
By: Senators Ruben and Frosh

Introduced and read first time: January 19, 1996

Assigned to: Finance

A BILL ENTITLED

1 AN ACT concerning

2 **Residential Mortgages - Interest on Escrow Accounts**

3 FOR the purpose of repealing the exemption of certain out-of-state lenders which lend
4 money secured by a first mortgage or first deed of trust on any interest in residential
5 real property and which create or are the assignee of an escrow account in
6 connection with the loan from paying interest on certain funds in certain escrow
7 accounts to certain borrowers; repealing a certain definition; making stylistic
8 changes; applying this Act to certain loans; and generally relating to interest on
9 escrow accounts.

10 BY repealing and reenacting, without amendments,

11 Article - Commercial Law
12 Section 12-101(f)
13 Annotated Code of Maryland
14 (1990 Replacement Volume and 1995 Supplement)

15 BY repealing and reenacting, with amendments,

16 Article - Commercial Law
17 Section 12-109
18 Annotated Code of Maryland
19 (1990 Replacement Volume and 1995 Supplement)

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

22 **Article - Commercial Law**

23 12-101.

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

25 12-109.

26 (a) [(1)] In this section [the following words have the meanings indicated.

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

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

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

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

10 (ii) [The] IF THE LENDER PROVIDES A REGULAR PASSBOOK
11 SAVINGS ACCOUNT, THE rate of interest regularly paid by the [lending institution]
12 LENDER on [regular passbook savings accounts] THE ACCOUNT.

13 (2) Interest on these funds shall be:

14 (i) Computed on the average monthly balance in the escrow account;
15 and

16 (ii) Paid annually to the borrower by crediting the escrow account with
17 the amount of interest due.

18 (3) The [lending institution] LENDER shall annually provide the borrower
19 with a statement of the escrow balance.

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

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

30 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall apply to all
31 loans subject to this Act that are in existence on, or are made after, the effective date of
32 this Act.

33 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
34 October 1, 1996.