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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

March 11, 2025

Senate Bill 1026
Financial Institutions - Consumer Credit - Application of Licensing Requirements
(Maryland Secondary Market Stability Act of 2025)

Good afternoon, Vice Chair Hayes and members of the Finance committee;

Thank you for the opportunity to present **Senate Bill 1026: Financial Institutions - Consumer Credit - Application of Licensing Requirements (Maryland Secondary Market Stability Act of 2025)**. If enacted this *emergency bill* will help restore stability to the mortgage market in our great State. Failure to pass this bill risks continued disruption of the State's mortgage and other securitized loan markets.

A recent legal decision, *Estate of Brown v. Ward*, held that secondary mortgage market purchasers of loans, (e.g., trusts, and other loan securitization vehicles) must obtain licenses, when previously there had been no need. This bill will return the market to the position in which it existed prior to the *Brown* decision; specifically, it exempts from licensure the special purpose trusts used to facilitate the mortgage and other consumer loan markets.

The trusts covered by this bill obtain their loans from licensed lenders and utilize licensed loan servicers. These trusts and other special purpose entities are often passive and transient, meaning there is no person to assign a license to, or for the Office of Financial Regulation (OFR) to examine as all their loan related activity is carried out through licensed loan servicers. This ruling forced lenders to make difficult choices—some have already stopped offering certain loan products in the state, and others have indicated they may cease lending here altogether. This is not an abstract concern.

The vast majority of mortgage loans originated in Maryland—like in the rest of the country—are sold on the secondary market and pooled into residential mortgage-backed securities. Roughly 25-35% of Maryland loans are pooled and sold outside of government-sponsored entities (GSEs) such as Fannie Mae and Ginnie Mae. The *Brown* decision created uncertainty for these transactions, resulting in reduced mortgage availability for Maryland borrowers.

Left unaddressed, this situation will harm Maryland homeowners and our state's economy. Mortgage lending is highly competitive, and lenders are not obligated to operate in any single state. If regulatory burdens here become too complex or costly, they can and will choose to do business elsewhere. We are already seeing signs of market contraction, which could result in fewer loan options, higher costs, and a less competitive mortgage landscape for Maryland residents.

OFR took immediate action following the decision to provide clarity and issued interpretive guidance in January, temporarily delaying enforcement of the new licensing requirement until July of 2025. This delay was intended to allow time for the General Assembly to act—and this bill is the necessary legislative remedy.

Senate Bill 1026 is a targeted and practical solution that does not reduce consumer protections. Lenders and servicers will remain subject to robust licensing, oversight, and enforcement by OFR to ensure fair lending practices. This bill simply reaffirms the regulatory approach that was in place prior to the Brown decision—ensuring passive trusts do not require licensure while maintaining the strong consumer protections Maryland borrowers deserve.

Additionally, this legislation provides for the establishment of a licensing study group to meet over the summer of 2025. This group will review Maryland’s licensing framework and make recommendations to ensure we continue to strike the right balance between consumer protection and market competition.

If the General Assembly does not pass this legislation, OFR will be forced to license and examine thousands of passive trusts and entities, a massive and unprecedented burden on its regulatory system. This is not a sustainable path forward, nor is it in the best interest of Maryland borrowers.

For all of these reasons, I respectfully request a favorable report on **Senate Bill 1026.**