

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 254
Judiciary

(Delegate Rosenberg)

Courts - Interest Rate on Judgments

This bill changes the legal rate of interest on judgments in State courts from 10% per year to the bank prime loan rate, as published by the Board of Governors of the Federal Reserve System (FRB).

The new interest rate shall apply prospectively to judgments entered on or after the bill's October 1, 2006 effective date.

Fiscal Summary

State Effect: None. The change would not directly affect State finances.

Local Effect: None. The change would not directly affect local finances.

Small Business Effect: None.

Analysis

Bill Summary: The interest rate on the judgment will be (1) the FRB rate for the month of the date of the judgment; (2) computed daily to the date of payment; and (3) compounded annually.

The bill retains the legal rates of interest on money judgments arising from actions involving (1) contracts for the loan of money, including student loans; (2) rent of residential premises; and (3) delinquent real or personal property taxes.

Current Law: Most judgments in State courts are subject to a legal rate of interest of 10% per year. However, money judgments arising from certain types of actions are subject to a different interest rate. Listed below are exceptions to the current 10% rate.

- Judgments arising from contracts involving the loan of money are subject to the rate of interest charged under the contract on any balance remaining unpaid until the date of maturity of the contract. However, the interest is only applied to any unpaid principal.

This provision does not apply to (1) student loans where the contractual rate of interest is less than the general legal rate of interest on money judgments, unless the agreement for the student loan expressly provides otherwise; or (2) any loans secured by a mortgage or deed of trust.

- Money judgments for rent of residential premises are subject to an interest rate of 6% per year.
- The legal rate of interest on a money judgment for delinquent real or personal property shall be the greater of: (1) the sum of the rates fixed under §§ 14-603 and 14-702 of the Tax-Property Article for interest or penalties; or (2) 10% per year.

Federal law requires that interest be allowed on any money judgment in a civil case in a federal district court. The applicable interest rate, except for internal revenue tax cases, is the weekly average one-year constant maturity treasury yield, as published by the FRB for the calendar week preceding the date of judgment.

Background: Chapter 798 of 1980 changed the legal rate of interest on court judgments from 6% per year to 10% per year. In *Mayor and City Council of Baltimore v. Kelso Corporation et. al.*, 294 Md. 267, 449 A.2d 406 (1982), the Court of Appeals stated that though the right to judgment interest did not exist at common law:

...the purpose of postjudgment interest is to compensate the judgment creditor for the loss of the monies that are due and owing to him from the time the judgment is entered until it is paid. The change in the interest rate, from six to 10 percent per annum, recognized that the old rate no longer fairly compensated judgment creditors.

Id at 273, 449 A.2d at 409.

As of the week ending February 3, 2006, the weekly average one-year constant maturity treasury yield rate was 4.6%. The bank prime loan rate was 7.5% as of January 31, 2006.

Additional Information

Prior Introductions: None.

Cross File: SB 677 (Senator Giannetti) – Judicial Proceedings.

Information Source(s): Judiciary (Administrative Office of the Courts), Federal Reserve Bank of St. Louis, Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2006
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