REAL PROPERTY AND [[HOLDS]] 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 THE GREATER OF:

(i) A RATE OF 3 PERCENT PER ANNUM SIMPLE INTEREST; OR

(ii) THE RATE OF INTEREST REGULARLY PAID BY THE LENDING INSTITUTION ON REGULAR PASS BOOK SAVINGS ACCOUNTS.

(2) INTEREST ON THESE FUNDS SHALL BE:

(i) COMPUTED ON THE AVERAGE MONTHLY BALANCE IN THE ESCROW ACCOUNT; AND

(ii) PAID ANNUALLY TO THE BORROWER BY CREDITING THE ESCROW ACCOUNT WITH THE AMOUNT OF INTEREST DUE.

(C) DIRECT [[DEDUCTIONS]] REDUCTIONS.

THE PROVISIONS OF THIS SECTION DO NOT APPLY TO A LENDING INSTITUTION WHICH PROVIDES FOR THE PAYMENT OF TAXES, INSURANCE, OR OTHER EXPENSES UNDER THE DIRECT REDUCTION METHOD BY WHICH THESE EXPENSES, WHEN PAID BY THE LENDER, ARE ADDED TO THE OUTSTANDING PRINCIPAL BALANCE OF THE LOAN.

REVISOR'S NOTE: This section is new language derived without substantive change from Art. 49, §13(b). Since its requirements are independant of the provisions of present §13(a) and (c) – now contained in §§ 12–103(b) and 12–113 – it is set out here as a separate section.

In subsection (a)(2) of this section, the reference to "building and loan association" is deleted as unnecessary in light of the more modern "savings and loan associations". In this regard, see Title 6, Subtitle 2 of the Corporation and Associations Article.

In subsection (b)(1) of this section, for purposes of clarity, the words "first mortgage or first deed of trust on any interest in residential real property" are substituted for "real property." Although the substituted words are more limiting in their scope, the limitation is required by the clear language of the Title to Ch. 420, Acts of 1974, which enacted this section. "The title of a