
By: Delegates Bobo, Pitkin, Goldwater, Arnick, Patterson, Crumlin, Pendergrass, and Turner

Introduced and read first time: February 1, 1996
Assigned to: Commerce and Government Matters

A BILL ENTITLED

1 AN ACT concerning

2 **Credit Regulation - Lenders - Interest on Escrow Accounts**

3 FOR the purpose of requiring certain lenders to pay interest to borrowers on the funds in
4 certain escrow accounts; requiring certain lenders to annually provide borrowers
5 with a statement of the escrow balance; providing for a certain exception; repealing
6 a certain definition; and generally relating to interest on escrow accounts.

7 BY repealing and reenacting, without amendments,
8 Article - Commercial Law
9 Section 12-101(a), (f), and (g)
10 Annotated Code of Maryland
11 (1990 Replacement Volume and 1995 Supplement)

12 BY repealing and reenacting, with amendments,
13 Article - Commercial Law
14 Section 12-109
15 Annotated Code of Maryland
16 (1990 Replacement Volume and 1995 Supplement)

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

19 **Article - Commercial Law**

20 12-101.

21 (a) In this subtitle the following words have the meanings indicated.

22 (f) "Lender" means a person who makes a loan under this subtitle.

23 (g) "Person" includes an individual, corporation, business trust, estate, trust,
24 partnership, association, two or more persons having a joint or common interest, or any
25 other legal or commercial entity.

26 12-109.

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

2

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

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

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

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

12 (ii) IF THE LENDER PROVIDES REGULAR PASSBOOK SAVINGS
13 ACCOUNTS, THE [The] rate of interest regularly paid by the [lending institution]
14 LENDER on [regular passbook savings] SUCH accounts.

15 (2) Interest on these funds shall be:

16 (i) Computed on the average monthly balance in the escrow account;
17 and

18 (ii) Paid annually to the borrower by crediting the escrowaccount with
19 the amount of interest due.

20 (3) The [lending institution] LENDER shall annually provide theborrower
21 with a statement of the escrow balance.

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

26 (d) This section does not apply if the loan is purchased by an out-of-state lender
27 through the Federal National Mortgage Association, the Government National Mortgage
28 Association, or the Federal Home Loan Mortgage Corporation and the out-of-state
29 lender as a condition of purchase elects to service the loan. However, this section shall
30 apply if the out-of-state lender sells the loan to a Maryland lender orplaces the loan with
31 a Maryland lender for servicing.

32 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
33 October 1, 1996.