



**House  
Legislative  
Analysis  
Section**

Washington Square Building, Suite 1025  
Lansing, Michigan 48909  
Phone: 517/373-6466

***THE APPARENT PROBLEM:***

Since 1981, when restrictions on making secondary mortgage loans were eased under Public Act 125, the state's secondary mortgage market has grown significantly. A non-depository consumer finance company (which does not include banks, savings and loans, or credit unions) licensed to deal in secondary mortgage loans is authorized to make loans to customers which are secured by dwellings already mortgaged. Loans made under the act must be for at least \$3,000, and the act requires a lender to take a lien against the borrower's home as collateral. Some feel the lien requirement may limit companies that operate under the act from making more loans simply because people are not willing to use their homes as collateral against these type of loans. In addition, the growing number of people who do not even own a home are automatically denied one of these loans under the act, even though they could very easily get a similar loan elsewhere (such as from a credit card). In order to increase the competitive market for this type of consumer loan, some feel the act should be amended to permit secondary mortgage companies to make consumer loans without having to take a lien against a borrower's home.

***THE CONTENT OF THE BILL:***

Public Act 125 of 1981 regulates those who deal in secondary mortgage loans (defined as loans of at least \$3,000 made to an individual or a business that are secured by a mortgage upon an interest in real property used as a dwelling subject to a prior mortgage). The bill would amend the act to specify that a secondary mortgage loan could include an "unsecured loan," which would be defined as a loan of \$3,000 or more made by a licensee to a person for personal, family, or household purposes not to be repaid in 90 days or less and not secured by any collateral. An unsecured loan would be subject to the act except for provisions specific to the taking, recording, or releasing of a junior lien on real property.

MCL 493.51

***FISCAL IMPLICATIONS:***

According to the Financial Institutions Bureau in the Department of Commerce, the bill would not affect state or local expenditures. (4-19-89)

***ARGUMENTS:***

***For:***

The bill would delete the requirement in the act that secondary mortgage loans can only be made against the lien on a borrower's home. This requirement limits lenders from making consumer loans to people leery of risking their home as collateral, and from being able to make loans to non-home owners. In fact, these people can just as easily get a similar loan elsewhere without owning a home. The bill would benefit consumers by increasing the competitive

**UNSECURED SECOND MORTGAGE LOANS**

House Bill 4470 (Substitute H-1)  
First Analysis (4-24-89)

**RECEIVED**

MAY 23 1989

Sponsor: Rep. Lad S. Stacey  
Committee: Corporations and Finance

Mich. State Law Library

market for consumer loans of this size (\$3,000 and up), and would allow lenders that deal in secondary mortgage loans to make their share of these loans.

***Response:*** It seems inappropriate to amend an act which deals specifically with making secondary mortgage loans, in order to permit loans that do not need to be secured by any collateral whatsoever. Perhaps it would be better to address the issue in one of the consumer credit service acts.

***POSITIONS:***

The Financial Institutions Bureau supports the bill. (4-19-89)

Household International, which represents consumer finance companies, supports the bill. (4-19-89)

The Michigan Financial Services Association supports the bill. (4-19-89)

The Michigan Consumers Council has no position on the bill. (4-19-89)

The Michigan Credit Union League has no position on the bill. (4-19-89)

The Michigan League of Savings Institutions has no position on the bill. (4-19-89)

H.B. 4470 (4-24-89)