

SENATE BILL 583

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4lr2204
CF HB 735

By: **Senators Kelley and Middleton**

Introduced and read first time: January 30, 2014

Assigned to: Finance

Committee Report: Favorable

Senate action: Adopted

Read second time: February 21, 2014

CHAPTER _____

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)

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



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

3 BY repealing and reenacting, with amendments,
4 Article – Financial Institutions
5 Section 5–302(b)
6 Annotated Code of Maryland
7 (2011 Replacement Volume and 2013 Supplement)

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

10 **Article – Commercial Law**

11 12–109.

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

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

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

18 (b) (1) A lending institution which lends money secured by a first
19 mortgage or first deed of trust on any interest in residential real property and creates
20 or is the assignee of an escrow account in connection with that loan shall pay interest
21 to the borrower on the funds in the escrow account at an annual rate not less than the
22 [6–month average dealer bid rate on nationally traded certificates of deposit] **WEEKLY**
23 **AVERAGE YIELD ON UNITED STATES TREASURY SECURITIES ADJUSTED TO A**
24 **CONSTANT MATURITY OF 1 YEAR**, as published by the Federal Reserve in “Selected
25 Interest Rates (Daily) – H.15”, as of the first business day of the calendar year.

26 (2) Interest on these funds shall be:

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

30 (ii) Computed on the average monthly balance in the escrow
31 account; and

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

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

3 12-1026.

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

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

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

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

19 (2) Interest on these funds shall be:

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

23 (ii) Computed on the average monthly balance in the escrow
24 account; and

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

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

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

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

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

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

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

8 1. Sells the loan to a Maryland lender; or

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

10 **Article – Financial Institutions**

11 1–101.

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

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

16 5–302.

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

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

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