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CLARIFY DEFINITION IN CREDIT REFORM ACT

House Bill 6021 (Substitute H-1)
First Analysis (9-17-96)

Sponsor: Rep. Gary L. Randall
Committee: Commerce

THE APPARENT PROBLEM:

Public Act 162 of 1995 created the Credit Reform Act, which, among other things, sets a maximum of 25 percent on the rate of interest or finance charge that a regulated lender may collect for an extension of credit. The act prohibits regulated lenders and depository institutions from requiring a borrower or buyer to pay an "excessive fee or charge." However, it was discovered soon after enactment of the law that the act did not define this term, which prompted the legislature to pass another bill late in 1995 (Senate Bill 438) to define this term; this bill eventually was enacted as Public Act 85 of 1996. Recently, though, it was discovered that the definition may, in fact, allow a lender operating in Michigan to charge an interest rate allowed under any law—including one in another state. Legislation again has been proposed to clarify the matter.

THE CONTENT OF THE BILL:

The Credit Reform Act prohibits regulated lenders and depository institutions from requiring a borrower or buyer to pay an "excessive fee or charge," and defines this term as a "fee or charge that exceeds the amount allowed [under certain sections of the act] or any other law or statute." The bill would clarify that this term would refer to a fee or charge that exceeded the amount allowed under the act "or any other applicable law or statute of this state."

MCL 445.1852

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bill would not affect state or local budget expenditures. (9-11-96)

ARGUMENTS:

For:

The bill merely would revise the definition for "excessive fee or charge" under the recently enacted Credit Reform Act, to make it clear that this term would refer to a fee or

charge exceeding the amount allowed under various sections of the act or any other applicable Michigan law or statute. Without this change, a regulated lender or depository institution legally could charge a fee in excess of the 25 percent cap established under Michigan law.

POSITIONS:

The Financial Institutions Bureau supports the bill. (9-12-96)

The Michigan Bankers Association supports the bill. (9-12-96)

Analyst: T. Iversen

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

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