

Department of Legislative Services  
Maryland General Assembly  
2003 Session

**FISCAL AND POLICY NOTE**

Senate Bill 436 (Senator Gladden)  
Judicial Proceedings

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**Real Property - Residential Leases - Interest on Security Deposits**

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This bill alters the amount of interest a landlord must pay a tenant upon return of the tenant's security deposit from 4% per annum to the prevailing passbook rate at the financial institution where the deposit is being held. The interest rate paid on a security deposit is the passbook rate paid on January 1 and July 1 for each six-month period, or part thereof, of the tenancy that follows those dates.

The bill applies only to leases entered into on or after October 1, 2003.

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**Fiscal Summary**

**State Effect:** Assuming that the Consumer Protection Division receives fewer than 50 complaints as a result of this bill, any additional workload would be handled with existing budgeted resources.

**Local Effect:** None.

**Small Business Effect:** Minimal as discussed below.

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**Analysis**

**Current Law:** A landlord is required to pay 4% simple interest on a tenant's security deposit and to maintain all security deposits in branches of federally-insured financial institutions doing business in the State. The deposits must be in interest-bearing accounts, and the accounts must be devoted exclusively to security deposits. In lieu of these accounts, a landlord may hold the security deposits in insured certificates of deposit

at branches of federally-insured financial institutions doing business in the State or in securities issued by the federal government or the State.

**Small Business Effect:** Currently, the interest rates for both passbook accounts and certificates of deposit are below 4%. The current interest rate paid on most passbook accounts is less than 2%, and the interest rates for short-term certificates of deposit currently range from 1.8% to 2.5%, with a slightly higher yield. Because a landlord is currently required to pay 4% simple interest on all security deposits, small business landlords would no longer incur losses on security deposits, i.e., the difference between the return rate on the investment and 4%. Small business landlords that choose to invest security deposits in certificates of deposit would experience increased interest income from the deposits. Those that invested security deposits in passbook-type accounts would either gain or lose interest income during the six-month period after the rate is set on the account, depending on whether interest rates increase or decrease during that period.

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### **Additional Information**

**Prior Introductions:** Similar bills were introduced in the 1997, 2000, and 2002 sessions. In 1997, SB 292 received an unfavorable report from the Senate Judicial Proceedings Committee. In 2000, HB 75 was withdrawn, after being heard in the House Economic Matters Committee. In 2002, HB 996 received an unfavorable report from the House Economic Matters Committee.

**Cross File:** HB 217 (Delegates Barkley and Amedori) – Environmental Matters.

**Information Source(s):** Office of the Attorney General (Consumer Protection Division), Department of Legislative Services

**Fiscal Note History:** First Reader - February 12, 2003  
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