PA 26-79—SB 218
Banking Committee

AN ACT CONCERNING THE COMMUNITY BANK AND CREDIT UNION INVESTMENT PROGRAM, MORTGAGE PAYMENTS, PENALTIES FOR VIOLATIONS OF RENTAL SECURITY DEPOSIT REQUIREMENTS, CERTAIN APPROVALS BY THE BANKING COMMISSIONER, CONNECTICUT BRANCH APPLICATIONS AND SECURED CREDIT CARDS

SUMMARY: This act makes various changes to banking-related laws. Specifically, the act:

1. sets the minimum interest rate that the state treasurer may accept for investment-related services under the Community Bank and Credit Union Initiative and requires that the treasurer select participating banks and credit unions through an application process, rather than a competitive bidding process (§ 1);
2. requires mortgagees to accept payments on the outstanding principal of residential property loans that are beyond the loans' required monthly payments (§ 2);
3. explicitly authorizes the Department of Banking (DOB) commissioner, after an investigation, to order a civil penalty of up to $100,000 for certain violations of the security deposit laws (§ 3);
4. eliminates the requirement that Connecticut banks with a "satisfactory" Community Reinvestment Act (CRA) rating submit a plan for meeting community banking needs when applying to establish a branch location in the state or convert a limited branch to a branch, or vice versa (§ 4);
5. generally shortens the timeframe for the DOB commissioner to notify banks applying to establish a Connecticut or out-of-state branch about his determination before the applications are deemed approved (§ 5); and
6. expands the factors the DOB commissioner must consider when assessing a bank's state CRA performance to include whether it offers a loan or deposit product designed to help local community residents, including low- and moderate-income people, establish or improve their credit history (§ 6).

EFFECTIVE DATE: October 1, 2026

§ 1 — COMMUNITY BANK AND CREDIT UNION INITIATIVE

The act sets the minimum interest rate that the state treasurer may accept for investment-related services under the Community Bank and Credit Union Initiative at 100 basis points (one percentage point) below the previous day's yield for a comparable U.S. Treasury security with the same maturity date as the one applicable to the investment-related services, as determined by the treasurer. The act also requires that the treasurer select banks and credit unions to participate in the program through an application process, rather than a competitive bidding process as prior law required.

Under this initiative, the treasurer may invest up to $300 million in Connecticut-based banks and credit unions that meet the applicable asset limits and capital standards. The financial institutions participating in the initiative make loans to people and small-to-medium sized companies and provide banking services in underserved markets.

§ 2 — MORTGAGE LOAN PRINCIPAL PAYMENTS

The act sets circumstances under which mortgagees (lenders or servicers) of certain residential property loans must accept payments on the loans' outstanding principal that are beyond the loans' required monthly payments ("prepayments"). This applies to mortgage loans made on or after January 1, 2027, for one-to-four family owner-occupied dwellings.

The act requires a mortgagee to accept a prepayment from a mortgagor (borrower) that reduces the amount of principal owed on the loan, either fully or partially. But to apply a prepayment, the mortgagor must be current on making all monthly payments due under the loan.

The act allows the mortgagee to apply a prepayment to other amounts owed under the loan if the loan's terms allow it to do so. Additionally, under the act, making a prepayment does not change the due date or amount of the loan's regular monthly payment unless the mortgagee agrees to it in writing.

Lastly, the act specifies that a mortgagee (1) must apply the prepayment according to applicable state and federal laws and regulations and (2) cannot assess a charge on a prepayment if state or federal law or regulation prohibit it. But for Federal Housing Administration-insured loans, it allows for mortgagors to have to reimburse mortgagees for any charge, premium, or fee the law or regulation requires for payment of a mortgage loan before its fixed payment date.

§ 3 — CIVIL PENALTIES FOR CERTAIN RENTAL SECURITY DEPOSIT LAW VIOLATIONS

Existing law authorizes the DOB commissioner to order a civil penalty of up to $100,000 for violations of any provision of the statutes within his jurisdiction or any regulation, rule, or order adopted or issued under these statutes. The act explicitly authorizes him, after an investigation, to order this penalty for certain violations of the security deposit laws, in addition to issuing cease and desist orders for violations of these laws, as existing law allows. (Existing law also authorizes specified penalties for security deposit law violations (see *Background — Penalties for Security Deposit Law Violations*).)

