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## OLR Bill Analysis

### SB 218 (File 75, as amended by Senate "A")\*

#### **AN ACT REQUIRING A STUDY RELATING TO BANKING ISSUES IN THE STATE.**

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## SUMMARY

This bill makes various changes to banking-related laws, as described in the section-by-section analysis below.

EFFECTIVE DATE: October 1, 2026

\*Senate Amendment “A” replaces the underlying bill which required a Department of Banking (DOB) study on banking issues in the state.

## **§ 1 — COMMUNITY BANK AND CREDIT UNION INITIATIVE**

*Sets the minimum interest rate that the state treasurer may accept for investment-related services under the Community Bank and Credit Union Initiative; requires that the treasurer select participating banks and credit unions through an application process, rather than a competitive bidding process*

The bill sets the minimum interest rate that the state treasurer may accept for investment-related services under the Community Bank and Credit Union Initiative. Specifically, it sets the minimum rate 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 bill 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 current law requires.

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.

### ***Background — Related Bill***

SB 216 (File 120), favorably reported by the Banking Committee, has identical provisions.

## **§ 2 — MORTGAGE LOAN PRINCIPAL PAYMENTS**

*Requires mortgagees to accept payments on the outstanding principal of residential property loans that are beyond the loans’ required monthly payments*

The bill 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 bill 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 bill 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 bill, 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 bill 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.

### ***Background — Related Bill***

SB 217 (File 121), favorably reported by the Banking Committee, requires mortgagees to accept mortgagors' payments monthly, semimonthly, or biweekly.

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

*Explicitly authorizes the DOB commissioner, after an investigation, to order a civil penalty of up to \$100,000 for certain violations of the security deposit laws*

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 bill 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. (The 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 of which the tenant received written notice. 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. Anyone can take legal action in court to reclaim any part of their security deposit that may be due, and this does not stop tenants or landlords from recovering other damages to which they may be entitled.

***Background — Penalties for Security Deposit Law Violations***

The 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. Any landlord who fails to pay the tenant the accrued interest on a security deposit is liable for the greater of \$10 or twice the accrued interest.

Landlords are also subject to specified penalties under the 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).

**Background — Related Bill**

sSB 219 (File 122), favorably reported by the Banking Committee, has identical provisions.

**§ 4 — COMMUNITY BANKING NEEDS PLAN**

*Eliminates the requirement that Connecticut banks with a “satisfactory” 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*

Under current law, the DOB commissioner cannot approve certain types of applications from entities that received a Community Reinvestment Act (CRA) rating other than “outstanding” on their most recent community reinvestment performance evaluation unless they submit a plan showing how they will provide adequate services to meet the banking needs of all community residents, including those with low or moderate income. This requirement applies to entities seeking various DOB approvals, including to (1) open a Connecticut branch, (2) merge or consolidate with a Connecticut bank, or (3) organize a holding company.

The bill 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.

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.

**Background — CRA Ratings**

In its CRA ratings, DOB gives each state-chartered bank a score of outstanding, satisfactory, needs to improve, or substantial noncompliance. As of December 31, 2025, four banks have an outstanding rating; one has a needs to improve rating; and the remainder (18) have a satisfactory rating. No banks received a substantial noncompliance rating.

**Background — Related Bill**

sSB 302, § 1 (File 126), favorably reported by the Banking Committee, has identical provisions.

**§ 5 — TIMEFRAME FOR BRANCH APPLICATION APPROVALS**

*Generally shortens the timeframe for the DOB commissioner to notify banks applying to establish a Connecticut or out-of-state branch of his determination before the applications are deemed approved*

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 of his determination.

The bill requires that the application be deemed approved on the 5th business day, rather than the 12th calendar day, after the end of the comment period provided in the department's weekly bulletin, unless the commissioner informs the applicant, in writing, before then of certain facts (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 5th business day, rather than the 12th calendar day, if the commissioner issues a written notice of his intent not to disapprove it.

### **Background — Related Bill**

sSB 302, § 2 (File 126), favorably reported by the Banking Committee, has identical provisions.

### **§ 6 — CRA ASSESSMENTS**

*Expands the factors the DOB commissioner must consider when assessing a bank's 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*

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 bill 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.

**COMMITTEE ACTION**

Banking Committee

Joint Favorable

Yea 13 Nay 0 (03/10/2026)