

## **Chapter 529**

**(House Bill 533)**

AN ACT concerning

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

FOR the purpose of altering the interest rate payable by certain lending institutions on escrow accounts created in connection with loans secured by a first mortgage or first deed of trust on residential real property; requiring the interest rate to be adjusted under certain circumstances; altering the interest rate payable by certain banking institutions on interest bearing accounts instituted for a specific purpose; repealing certain obsolete language; providing for the application of this Act; and generally relating to rates of interest payable on escrow accounts and savings accounts.

BY repealing and reenacting, with amendments,  
Article – Commercial Law  
Section 12–109 and 12–1026(b)  
Annotated Code of Maryland  
(2005 Replacement Volume and 2011 Supplement)

BY repealing and reenacting, without amendments,  
Article – Commercial Law  
Section 12–1026(a)  
Annotated Code of Maryland  
(2005 Replacement Volume and 2011 Supplement)

BY repealing and reenacting, with amendments,  
Article – Financial Institutions  
Section 5–302(b)  
Annotated Code of Maryland  
(2011 Replacement Volume and 2011 Supplement)

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

#### **Article – Commercial Law**

12–109.

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

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

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

(b) (1) [After May 31, 1974, a] **A** lending institution which lends money secured by a first mortgage or first deed of trust on any interest in residential real property and creates or is the assignee of an escrow account in connection with that loan shall pay interest to the borrower on the funds in the escrow account at [the greater of:

(i) A rate of 3 percent per annum simple interest; or

(ii) The rate of interest regularly paid by the lending institution on regular passbook savings accounts] **AN ANNUAL RATE NOT LESS THAN THE 6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN “SELECTED INTEREST RATES (DAILY) – H.15”, AS OF THE FIRST BUSINESS DAY OF THE CALENDAR YEAR.**

(2) Interest on these funds shall be:

(i) **ADJUSTED, IF APPLICABLE, AS OF THE FIRST DAY OF EACH CALENDAR YEAR TO REFLECT THE RATE TO BE PAID DURING THAT YEAR, AS DETERMINED UNDER PARAGRAPH (1) OF THIS SUBSECTION;**

**(II)** Computed on the average monthly balance in the escrow account; and

**[(ii)] (III)** Paid annually to the borrower by crediting the escrow account with the amount of interest due.

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

(c) The provisions of this section do not apply to a lending institution which provides for the payment of taxes, insurance, or other expenses under the direct reduction method by which these expenses, when paid by the lender, are added to the outstanding principal balance of the loan.

(d) This section does not apply if the loan is purchased by an out-of-state lender through the Federal National Mortgage Association, the Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation and the

out-of-state lender as a condition of purchase elects to service the loan. However, this section shall apply if the out-of-state lender sells the loan to a Maryland lender or places the loan with a Maryland lender for servicing.

12-1026.

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

(2) "Lending institution" means a bank, savings bank, or savings and loan association doing business in Maryland.

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

(b) (1) A lending institution that makes a loan to a consumer borrower secured by a first mortgage or first deed of trust on residential real property and creates or is the assignee of an escrow account in connection with that loan shall pay interest to the consumer borrower on the funds in the escrow account at [the greater of:

(i) A rate of 3 percent per annum simple interest; or

(ii) The rate of interest regularly paid by the lending institution on regular passbook savings accounts] **AN ANNUAL RATE NOT LESS THAN THE 6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN "SELECTED INTEREST RATES (DAILY) - H.15", AS OF THE FIRST BUSINESS DAY OF THE CALENDAR YEAR.**

(2) Interest on these funds shall be:

(i) **ADJUSTED, IF APPLICABLE, AS OF THE FIRST DAY OF EACH CALENDAR YEAR TO REFLECT THE RATE TO BE PAID DURING THAT YEAR, AS DETERMINED UNDER PARAGRAPH (1) OF THIS SUBSECTION;**

**(II)** Computed on the average monthly balance in the escrow account; and

**[(ii)] (III)** Paid annually to the borrower by crediting the escrow account with the amount of interest due.

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

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

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

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

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

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

1. Sells the loan to a Maryland lender; or

2. Places the loan with a Maryland lender for servicing.

#### **Article – Financial Institutions**

5–302.

(b) A banking institution shall pay [at least 3 percent annual] interest on each interest bearing account that is instituted for a specific purpose, including “Christmas” or “vacation” accounts, for a period of 1 year or less **AT AN ANNUAL RATE NOT LESS THAN THE 6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN “SELECTED INTEREST RATES (DAILY) – H.15”, AS OF THE FIRST BUSINESS DAY OF THE CALENDAR YEAR.**

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall apply to escrow accounts and savings accounts established on or after the effective date of this Act.

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect June 1, 2012.

**Approved by the Governor, May 22, 2012.**