Existing law authorizes the commissioner to receive and investigate complaints about certain alleged violations of the security deposit laws. These laws apply to residential landlords and generally (1) cap maximum allowable security deposits, (2) require deposits be placed in an escrow account, (3) set the interest rate on security deposits, (4) require landlords to pay tenants annual interest on security deposits, and (5) set timeframes for paying security deposits and interest at the end of tenancy.

By law, the commissioner does not have jurisdiction when the landlord (1) fails to annually pay the tenant interest on a security deposit or (2) has a good faith claim for actual damages that the tenant received written notice about. The latter includes situations where a landlord refuses or fails to return all or part of the security deposit because he or she is claiming damages.

Background — Penalties for Security Deposit Law Violations

Among other things, existing law makes any landlord who fails to return a tenant's security deposit (less the value of any itemized damages) within the statutory timeframe liable for twice the security deposit amount. Landlords are also subject to specified penalties under the existing security deposit laws if they knowingly and willfully:

1. fail to pay all or part of a security deposit due when the tenancy ends (a fine of up to $250 for each offense);
2. violate the escrow account requirements (a fine of up to $500, up to 30 days in prison, or both for each offense if at the time of the offense the landlord leased four or more residential units); or
3. fail to make the required interest payments on security deposits (a fine of up to $100 for each offense).

§ 4 — COMMUNITY BANKING NEEDS PLAN

Prior law prohibited the DOB commissioner from approving certain types of applications from entities that received a CRA rating other than "outstanding" on their most recent community reinvestment performance evaluation unless they submitted a plan showing how they would provide adequate services to meet the banking needs of all community residents, including those with low or moderate income. The act exempts any entity with a "satisfactory" rating on its most recent applicable community reinvestment performance evaluation from this requirement when applying to (1) establish a Connecticut branch location, including a limited or special need limited branch, or (2) convert a limited branch to a branch, or vice versa. It retains the requirement for applicants for other DOB approvals, including to merge or consolidate with a Connecticut bank or organize a holding company.

Existing law authorizes the commissioner to waive this requirement or require the submission of alternative information if the entity has at least a "satisfactory" rating and meets certain other criteria (for "eligible entities," see *Background — Eligible Entities*). The law also waives this requirement for applications to establish a mobile branch in the state but allows the commissioner to require applicants to submit other information instead of a plan.

Background — Eligible Entities

By law, an "eligible entity" is an applicant that:

1. received a composite rating of one or two under the Uniform Financial Institutions Rating System as a result of its most recent safety and soundness examination;
2. received a compliance rating of one or two on its most recent compliance examination;
3. received a satisfactory or better rating on its most recent community reinvestment performance evaluation;
4. is well capitalized, as determined under federal law;
5. is not subject to a cease and desist order, consent order, prompt correction action directive, written agreement, memorandum of understanding, or other administrative agreement with its primary state or federal banking regulator; and
6. is not subject to any formal or informal administrative action by that regulator.

§ 5 — TIMEFRAME FOR BRANCH APPLICATION APPROVALS

By law, when the DOB commissioner receives an application from a Connecticut bank to establish a branch here (including a limited, special need limited, or mobile branch) or outside of the state (including a limited or mobile branch), he must publish a notice of the application in the department's weekly bulletin, determine if the applicant is an eligible entity, and promptly notify the applicant about his determination.

The act requires that the application be deemed approved on the fifth business day, rather than the twelfth calendar day, after the end of the comment period stated in the department's weekly bulletin, unless the commissioner informs the applicant, in writing, about certain facts before then (for example, that an adverse comment has been received that warrants additional investigation or the application needs additional information). It similarly allows the application to be deemed approved before the end of the fifth business day, rather than the twelfth calendar day, if the commissioner issues a written notice of his intent not to disapprove it.

§ 6 — STATE CRA ASSESSMENTS

Existing law lists specific factors the DOB commissioner must consider in assessing a bank's community reinvestment performance under the state's CRA, including its (1) record of offering security deposit escrow accounts and (2) efforts to work with delinquent residential mortgage customers who are unemployed or underemployed. The act additionally requires the commissioner to consider if the bank offers a loan or deposit product designed to help local community residents, including low- and moderate-income people, establish or improve their credit history.

The state's CRA law applies to all state-chartered banks, as well as out-of-state banks with a Connecticut branch, except those that generally do not grant credit to the public as part of their normal business. It requires the commissioner to assess each bank's record of meeting its obligation to satisfy the credit needs of its local communities, including low- and moderate-income neighborhoods, using the federal CRA's methodology and other state-specific factors.