

Chapter 306

(Senate Bill 583)

AN ACT concerning

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

FOR the purpose of altering the interest rate payable by certain lending institutions on escrow accounts created in connection with loans secured by a first mortgage or first deed of trust on residential real property; altering the interest rate payable by certain banking institutions on interest bearing accounts instituted for a specific purpose; providing for the application of this Act; and generally relating to rates of interest payable on escrow accounts and savings accounts.

BY repealing and reenacting, without amendments,

Article – Commercial Law
Section 12–109(a) and 12–1026(a)
Annotated Code of Maryland
(2013 Replacement Volume)

BY repealing and reenacting, with amendments,

Article – Commercial Law
Section 12–109(b) and 12–1026(b)
Annotated Code of Maryland
(2013 Replacement Volume)

BY repealing and reenacting, without amendments,

Article – Financial Institutions
Section 1–101(a) and (d)
Annotated Code of Maryland
(2011 Replacement Volume and 2013 Supplement)

BY repealing and reenacting, with amendments,

Article – Financial Institutions
Section 5–302(b)
Annotated Code of Maryland
(2011 Replacement Volume and 2013 Supplement)

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

Article – Commercial Law

12-109.

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

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

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

(b) (1) A lending institution which lends money secured by a first mortgage or first deed of trust on any interest in residential real property and creates or is the assignee of an escrow account in connection with that loan shall pay interest to the borrower on the funds in the escrow account at an annual rate not less than the **[6-month average dealer bid rate on nationally traded certificates of deposit] WEEKLY AVERAGE YIELD ON UNITED STATES TREASURY SECURITIES ADJUSTED TO A CONSTANT MATURITY OF 1 YEAR**, as published by the Federal Reserve in “Selected Interest Rates (Daily) – H.15”, as of the first business day of the calendar year.

(2) Interest on these funds shall be:

(i) Adjusted, if applicable, as of the first day of each calendar year to reflect the rate to be paid during that year, as determined under paragraph (1) of this subsection;

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

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

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

12-1026.

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

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

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

(b) (1) A lending institution that makes a loan to a consumer borrower secured by a first mortgage or first deed of trust on residential real property and creates or is the assignee of an escrow account in connection with that loan shall pay interest to the consumer borrower on the funds in the escrow account at an annual rate not less than the [6-month average dealer bid rate on nationally traded certificates of deposit] **WEEKLY AVERAGE YIELD ON UNITED STATES TREASURY SECURITIES ADJUSTED TO A CONSTANT MATURITY OF 1 YEAR**, as published by the Federal Reserve in “Selected Interest Rates (Daily) – H.15”, as of the first business day of the calendar year.

(2) Interest on these funds shall be:

(i) Adjusted, if applicable, as of the first day of each calendar year to reflect the rate to be paid during that year, as determined under paragraph (1) of this subsection;

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

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

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

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

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

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

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

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

1. Sells the loan to a Maryland lender; or

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

Article – Financial Institutions

1–101.

(a) In this article, unless the context clearly requires otherwise, the following words have the meanings indicated.

(d) “Banking institution” means an institution that is incorporated under the laws of this State as a State bank, trust company, or savings bank.

5–302.

(b) A banking institution shall pay interest on each interest bearing account that is instituted for a specific purpose, including “Christmas” or “vacation” accounts, for a period of 1 year or less at an annual rate not less than the [6–month average dealer bid rate on nationally traded certificates of deposit] **WEEKLY AVERAGE YIELD ON UNITED STATES TREASURY SECURITIES ADJUSTED TO A CONSTANT MATURITY OF 1 YEAR**, as published by the Federal Reserve in “Selected Interest Rates (Daily) – H.15”, as of the first business day of the calendar year.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall be construed to apply retroactively to escrow accounts and savings accounts in existence on or after January 1, 2014.

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect June 1, 2014.

Approved by the Governor, May 5, 2014.