



**House  
Legislative  
Analysis  
Section**

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**AMENDMENTS TO S&L AND BANKING ACTS**

Senate Bill 255 (Substitute H-2)  
Senate Bill 258 (Substitute H-1)  
First Analysis (6-15-87)

Sponsor: Sen. Dick Posthumus  
Senate Committee: Commerce and Technology  
House Committee: Corporations and Finance

**THE APPARENT PROBLEM:**

In an effort to assist Michigan banks in expanding services and otherwise enhance their ability to compete, Public Act 177 of 1985 revised the Banking Code to permit reciprocal interstate banking, simplify procedures for the consolidation and acquisition of banks, authorize Michigan banks to make venture capital investments, and grant state-regulated banks various powers and privileges accorded to national banks. Some people contend, however, that while the act was beneficial to Michigan banks and Michigan-based national banks, it left savings and loan associations at a competitive disadvantage. Furthermore, federally-chartered associations are permitted to provide some services that state-chartered associations currently cannot offer, and some (such as reciprocal interstate activity) that require the approval of the state in which the association's principal office is located. These critics argue that the powers granted to banks and federally-chartered associations also should be granted to state-chartered savings and loan associations in the name of fairness, parity, and competitiveness. Similarly, it is argued that state-chartered banks should have the same ability to invest in so-called service corporations as savings-and-loans do.

**THE CONTENT OF THE BILL:**

Senate Bill 258 would, in general terms, amend the Savings and Loan Act to:

- Increase the kind of services savings and loan associations can provide (see Section 500, subsections q-s), and allow the Financial Institutions Bureau (FIB) to permit, by rule, associations to engage in appropriate activities beyond those specified in the act.
- Expand the kind of assets an association can invest in (see Section 700, subsections j-m), including allowing savings-and-loans to make venture capital investments or invest in equity securities of a professional investor a majority of whose assets are venture capital investments, subject to certain requirements and limits (e.g. no single investment could exceed five percent of the association's net worth and venture capital investments could not in total exceed ten percent of net worth).
- Provide procedures by which a savings-and-loan can be converted to a bank and by which a bank can be converted to a savings-and-loan (Sections 807 and 809).
- Permit the purchase and sale of associations, in addition to mergers, all with FIB approval (Section 800).
- Establish terms for the consolidation of new and existing savings-and-loan associations (Section 811).
- Stipulate the conditions under which out-of-state associations could acquire Michigan associations or establish branches in Michigan and under which Michigan associations could enter other states (Section 1119).
- Delete the general reserve requirements imposed on associations and replace them with a requirement that each association "maintain an adequate net worth structure appropriate for the conduct of its business and

the protection of its depositors", based on an analysis of each institution by the FIB (section 526).

- Permit savings-and-loans to provide brokerage services for securities and commodity contracts (Section 515).
- Expand the powers of the FIB so that a cease and desist order could be issued not only when there was reasonable cause to believe an association has violated or is about to violate a law or rule but also in cases where anyone involved in the affairs of the association is engaging in unsound or unsafe practices (Section 1000).
- Require that fees from FIB activity be credited to the bureau; impose an annual supervisory fee on associations coming into existence after June 1, 1987; and permit the FIB to periodically establish a schedule of fees for new associations or foreign associations (Section 1134).
- Allow an association to become an owner or lessor of personal property (Section 711).
- Increase the amount an association can invest in a "service corporation" from three percent to five percent (and higher with FIB approval) of total assets (Section 714).
- Include "domestic savings bank" in the definition of "association" (Sections 108 and 123).

Permit savings-and-loans to insure with the Federal Deposit Insurance Corporation (Section 206, 508, etc.)

MCL 491.108 et al.

Senate Bill 255 would amend the Banking Code to:

- Allow banks to invest up to five percent of assets in service corporations, and provide a definition for "service corporations" like that found in the Savings and Loan Act (Section 151H).
- Permit banks to provide brokerage services (Section 151F).
- Expand the kind of investments banks can make (Section 151E) and services they can provide (Section 151D).
- Allow banks to invest up to ten percent of total assets in the purchase and development of real estate (Section 151G).

MCL 487.305 et al.

**HOUSE COMMITTEE ACTION:**

The House Corporations and Finance Committee adopted House substitutes for both Senate Bill 255 and Senate Bill 258 that differed in many ways from the Senate-passed bills. The most significant change was the removal of language from the bills that would have permitted state-chartered savings-and-loans and state-chartered banks, through service corporations, to provide a wide range of real estate services, including real estate brokerage services and management services. Also altered were the fee provisions for new savings-and-loan associations.

S.B. 255 & 258 (6-15-87)

## **FISCAL IMPLICATIONS:**

There is no fiscal information at present on the substitutes. It should be noted that Senate Bill 258 requires that fees for Financial Institutions Bureau services be credited to the bureau to be spent on bureau operations.

## **ARGUMENTS:**

### **For:**

Senate Bill 258 would stimulate competition among financial institutions by allowing savings and loan associations to offer services similar to those provided by banks. Public Act 177 of 1985 revised the Banking Code to permit banks to offer increased services and has allowed banks to respond to market demands more effectively. The bill would have the same positive effect on savings and loan associations and their members; the flexibility that associations would gain as a result of the bill would facilitate more efficient delivery of services.

### **For:**

Congress has granted federally-chartered associations the authority to consolidate and acquire other associations across state lines. This activity is allowed, however, only if the state where an association's primary offices are located amends its savings and loan association authorizing act to permit such practices. Senate Bill 258 would fulfill this requirement.

### **For:**

Senate Bill 258 would allow associations to compete fairly not only with banks and other associations but also with other types of businesses that recently have begun to offer financial services. For example, some insurers offer savings, investment, and loan services; some real estate brokers offer mortgage services; and even some department stores have established "financial centers".

### **Against:**

Under the guise of establishing parity and stimulating competition with banks, the bill would move toward eliminating distinctions between banks and savings and loan associations.

**Response:** Associations would retain their links with communities. Federal regulations require savings and loan associations to invest a certain percentage of their assets in residential properties and the bill would not affect that requirement.

### **Against:**

Savings and loan associations should not be allowed to be insured with FDIC, but should be required to insure deposits with FSLIC, whose financial difficulties could be aggravated by defections.

**Response:** Competition among the federal insurance corporations is healthy. Financial institutions should be allowed to choose between the two, rather than be mandated to insure with one or the other. FDIC standards are uniform and are imposed nationally; insuring with FDIC rather than FSLIC would not weaken coverage.

### **For:**

Senate Bill 255 provides for state banks some of the privileges savings and loans would receive under Senate Bill 258 and, in general, continues the efforts to promote fair competition among financial institutions of all kinds.

## **POSITIONS:**

The following testified in support of the bills before the House Corporations and Finance Committee on 6-10-87:

The Financial Institutions Bureau in the Department of Commerce

The Michigan League of Savings Institutions

The Michigan Bankers Association

The Michigan Consumers Council

The Michigan Association of Realtors testified that they had no position on the substitutes.