

# HOUSE BILL 533

I1, I2

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CF SB 507

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By: **Delegates Feldman, Haddaway–Riccio, McHale, and Schulz**

Introduced and read first time: February 3, 2012

Assigned to: Economic Matters

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## A BILL ENTITLED

1 AN ACT concerning

2 **Financial Institutions – Interest Payable on Escrow Accounts and Specific**  
3 **Purpose Savings Accounts**

4 FOR the purpose of altering the interest rate payable by certain lending institutions  
5 on escrow accounts created in connection with loans secured by a first mortgage  
6 or first deed of trust on residential real property; requiring the interest rate to  
7 be adjusted under certain circumstances; altering the interest rate payable by  
8 certain banking institutions on interest bearing accounts instituted for a  
9 specific purpose; repealing certain obsolete language; providing for the  
10 application of this Act; and generally relating to rates of interest payable on  
11 escrow accounts and savings accounts.

12 BY repealing and reenacting, with amendments,  
13 Article – Commercial Law  
14 Section 12–109 and 12–1026(b)  
15 Annotated Code of Maryland  
16 (2005 Replacement Volume and 2011 Supplement)

17 BY repealing and reenacting, without amendments,  
18 Article – Commercial Law  
19 Section 12–1026(a)  
20 Annotated Code of Maryland  
21 (2005 Replacement Volume and 2011 Supplement)

22 BY repealing and reenacting, with amendments,  
23 Article – Financial Institutions  
24 Section 5–302(b)  
25 Annotated Code of Maryland  
26 (2011 Replacement Volume and 2011 Supplement)

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EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



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

3 **Article – Commercial Law**

4 12–109.

5 (a) (1) In this section the following words have the meanings indicated.

6 (2) “Lending institution” means a bank, savings bank, or savings and  
7 loan association doing business in Maryland.

8 (3) “Escrow account” means an expense or escrow account which tends  
9 to protect the security of a loan by the accumulation of funds for the payment of taxes,  
10 insurance premiums, or other expenses.

11 (b) (1) [After May 31, 1974, a] **A** lending institution which lends money  
12 secured by a first mortgage or first deed of trust on any interest in residential real  
13 property and creates or is the assignee of an escrow account in connection with that  
14 loan shall pay interest to the borrower on the funds in the escrow account at [the  
15 greater of:

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

17 (ii) The rate of interest regularly paid by the lending institution  
18 on regular passbook savings accounts] **AN ANNUAL RATE NOT LESS THAN THE**  
19 **6–MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES**  
20 **OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN “SELECTED**  
21 **INTEREST RATES (DAILY) – H.15”, AS OF THE FIRST BUSINESS DAY OF THE**  
22 **CALENDAR YEAR.**

23 (2) Interest on these funds shall be:

24 (i) **ADJUSTED, IF APPLICABLE, AS OF THE FIRST DAY OF**  
25 **EACH CALENDAR YEAR TO REFLECT THE RATE TO BE PAID DURING THAT YEAR,**  
26 **AS DETERMINED UNDER PARAGRAPH (1) OF THIS SUBSECTION;**

27 **(II)** Computed on the average monthly balance in the escrow  
28 account; and

29 **[(ii)] (III)** Paid annually to the borrower by crediting the escrow  
30 account with the amount of interest due.

31 (3) The lending institution shall annually provide the borrower with a  
32 statement of the escrow balance.

1 (c) The provisions of this section do not apply to a lending institution which  
2 provides for the payment of taxes, insurance, or other expenses under the direct  
3 reduction method by which these expenses, when paid by the lender, are added to the  
4 outstanding principal balance of the loan.

5 (d) This section does not apply if the loan is purchased by an out-of-state  
6 lender through the Federal National Mortgage Association, the Government National  
7 Mortgage Association, or the Federal Home Loan Mortgage Corporation and the  
8 out-of-state lender as a condition of purchase elects to service the loan. However, this  
9 section shall apply if the out-of-state lender sells the loan to a Maryland lender or  
10 places the loan with a Maryland lender for servicing.

11 12-1026.

12 (a) (1) In this section the following words have the meanings indicated.

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

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

18 (b) (1) A lending institution that makes a loan to a consumer borrower  
19 secured by a first mortgage or first deed of trust on residential real property and  
20 creates or is the assignee of an escrow account in connection with that loan shall pay  
21 interest to the consumer borrower on the funds in the escrow account at [the greater  
22 of:

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

24 (ii) The rate of interest regularly paid by the lending institution  
25 on regular passbook savings accounts] **AN ANNUAL RATE NOT LESS THAN THE**  
26 **6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES**  
27 **OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN "SELECTED**  
28 **INTEREST RATES (DAILY) - H.15", AS OF THE FIRST BUSINESS DAY OF THE**  
29 **CALENDAR YEAR.**

30 (2) Interest on these funds shall be:

31 (i) **ADJUSTED, IF APPLICABLE, AS OF THE FIRST DAY OF**  
32 **EACH CALENDAR YEAR TO REFLECT THE RATE TO BE PAID DURING THAT YEAR,**  
33 **AS DETERMINED UNDER PARAGRAPH (1) OF THIS SUBSECTION;**

34 (ii) **Computed on the average monthly balance in the escrow**  
35 **account; and**

1                    [(ii)] (III) Paid annually to the borrower by crediting the escrow  
2 account with the amount of interest due.

3                    (3) The lending institution shall annually provide the consumer  
4 borrower with a statement of the escrow balance.

5                    (4) The provisions of this subsection do not apply to a lending  
6 institution that provides for the payment of taxes, insurance, or other expenses under  
7 the direct reduction method by which these expenses, when paid by the lending  
8 institution, are added to the outstanding principal balance of the loan.

9                    (5) (i) This subsection does not apply if the loan:

10                    1. Is purchased by an out-of-state lender through the  
11 Federal National Mortgage Association, the Government National Mortgage  
12 Association, or the Federal Home Loan Mortgage Corporation; and

13                    2. The out-of-state lender elects to service the loan as a  
14 condition of purchase.

15                    (ii) Notwithstanding subparagraph (i) of this paragraph, this  
16 subsection shall apply if the out-of-state lender:

17                    1. Sells the loan to a Maryland lender; or

18                    2. Places the loan with a Maryland lender for servicing.

19                    **Article – Financial Institutions**

20                    5–302.

21                    (b) A banking institution shall pay [at least 3 percent annual] interest on  
22 each interest bearing account that is instituted for a specific purpose, including  
23 “Christmas” or “vacation” accounts, for a period of 1 year or less **AT AN ANNUAL RATE**  
24 **NOT LESS THAN THE 6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY**  
25 **TRADED CERTIFICATES OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE**  
26 **IN “SELECTED INTEREST RATES (DAILY) – H.15”, AS OF THE FIRST BUSINESS**  
27 **DAY OF THE CALENDAR YEAR.**

28                    SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall apply to  
29 escrow accounts and savings accounts established on or after the effective date of this  
30 Act.

31                    SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect  
32 June 1, 2012.