Testimony to the House Economic Matters Committee
HB1516 Financial Institutions-Consumer Credit-Application of Licensing Requirements
Position: Unfavorable

March 11, 2025

The Honorable C.T. Wilson, Chair
Room 230, HOB
Annapolis, Maryland 21401
cc: Members, Economic Matters

Chair Wilson and members of the committee:

Economic Action, formerly the Maryland Consumer Rights Coalition) is a statewide coalition of individuals and organizations that advances economic rights and equity for Maryland families through research, education, direct service, and advocacy. Our 12,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland. Our direct service programs assist clients in every county in Maryland.

We are here in strong opposition to HB1516 which will rollback consumer protections on a wide array of consumer loan products and services, forego revenue at a time when the State clearly needs to generate revenue, and reduce oversight and regulation.

Unnecessary
HB1516 purports to exempt passive trusts from licensing. Current law states that certain mortgage lenders must be licensed by the state. And in fact, most mortgage lenders, including those supporting the bill, are licensed. **Nearly all of the secondary Maryland mortgage market is already exempt.** Approximately 80% of the secondary market is exempt because Fannie and Freddie own the loans or the loans are insured by government programs offered by VA, FHA, Ginne Mae, and DHCD. The typical conventional loan owners (i.e. credit unions, banks, and mortgage entities like Sandy Spring Bank, NA, Bay Capital Mortgage,Presidential Bank, etc) are also exempt and control about 15% of the marketplace.

Rocket Mortgage, for example, is licensed and sells its originated loans onto the secondary market explains in its own 10k filings with the SEC that "The majority of the mortgage loans [it] services are serviced on behalf of Fannie Mae, Freddie Mac (collectively defined as "GSEs") and Ginnie Mae (together with GSEs, the Agencies")" and its "business is highly dependent on Fannie Mae and Freddie Mac and certain U.S. government agencies."

The companies that will be excluded from regulation, enforcement, and oversight are passive "zombie" debt buyers, mostly out-of-state private equity firms, who purchase charged off mortgages for pennies on the dollar and then hold onto the mortgages sometimes for decades, until it becomes profitable to foreclose on the homeowner.

An NPR report[1] found more than 700 second mortgages in Maryland where zombie debt buyers have filed Notice of Intention to Foreclose (NOI)-- the first step towards foreclosure. These second mortgages had been inactive for more than a decade.

Notably, the vast majority of these foreclosures on second-mortgages are concentrated in Baltimore City and Prince Georges County[2], which means Black and Brown homeowners are disproportionately affected by these foreclosures, just as they were hardest hit by predatory mortgage products.

The cost to become licensed is several hundred dollars, certainly a cost these firms can afford. And if they can't afford our licensing fee, do we want them holding the mortgages of Maryland homeowners?

Rollback of Consumer Protections & Loss of Revenue

Whether by poor drafting or by intention, the exemption for these mortgage entities is NOT listed under the Maryland Mortgage Lenders License (MMLL) instead this blanket exemption will apply to every license authorized by the Financial Institutions Article.

In addition to exempting zombie debt buyers from oversight, investigation, and enforcement actions–a shocking weakening of consumer protections for vulnerable Black and Brown homeowners-HB1516 will also stop oversight, investigation, and enforcement of car loans. UB Consumer Law Professors note that they are seeing this very issue in their consumer protection clinics which assist low-income Marylanders. This is a broad overreach and dereliction of consumer protection duties that OFR purports to care about.

HB1516 also foregoes critical revenue at a time when the State is seeking an array of options to address our challenging budget situation. Licensing these zombie debt buyers allows for oversight and enforcement by OFR and generates revenue for the state. It is a mistake to carve private-equity firms out of paying for doing business in Maryland.

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[1] https://www.npr.org/2024/05/10/1197959049/zombie-second-mortgages-homeowners-foreclosure
[2] ibid

At a time when consumer protection is being weakened at the federal level, Maryland has an opportunity to stand up and stand strong for working families across the state. Instead, HB1516 weakens decades of consumer protection laws in Maryland. Consequently, as a result of this legislation, we will likely see an increase in zombie debt foreclosures, auto repossessions, and an expansion of predatory practices by unscrupulous actors who know that they can act without any oversight or consequences in Maryland.

Proposed Amendments

To amend this bill to rein in its most harmful consequences, we propose the following:

1) **Study this bill over the interim.** OFR did not consult with a single consumer advocate, attorney, housing counseling agency, or community development organization before rushing this bill into the session. This topic needs a more thoughtful deliberative process than one solely driven by zombie debt buyers.
2) **Have the exemption only apply to mortgages**. Move all provisions in the bill to the MMLL instead of applying to the whole Financial Institutions article.
3) **Create a registry.** Require the creation of a public registry that identifies the owners (i.e. private equity funds, etc.) who control more than 10% of any trust created to hold mortgages which are not exempt from the MMLL's

Unless these amendments are adopted, or the bill is moved to a study bill to give all stakeholders time to consider these complex issues in a thoughtful way, we will continue to oppose HB1516 and urge an unfavorable report.

Best,

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