

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 508

(Delegate Walker, *et al.*)

Environmental Matters

Real Property - Residential Leases - Interest on Security Deposits

This bill alters the annual interest rate paid on the security deposit of a tenant under a residential lease from 3% per year to one percentage point below the Federal Reserve Board discount rate as of January 1 of each year.

Fiscal Summary

State Effect: The bill does not directly affect State finances or operations.

Local Effect: The bill does not directly affect local finances or operations.

Small Business Effect: Meaningful effect on the operating income of multi-family residential rental property owners.

Analysis

Current Law: A residential landlord may not impose a security deposit of more than two months rent per dwelling unit, regardless of the number of tenants. A landlord must deposit the funds in a federally insured financial institution doing business in the State within 30 days of receipt. If a tenant's security deposit is \$50 or more, a landlord must return the deposit with 3% simple interest per year, less any damages rightfully withheld within 45 days after the end of the tenancy.

Interest is not compounded and accrues at six-month intervals from the day the tenant pays the security deposit. In the event a landlord fails to return any part of the security deposit plus accrued interest within 45 days after the end of the tenancy, and does not

have a reasonable basis for withholding the deposit, the tenant may be entitled to treble damages and reasonable attorney's fees.

If any portion of the security deposit is withheld, the landlord must send a list of damages claimed and the costs actually incurred by first-class mail to the tenant's last known address within 45 days after the end of the tenancy. This notice provision does not apply to a former tenant who was evicted or ejected due to breach of the lease or a former tenant who abandoned the premises prior to the termination of the tenancy.

Background: The Federal Reserve Board discount rate is the interest rate charged to eligible commercial banks and other depository institutions on loans received from the 12 regional Federal Reserve Banks. The discount rate is set by the board of directors of each Federal Reserve Bank every 14 days and is subject to review by the board of governors of the Federal Reserve System. If a financial institution's capital reserves drop below the reserves requirement established by the board of governors, funds borrowed from the Federal Reserve are typically used to correct that shortage.

The discount rate is used by the Federal Reserve to control the monetary supply, which in turn, influences inflation and interest rates. The more money available, the more likely inflation will occur. Raising the discount rate makes it expensive to borrow from the Federal Reserve, which lowers the supply of available money, thus increasing short-term interest rates. Lowering the discount rate has the opposite effect, in turn, bringing short-term interest rates down. Historical Federal Reserve Board discount rates are shown in **Exhibit 1**.

Exhibit 1
Federal Reserve Board Historical Discount Rates
January 1, 2001 through January 1, 2010

<u>Date</u>	<u>Discount Rate</u>
January 1, 2010	0.50%
January 1, 2009	0.50%
January 1, 2008	4.75%
January 1, 2007	6.25%
January 1, 2006	5.25%
January 1, 2005	3.25%
January 1, 2004	2.00%
January 1, 2003	0.75%
January 1, 2002	1.25%
January 1, 2001	6.00%

Source: Federal Reserve Board

Additional Comments: In Virginia, interest owed on a tenant's security deposit accrues at an annual rate equal to one percentage point below the Federal Reserve Board discount rate as of January 1 of each year on all property or money held as a security deposit. In Virginia, when the discount rate is at or below 1% as of January 1 of a particular year, a tenant's security deposit accrues no interest. Although not specified, Legislative Services assumes that, when the discount rate is at or below 1%, no interest will accrue that particular year on a tenant's security deposit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division), Judiciary (Administrative Office of the Courts), Federal Reserve Board, Bankrate, Department of Legislative Services

Fiscal Note History: First Reader - February 9, 2010
mlm/kdm

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