



114th MAINE LEGISLATURE

FIRST REGULAR SESSION - 1989

Legislative Document

No. 1741

H.P. 1248

House of Representatives, June 12, 1989

Approved for introduction by a majority of the Legislative Council pursuant to Joint Rule 27.

Reference to the Committee on Banking and Insurance suggested and ordered printed.

d Vest EDWIN H. PERT, Clerk

Presented by Representative NADEAU of Lewiston.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED AND EIGHTY-NINE

An Act to Authorize Mortgagees to Require Property Insurance Provided by Insurers Which Meet Standards Established by Federal Mortgage Loan Corporations.

(AFTER DEADLINE)

(EMERGENCY)

 Emergency preamble. Whereas, Acts of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

5 Whereas, a decision of the Maine Superintendent of Insurance prohibits mortgagees from requiring borrowers to obtain property 7 insurance from insurers which meet the "B-III" standard of the A.M. Best Company; and

Whereas, most residential mortgages are sold on the 11 secondary mortgage market which requires that these standards be met; and

Whereas, the Federal National Mortgage Association, the 15 Federal Home Loan Mortgage Association and the Maine State Housing Authority require that these standards be met; and

Whereas, there could be a very substantial reduction in the 19 number of residential mortgages issued in Maine as a result of this decision; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

Be it enacted by the People of the State of Maine as follows:

24-A MRSA §2168, sub-§2, as enacted by PL 1969, c. 132, §1, 31 is amended to read:

2. This section shall not prevent the exercise by any mortgagee of his the right to approve the insurer selected by the borrower on a reasonable nondiscriminatory basis related to the solvency and assessment policies of the insurer and its ability to service the policy. Nothing in this section prohibits the use by any mortgagee of a nationally recognized rating service as a basis for approving the insurer selected by the borrower.

Emergency clause. In view of the emergency cited in the preamble, this Act shall take effect when approved.

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STATEMENT OF FACT

Current law prohibits mortgage lenders from requiring borrowers to use particular insurers or insurance brokers or agents. Under present law, a mortgage lender is allowed to approve the borrower's insurer based on nondiscriminatory bases which may include solvency of the insurer and the ability of the insurer to service the policy.

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The Federal National Mortgage Association, or Fannie Mae, 3 the Federal Home Loan Mortgage Association, or Freddie Mac, and the Maine State Housing Authority require that any loan which 5 these organizations purchase be insured by insurers which meet the "B-III" standards of the A.M. Best Company. In many cases, 7 mortgage loans are sold on national markets which require these standards. If mortgage lenders in Maine cannot require borrowers to obtain mortgage insurance that meets the "B-III" standards, 9 Fannie Mae, Freddie Mac and the Maine State Housing Authority may 11 not be able to purchase mortgage loans of Maine lenders on the secondary market. As a result, there could be a substantial reduction in the number of mortgage loans issued in Maine. 13 This bill would correct this problem by specifically allowing 15 mortgagees to use a nationally recognized rating service as a basis for approving the insurer selected by the borrower.

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