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## MORTGAGE LIFE INSURANCE

House Bill 5238

Sponsor: Rep. Willis Bullard, Jr.

Committee: Insurance

Complete to 10-20-95

### A SUMMARY OF HOUSE BILL 5238 AS INTRODUCED 10-12-95

Section 4418 of the Insurance Code permits the issuance of group life insurance in connection with loans on dwellings or mobile homes if the lending or servicing financial institution directly or indirectly is the policyholder. (This is known as credit life insurance or mortgage life insurance. It is decreasing term insurance, which means the death benefit decreases as the amount of the principal on the loan decreases.) Currently, the maximum amount of a policy is \$80,000. The bill would eliminate the limit and specify that the limit of the policy would be the amount of the loan.

The section also contains limitations on the payment by the insurance company to the financial institution of monetary or financial benefits as a result of the insurance on the life of a borrower. The bill would state that the section would not prohibit a financial institution or its affiliate from owning, and receiving dividends from, stock in a reinsurance company that accepts cessions from an insurance company providing group life insurance to customers of the financial institutions in connection with loans on dwellings and mobile homes if both:

-- under the terms of the reinsurance treaty or related contract, the reinsurer may sustain losses as a consequence of the experience with the reinsured business; and

-- dividends, if any, are only paid out of the reinsurer's earnings.

(Barron's Dictionary of Insurance Terms describes reinsurance as a "form of insurance that insurance companies buy for their own protection, a 'sharing of insurance.'" An insurance company "reduces its possible maximum loss on either an individual risk or on a large number of risks by giving [ceding] a portion of its liability to another insurance company [the reinsurer].")

MCL 500.4418

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