

SENATE BILL 583

I1, I2

4lr2204
CF 4lr2224

By: **Senators Kelley and Middleton**

Introduced and read first time: January 30, 2014

Assigned to: Finance

A BILL ENTITLED

1 AN ACT concerning

2 **Financial Institutions – Interest Payable on Escrow Accounts and Specific**
3 **Purpose Savings Accounts**

4 FOR the purpose of altering the interest rate payable by certain lending institutions
5 on escrow accounts created in connection with loans secured by a first mortgage
6 or first deed of trust on residential real property; altering the interest rate
7 payable by certain banking institutions on interest bearing accounts instituted
8 for a specific purpose; providing for the application of this Act; and generally
9 relating to rates of interest payable on escrow accounts and savings accounts.

10 BY repealing and reenacting, without amendments,
11 Article – Commercial Law
12 Section 12–109(a) and 12–1026(a)
13 Annotated Code of Maryland
14 (2013 Replacement Volume)

15 BY repealing and reenacting, with amendments,
16 Article – Commercial Law
17 Section 12–109(b) and 12–1026(b)
18 Annotated Code of Maryland
19 (2013 Replacement Volume)

20 BY repealing and reenacting, without amendments,
21 Article – Financial Institutions
22 Section 1–101(a) and (d)
23 Annotated Code of Maryland
24 (2011 Replacement Volume and 2013 Supplement)

25 BY repealing and reenacting, with amendments,
26 Article – Financial Institutions
27 Section 5–302(b)

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 Annotated Code of Maryland
2 (2011 Replacement Volume and 2013 Supplement)

3 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
4 MARYLAND, That the Laws of Maryland read as follows:

5 **Article – Commercial Law**

6 12–109.

7 (a) (1) In this section the following words have the meanings indicated.

8 (2) “Escrow account” means an expense or escrow account which tends
9 to protect the security of a loan by the accumulation of funds for the payment of taxes,
10 insurance premiums, or other expenses.

11 (3) “Lending institution” means a bank, savings bank, or savings and
12 loan association doing business in Maryland.

13 (b) (1) A lending institution which lends money secured by a first
14 mortgage or first deed of trust on any interest in residential real property and creates
15 or is the assignee of an escrow account in connection with that loan shall pay interest
16 to the borrower on the funds in the escrow account at an annual rate not less than the
17 [6–month average dealer bid rate on nationally traded certificates of deposit] **WEEKLY**
18 **AVERAGE YIELD ON UNITED STATES TREASURY SECURITIES ADJUSTED TO A**
19 **CONSTANT MATURITY OF 1 YEAR**, as published by the Federal Reserve in “Selected
20 Interest Rates (Daily) – H.15”, as of the first business day of the calendar year.

21 (2) Interest on these funds shall be:

22 (i) Adjusted, if applicable, as of the first day of each calendar
23 year to reflect the rate to be paid during that year, as determined under paragraph (1)
24 of this subsection;

25 (ii) Computed on the average monthly balance in the escrow
26 account; and

27 (iii) Paid annually to the borrower by crediting the escrow
28 account with the amount of interest due.

29 (3) The lending institution shall annually provide the borrower with a
30 statement of the escrow balance.

31 12–1026.

32 (a) (1) In this section the following words have the meanings indicated.

1 (2) “Escrow account” means an expense or escrow account which tends
2 to protect the security of a loan by the accumulation of funds for the payment of taxes,
3 insurance premiums, or other expenses.

4 (3) “Lending institution” means a bank, savings bank, or savings and
5 loan association doing business in Maryland.

6 (b) (1) A lending institution that makes a loan to a consumer borrower
7 secured by a first mortgage or first deed of trust on residential real property and
8 creates or is the assignee of an escrow account in connection with that loan shall pay
9 interest to the consumer borrower on the funds in the escrow account at an annual
10 rate not less than the [6-month average dealer bid rate on nationally traded
11 certificates of deposit] **WEEKLY AVERAGE YIELD ON UNITED STATES TREASURY**
12 **SECURITIES ADJUSTED TO A CONSTANT MATURITY OF 1 YEAR**, as published by the
13 Federal Reserve in “Selected Interest Rates (Daily) – H.15”, as of the first business day
14 of the calendar year.

15 (2) Interest on these funds shall be:

16 (i) Adjusted, if applicable, as of the first day of each calendar
17 year to reflect the rate to be paid during that year, as determined under paragraph (1)
18 of this subsection;

19 (ii) Computed on the average monthly balance in the escrow
20 account; and

21 (iii) Paid annually to the borrower by crediting the escrow
22 account with the amount of interest due.

23 (3) The lending institution shall annually provide the consumer
24 borrower with a statement of the escrow balance.

25 (4) The provisions of this subsection do not apply to a lending
26 institution that provides for the payment of taxes, insurance, or other expenses under
27 the direct reduction method by which these expenses, when paid by the lending
28 institution, are added to the outstanding principal balance of the loan.

29 (5) (i) This subsection does not apply if the loan:

30 1. Is purchased by an out-of-state lender through the
31 Federal National Mortgage Association, the Government National Mortgage
32 Association, or the Federal Home Loan Mortgage Corporation; and

33 2. The out-of-state lender elects to service the loan as a
34 condition of purchase.

1 (ii) Notwithstanding subparagraph (i) of this paragraph, this
2 subsection shall apply if the out-of-state lender:

- 3 1. Sells the loan to a Maryland lender; or
4 2. Places the loan with a Maryland lender for servicing.

5 **Article – Financial Institutions**

6 1–101.

7 (a) In this article, unless the context clearly requires otherwise, the following
8 words have the meanings indicated.

9 (d) “Banking institution” means an institution that is incorporated under the
10 laws of this State as a State bank, trust company, or savings bank.

11 5–302.

12 (b) A banking institution shall pay interest on each interest bearing account
13 that is instituted for a specific purpose, including “Christmas” or “vacation” accounts,
14 for a period of 1 year or less at an annual rate not less than the [6-month average
15 dealer bid rate on nationally traded certificates of deposit] **WEEKLY AVERAGE YIELD**
16 **ON UNITED STATES TREASURY SECURITIES ADJUSTED TO A CONSTANT**
17 **MATURITY OF 1 YEAR**, as published by the Federal Reserve in “Selected Interest
18 Rates (Daily) – H.15”, as of the first business day of the calendar year.

19 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall be
20 construed to apply retroactively to escrow accounts and savings accounts in existence
21 on or after January 1, 2014.

22 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
23 June 1, 2014.