

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 515

(Senator Klausmeier, *et al.*)

Finance

Economic Matters

Financial Institutions - Depository Institutions - Savings Promotion Raffles

This bill repeals specified provisions and modifies the definitions of certain terms as they relate to savings promotion raffles.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: The bill is not expected to materially affect State operations or finances, as enforcement can be handled with existing resources. Revenues are not affected.

Local Effect: The bill is not expected to materially affect local operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill modifies the definition of “depository institution” to mean a financial institution that, among other things, is authorized to maintain “qualifying accounts.” “Qualifying accounts” are savings or share accounts or other savings products or programs (1) offered by a depository institution; (2) insured by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or a credit union share guaranty corporation that is approved by the Commissioner of Financial Regulation; and (3) through which eligible customers may obtain chances to win prizes in a savings promotion raffle. By modifying the definition of “depository institution” and “qualifying accounts,” the bill envelopes credit unions under the term “depository institutions.”

Thus, statutory language relating to credit unions that conduct or offer savings promotion raffles is repealed as unnecessary.

The bill also modifies the definition of “savings promotion raffles” to mean a contest in which (1) the sole consideration required for a chance of winning designated prizes is obtained by the deposit of a specified amount of money in a qualifying account and (2) each ticket or entry has an equal chance of being drawn.

While the bill repeals most statutory language as it relates to depository institutions conducting or offering savings promotion raffles, the following authorizations and requirements for depository institutions under current law remain:

- A depository institution is authorized to conduct a savings promotion raffle for the exclusive benefit of eligible customers if (1) the depository institution maintains books and records relating to the savings promotion raffle and (2) the raffle does not harm the depository institution’s ability to operate in a safe and sound manner or mislead the depository institution’s customers.
- Except as preempted by federal law, the Commissioner of Financial Regulation may (1) examine the conduct of a savings promotion raffle and (2) issue a cease and desist order for a violation.

Current Law: A “savings promotion raffle” is 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. A “depository institution” is any State-chartered or federally chartered financial institution, other-state bank, or foreign bank that is (1) located in this State or maintains a branch in this State and (2) authorized to maintain qualifying deposit accounts.

Depository institutions and credit unions are authorized to 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;
- each entry in the savings promotion raffle has an equal chance of being drawn;
- records of the savings promotion raffle are maintained by the depository institution or credit union; and

- the raffle will not (1) harm the depository institution's or credit union's ability to operate in a safe and sound manner or (2) mislead its customers.

In addition to the requirement that a savings promotion raffle be approved by the Commissioner of Financial Regulation, depository institutions and credit unions that offer a savings promotion raffle are required to post in any location where entries may be submitted and disclose in any materials promoting the raffle a statement describing the terms and conditions of the raffle 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.

Except as preempted by federal law, the Commissioner of Financial Regulation is authorized to examine the conduct of a savings promotion raffle and issue a cease and desist order for a violation of State law.

Background: Chapters 627 and 628 of 2010 authorized a credit union and a depository institution to conduct a savings promotion raffle, subject to the approval of the Commissioner of Financial Regulation. The legislation was contingent on federal legislation or federal regulatory action to allow specified depository institutions to provide prize-linked savings products and notice of such federal approval being provided by the Commissioner of Financial Regulation to the Department of Legislative Services on or before October 1, 2014. Chapter 393 of 2012 repealed, among other things, the contingency language requiring enabling federal legislation or federal regulatory action.

The American Savings Promotion Act (H.R. 3374) was signed into law by the President on December 18, 2014. The Act authorized covered financial institutions to conduct a contest, known as a "savings promotion raffle," in which the sole consideration required for a chance of winning designated prizes is obtained by the deposit of a specified amount of money in a savings account or program, where each ticket or entry has an equal chance of being drawn. The Act also amended the federal criminal code to exempt (1) savings promotion raffles conducted by an insured depository institution or an insured credit union from specified prohibitions against interstate and foreign travel or transportation in aid of racketeering enterprises and (2) any savings promotion raffles from the prohibition against illegal gambling businesses.

The preamble to the Act notes that, as of 2012, the annual savings rate in the United States was 4.1%. More than 40% of American households lack the savings to cover basic expenses for three months, if an unexpected event leads to a loss of stable income.

The preamble further notes that a number of states, including Maryland, have allowed financial institutions to offer prize-linked savings accounts. In Michigan and Nebraska, for instance, more than 42,000 individuals have opened prize-linked savings accounts and saved more than \$72 million. As a result, the preamble states, such raffles encourage personal savings.

Additional Information

Prior Introductions: None.

Cross File: HB 558 (Delegate Clippinger) - Economic Matters.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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