



COMMISSIONER OF FINANCIAL REGULATION

ADVISORY NOTICE

REGULATORY ALERT



October 2, 2019

LAW CHANGES AFFECTING MARYLAND MORTGAGE LENDER LICENSEES

During its 2019 session, the Maryland General Assembly passed, and Governor Hogan subsequently signed, House Bill 61 (92 Md. Laws 2019). **The effective date of the law is October 1, 2019.** There are several changes to Maryland law that will impact Maryland mortgage lender licensees.

New Net Worth Requirements

The revised law specifies that applicants for licensure and renewal must meet certain specified **tangible** net worth requirements. The calculation of tangible net worth for these purposes excludes intangible assets – e.g., goodwill, trademarks, or copyrights. **Note:** For compliance purposes, mortgage servicing rights may be included in the calculation of tangible net worth under House Bill 61.

For mortgage brokers and mortgage lenders, the minimum net worth requirements are changing only to the extent that the law expressly specifies that the standard be met utilizing tangible net worth. The required amounts are unchanged.

The revised law establishes new minimum net worth requirements for mortgage servicers. Those who meet the capital requirements of, and are approved by, a government sponsored entity (GSE), satisfy the net worth requirements. Those licensees without GSE approval must meet the following requirements:

<u>Unpaid Principal Balance of Entire Servicing Portfolio</u>	<u>Minimum Tangible Net Worth</u>
<= \$50,000,000	\$100,000
>\$50,000,000 but <= \$100,000,000	\$250,000
>\$100,000,000 but <= \$250,000,000	\$500,000
>\$250,000,000	\$1,000,000

A line of credit may not be used to satisfy the net worth requirement for mortgage servicers. As to licensees other than mortgage servicers, the new law states that any line of credit used to satisfy a portion of the net worth requirement must be a **working capital** line of credit – i.e., warehouse lines of credit may not be used to meet net worth requirements – and it further provides that there must be a reservation of the line of credit in favor of the Commissioner.

An irrevocable letter of credit may also be used for satisfying the net worth requirement. Such letter of credit may not terminate prior to the expiration of the license, and may not be modified without the prior written consent of the Commissioner.

The new requirements will be enforced beginning with 2020 license renewal (Nov. 1 through Dec. 31, 2019).

Advance Notification of Change of Address or Change of Control

Licensees are required to provide timely notice of change of address or change of control. Failure to do so will result in a \$500 surcharge.

Examination Cycle and Record Retention

Prior law required the Commissioner to examine each mortgage lender licensee within 18 months of initial licensure, and at least once in any 36-month period thereafter. The revised law retains the requirement to examine within 18 months of initial licensure, but changes the subsequent examination requirement to at least once in any 60-month period. Licensees should note that this change does not, in any way, alter the Commissioner's authority to examine a licensee more frequently. Existing law, unchanged under HB 61, directs the Commissioner, when establishing an examination schedule, to take into account any prior violations of law or regulation by a licensee, the nature and number of complaints made against a licensee, and the result of findings from any prior examination of a licensee. The change was made to allow the Commissioner to place greater emphasis on violations, complaints, and prior examination findings when scheduling examinations, i.e., to increase risk-based examination scheduling.

Because of the change to the law regarding the examination cycle, licensees are now required under the revised statute to retain records for at least 61 months.

Alignment of Certain Licensing Provisions with NMLS Functionality

Revisions were made to certain provisions in the law governing the term and expiration of licenses. These changes were made to align the text of the law with NMLS functionality and requirements. Licensees will see no changes as a result of these revisions.

The Commissioner reminds all licensees that they are required to abide by all applicable provisions of law and regulation. This advisory is not intended as a substitute for thorough review of the revised statute. The Commissioner encourages licensees to review the full text of the revised statute, which may be found [here](#).

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