

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 782

(Delegate McMillan, *et al.*)

Environment and Transportation

Judicial Proceedings

Real Property - Residential Leases - Interest on Security Deposits

This bill alters the calculation of the interest rate that must be paid by a landlord or a mobile home park owner upon the return of the tenant's or park resident's security deposit. The bill also requires the Department of Housing and Community Development (DHCD) to alter (if that option is chosen) the rental security deposit calculator maintained on its website to allow a user to use the date that the security deposit was given to the landlord for the purpose of calculating interest owed, instead of the tenancy start date.

The bill takes effect June 1, 2015, and applies to any interest accruing on a security deposit under a residential lease or mobile home park rental agreement on or after January 1, 2015.

Fiscal Summary

State Effect: Although DHCD has already established a calculator, it can either make the change or opt to use yield curve rates with existing resources. The Consumer Protection Division of the Office of the Attorney General can handle the bill's requirements with existing resources, assuming 50 or fewer new complaints are generated by the bill. Revenues are not affected.

Local Effect: None.

Small Business Effect: Minimal. The requirements of the bill do not substantially alter the amount of interest paid by landlords or mobile home park owners.

Analysis

Bill Summary: The bill repeals the requirement to prorate interest based on a security deposit held for less than a full year. Instead, interest accrues at monthly intervals from the day the tenant gives the landlord the security deposit. The bill specifies that a tenant or park resident may not receive interest on a security deposit unless the landlord or park owner has held the deposit for at least six months. Interest payments must be based on accrual for a full month.

Calculation of interest on a security deposit held by a landlord or a park owner begins when the security deposit is given to the landlord.

The bill also clarifies the calculation of the annual interest rate paid on a security deposit. The rate is clarified to be the daily U.S. Treasury yield curve rate for one year, as of the first business day of each year, or 1.5% *a year*, whichever is greater.

Current Law/Background: Chapter 2 of 1973 imposed the duty on a landlord to pay interest on a tenant's security deposit at 3% simple interest, accruing at six-month intervals. Chapter 536 of 1980 increased the interest rate that must be paid on a security deposit from 3% to 4%. Chapter 369 of 2004 lowered the required interest rate to be paid on a tenant's security deposit to 3%.

Chapters 488 and 489 of 2014 set the required interest rate at 1.5%, or the daily U.S. Treasury yield curve rate for one year, as of the first business day of each year, whichever is greater. Chapter 488 and 489 also established a formula to calculate interest to be paid at monthly intervals, when a security deposit is held for less than one year. The landlord or park owner first must multiply the amount of the deposit by the daily U.S. Treasury yield curve rate for one year as of the first business day of the calendar year, or 1.5%, whichever is greater. The landlord or park owner must then multiply the result by a fraction, the numerator of which is the number of months that the deposit was held that year, and the denominator of which is 12. Chapters 488 and 489 also required DHCD to (1) maintain on its website either a list of daily U.S. Treasury yield curve rates for one year, as of the first business day of the year, to be used in calculating the interest on a security deposit or (2) establish and maintain a customized calculator on its website that calculates the interest due on a security deposit, by allowing a user to enter a tenancy start date, a tenancy end date, and the amount of the security deposit. DHCD is required to report to specified committees on the feasibility of maintaining such a calculator by October 1, 2015. A landlord or park owner is entitled to rely on the list of yield curve rates or the calculator on DHCD's website when calculating the interest on a security deposit.

The U.S. Treasury's yield curve rates, commonly referred to as "Constant Maturity Treasury" rates or "CMTs," are based on yields that are interpolated by the U.S. Treasury

from the daily yield curve. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded U.S. Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The yield values are read from the yield curve at fixed maturities, currently 1, 3, and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. As shown in **Exhibit 1**, the U.S. Treasury's yield curve rates for one year, as of the first business day of the year, have ranged, over the past 11 years, from as high as 5% in 2007 to as low as 0.12% in 2012.

Exhibit 1
2005-2014 U.S. Treasury Yield Curve Rates for One Year

| <u>Date</u> | <u>Rate</u> |
|-------------|-------------|
| 1/2/2015 | 0.25% |
| 1/2/2014 | 0.13% |
| 1/2/2013 | 0.15% |
| 1/3/2012 | 0.12% |
| 1/3/2011 | 0.29% |
| 1/4/2010 | 0.45% |
| 1/2/2009 | 0.40% |
| 1/2/2008 | 3.17% |
| 1/2/2007 | 5.00% |
| 1/3/2006 | 4.38% |
| 1/3/2005 | 2.79% |

Source: U.S. Department of the Treasury

Additional Information

Prior Introductions: None.

Cross File: SB 408 (Senator Muse, *et al.*) - Judicial Proceedings.

Information Source(s): Office of the Attorney General (Consumer Protection Division), Department of Housing and Community Development, Judiciary (Administrative Office of the Courts), Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2015
md/kdm

Analysis by: Nathan W. McCurdy

Direct Inquiries to:
(410) 946-5510
(301) 970-5510