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TENANTS' SECURITY DEPOSIT – ESCROW ACCOUNTS

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This report summarizes the state laws that apply to an escrow account in which a tenant's security deposit must be held.

SUMMARY

Under Connecticut law, a landlord must deposit a tenant's security deposit immediately into an escrow account at a specified type of financial institution. The account must be maintained in the landlord's name but he or she may withdraw money from it only under limited circumstances. A landlord must pay interest annually at the rate published by the banking commissioner each year. All the funds in the account are exempt from attachment and execution.

Upon the written request of the commissioner and within a specified time period, the landlord must disclose the name of the financial institution and the account number of the escrow account. The commissioner may investigate complaints of alleged violations.

A landlord who knowingly fails to make interest payments or makes unauthorized withdrawals or commits other specified violations may be fined, imprisoned, or both depending on the nature of each violation. However, landlords have certain affirmative defenses under specified circumstances.

ESCROW ACCOUNT

Escrow Deposit

Under Connecticut law, a landlord must immediately deposit the entire amount of all tenants' security deposits into one or more escrow accounts in a financial institution located in Connecticut. This can be a state bank and trust company, national bank, savings bank, federal savings bank, savings and loan association, or federal savings and loan association (CGS § [47a-21\(h\)](#)). Deposits in such an escrow account are exempt from attachment and execution by the landlord's or his or her successor's creditors (CGS § [47a-21\(c\)](#)).

A security deposit is any advance rental payment other than (1) an advance payment for the first month's rent and (2) a deposit for a key or any special equipment (CGS § [47a-21\(a\)](#)). By law, a security deposit is the tenant's property, in which the landlord or his or her successor has an interest to secure the tenant's obligations. A security deposit is not part of the landlord's or his or her successor's estate (CGS § [47a-21\(c\)](#)).

Escrow Agent

The landlord is the escrow agent of the account. This means that the account is maintained in his or her name. He or she is prohibited from withdrawing the amount of any security deposit or accrued interest from the account except under limited circumstances (CGS § [47a-21\(h\)](#)). For example, at the termination of tenancy, an escrow agent must withdraw and disburse to the tenant the amount of any security deposit and accrued interest, less the value of any damages.

Interest Payments

A landlord must pay interest annually on a tenant's security deposit. State law requires the commissioner to adjust the interest rate each year. The adjustment must be based on the average rate insured commercial banks paid on savings deposits (i.e., the deposit index), as last published in the monthly survey of selected deposits in supplement H.6 to the *Federal Reserve Bulletin* in November of the prior year. The interest rate for each calendar year cannot be lower than the deposit index for that year (CGS § [47a-21\(i\)](#)).

The Banking Department publishes the new rate for the upcoming year in its weekly *News Bulletin* every December and on the department's website at: <http://www.ct.gov/dob/site/default.asp>.

Commissioner's Oversight

By law, within seven days after the commissioner makes a written request, a landlord must provide the name of each financial institution in which he or she maintains an escrow account and the account number of each such account (CGS § [47a-21\(h\)](#)).

The commissioner may (1) investigate any complaints of alleged violations and (2) order a landlord to cease and desist any practice determined to be a violation.

Violations and Penalties

The penalties for violating of the laws pertaining to the maintenance of escrow accounts for tenants' security deposits include fines and imprisonment. A landlord who knowingly or willfully fails to make the appropriate interest payments on the security deposit is subject to a fine of up to \$100 for each offense.

A landlord who knowingly and willfully fails to pay all or part of a security deposit due when the tenancy terminates is subject to a fine of up to \$250 for each offense. There is an affirmative defense if the failure was caused by the landlord's good faith belief that he or she was entitled to deduct the value of damages.

A landlord who makes unauthorized withdrawals or fails to (1) immediately deposit the security deposit in an escrow account, (2) maintain the account as escrow agent, (3) disclose the account information requested by the commissioner within the required time frame, or (4) follow the appropriate steps when transferring the real estate to a successor, is subject to a fine of up to \$500, imprisonment of up to 30 days, or both for each offense. There is an affirmative defense if at the time of the violation the landlord leased residential property to less than four tenants who paid a security deposit (CGS § [47a-21\(k\)](#)).

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