

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 1053

(Senator Klausmeier)

Finance

**Financial Institutions - Credit Unions and Depository Institutions - Authority to
Conduct Savings Promotion Raffles**

This bill gives effect to Chapters 627 and 628 of 2010 by repealing contingency language requiring enabling federal regulatory or legislative action. Thus, the bill authorizes a State-chartered credit union and a depository institution to conduct a savings promotion raffle if specified conditions are met. The bill also repeals a related requirement for the Commissioner of Financial Regulation to (1) monitor federal regulatory and legislative action relating to whether credit unions and depository institutions may provide prize-linked savings products; and (2) notify the Department of Legislative Services (DLS) within 30 days after learning of the federal action.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: Enforcement can be handled with existing resources. No impact on revenues.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill alters the definition of “savings promotion raffle,” in relation to a depository institution, to mean a contest (1) associated with one or more qualified deposit accounts; (2) conducted by a depository institution, alone or together with other businesses; and (3) in which eligible customers are offered one or more chances to win specified prizes. The bill similarly alters the definition of “savings promotion raffle,” in relation to a credit union. The bill further alters the definition of “eligible customer,” in relation to a depository institution, as an adult who is a resident of the State.

Both a depository institution and a credit union may conduct a savings promotion raffle if a requirement for a chance to win a specified prize is (1) the deposit of a minimum specified amount of money in a qualifying deposit account or qualifying share certificate account according to the terms and conditions developed for the savings promotion raffle; or (2) the submission of any entry according to the terms and conditions developed for the savings promotion raffle with no deposit or purchase necessary.

The bill requires that a depository institution or credit union that offers a savings promotion raffle must post in any location where entries may be submitted and disclose in any promotional materials a statement that describes the raffle’s terms and conditions, including that no purchase is necessary, making deposits or purchasing goods or services will not improve the odds of winning, and the odds of winning will be determined based on the number of entries received.

Current Law: “Savings promotion raffle” means a prize-linked savings product offered by a participating depository institution or credit union to an eligible customer or member.

Chapters 627 and 628 of 2010 authorized a credit union and depository institution to conduct a savings promotion raffle if federal regulatory or legislative action is passed authorizing the practice by a depository institution. The commissioner must monitor federal activity related to prize-linked savings products and notify DLS within 30 days after learning federal action has been taken to allow depository institutions to provide prize-linked products.

In the event enabling federal regulatory or legislative action is passed, a depository institution and a credit union may, for the exclusive benefit of eligible customers or members, conduct a savings promotion raffle, if:

- the sole consideration required for a chance to win a specified prize is the deposit of a minimum specified amount of money in a qualifying account;

- each ticket or entry has an equal chance of being drawn;
- the depository institution or credit union maintains books and records on the raffle; and
- the raffle will not harm its ability to operate in a safe and sound manner or mislead customers or members.

Any raffle conducted by the institution must be approved by the commissioner, and the commissioner may examine the conduct of a raffle and issue a cease and desist order for a violation (except as preempted by federal law if a depository institution).

Background: Federal law currently prohibits all federally regulated banks, thrifts, and trust institutions from engaging in lotteries, including prize-linked savings products. However, federal credit unions may use promotional raffles and provide prized-linked savings products under the National Credit Union Administration.

Established by a finance professor at the Harvard Business School, savings promotion raffles motivate people to save money by offering prizes linked to their savings accounts. Currently, at least six states have authorized the practice of offering prize-linked savings programs, including Maine, Michigan, Nebraska, North Carolina, Rhode Island, and Washington. Michigan was the first state to authorize such a program, in which 11,666 members at eight credit unions participated in the first year. At least four additional states are considering or have considered similar legislation during 2012.

Small Business Effect: The bill may have a meaningful impact on depository institutions and credit unions, some of which are small businesses, to the extent that a savings promotion raffle incentivizes new customers or members to use the depository institution. According to the Credit Union National Association, members of participating Michigan credit unions saved over \$8.5 million in the first year of the program.

Additional Information

Prior Introductions: None.

Cross File: HB 786 (Delegate Olszewski, *et al.*) - Economic Matters.

Information Source(s): Comptroller's Office; Maryland State Lottery Agency; Department of Labor, Licensing, and Regulation; Credit Union National Association; Department of Legislative Services

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