assembly  
2026 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1509 (Delegate Roberts)  
Economic Matters

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Financial Institutions - Mortgage Servicers - Insurance Proceeds

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This bill requires a mortgage servicer to deposit insurance proceeds received due to damage to a dwelling or residential real estate into a “loss draft account” with a simple interest rate of at least 2%. The bill establishes additional requirements and regulations for mortgage servicers regarding: (1) notifications to consumers; (2) handling of interest earnings; (3) disbursement of interest earnings, as specified; and (4) disbursement fees. **The bill takes effect July 1, 2026.**

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Fiscal Summary

**State Effect:** The Office of Financial Regulation (OFR) can handle enforcement with existing budgeted resources. Revenues are not affected.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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Analysis

**Bill Summary:**

*Loss Draft Accounts*

A “loss draft account” is an account in which a mortgage servicer holds insurance proceeds pending a repair or rebuilding of residential real estate that has been damaged.

Within five business days of receiving insurance proceeds, a mortgage servicer must deposit the insurance proceeds into a loss draft account in a Federal Deposit Insurance Corporation insured banking institution with a simple interest rate of at least 2% per annum.

### *Management of Interest Earnings*

A borrower must elect to have the interest earnings (1) credited to the loss draft account or (2) paid directly to them.

A mortgage servicer must allow the borrower to select at least two of the following four methods for disbursement of interest earnings (if the borrower chooses to have the interest paid directly to them):

- wire transfer;
- direct deposit;
- cashier's check delivered by mail; or
- certified check delivered by mail.

A mortgage servicer must disperse any interest earnings within 10 days after receiving notice from a borrower, as specified.

A mortgage servicer may not charge a fee for the disbursement of interest earnings via direct deposit, but may charge the borrower a fee for the disbursement of interest earnings via wire transfer. However, the fee may not:

- be unreasonable;
- have the effect of lowering the interest earnings to an amount that would equate to an interest rate of less than 2%; and
- exceed the actual costs incurred by the mortgage servicer for the disbursement.

### *Required Notification to Borrowers*

Within 10 business days of receiving insurance proceeds, a mortgage servicer must notify the borrower, either electronically or by mail, of the:

- amount of insurance proceeds held in the loss draft account;
- the borrower's right to receive the interest earnings;
- disbursement options;
- applicable fees; and
- the time frame for receiving the disbursement.

## **Current Law:**

### *Definitions*

“Dwelling” means a residential structure or mobile home that contains one to four family housing units or individual units of condominiums or cooperatives.

A “dwelling” does not include a residential structure or mobile home unless the residential structure of mobile home, or at least one unit contained in the residential structure of mobile home is owner-occupied.

A “mortgage lender” means any person who (1) is a mortgage broker; (2) makes a mortgage loan to any person; or (3) is a mortgage servicer. A “mortgage lender” does not include (1) a financial institution that accepts deposits and is regulated under Title 3, 4, 5, or 6 of the Financial Institutions Article; (2) the Federal Home Loan Mortgage Corporation; (3) the Federal National Mortgage Association; (4) the Government National Mortgage Association; (5) any person engaged exclusively in the acquisition of all or any portion of a mortgage loan under any federal, State, or local governmental program of mortgage loan purchases; or (6) an affiliated insurance producer-mortgage loan originator, as specified.

“Residential real estate” means any owner-occupied real property located in Maryland on which a dwelling is constructed or intended to be constructed.

### *Escrow Accounts, Generally*

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.

Any bank, savings bank, or savings and loan association in the State that makes a loan to a borrower secured by a first mortgage on residential property, and creates an escrow account in connection with the loan, must pay interest to the borrower on the funds at an annual rate that is no less than the weekly average yield on United States Treasury securities, as specified. Among other things, interest on the funds must be paid to the borrower annually by crediting the interest to the escrow account, as specified.

Generally, after a mortgage has been fully paid the remaining balance of the escrow account within a mortgage servicer’s control must be returned to the borrower.

### *The Office of Financial Regulation*

OFR is responsible for licensing and regulating mortgage lenders, brokers, servicers and loan originators, and other financial institutions. The office also supervises and regulates

State-chartered financial institutions including State-chartered banks, credit unions, and trust companies. Supervision includes periodic on-site evaluations as well as off-site monitoring programs. The office responds to consumer complaints and oversees retail credit accounts, retail installment contracts, and credit grantor contracts.

When approving a mortgage lender licensee, OFR must determine if the licensee is in good standing with their primary state or federal regulator (including OFR for licensees) and is in material compliance with applicable State and federal law. OFR must notify a mortgage lender licensee of approval in writing.

**Small Business Effect:** Mortgage servicers that are small businesses may lose revenue from interest earnings and incur additional costs under the bill to create and manage new loss draft accounts and set up payment mechanisms for the interest accrued. However, they may charge a fee for any disbursements made by wire transfer.

**Additional Comments:** Generally, when processing an insurance claim for a mortgaged property, an insurance company may issue the property owner a check with the mortgage servicer as a payee. This insurance check is sometimes referred to as a “loss draft” check. Because the mortgaged property is collateral on the loan, the mortgage servicer has an insurable interest in the property. Each mortgage servicer may have different regulations governing how and when a loss draft check is endorsed and sent back to the property owner.

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### **Additional Information**

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

**Designated Cross File:** None.

**Information Source(s):** Maryland Department of Labor; Department of Legislative Services

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