Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 5238 (Substitute H-1 as reported without amendment)
Sponsor: Representative Willis Bullard, Jr.
House Committee: Insurance
Senate Committee: Financial Services

CONTENT

The bill would amend the Insurance Code to limit a group mortgage life insurance policy to the amount of the mortgage loan, rather than to the lesser of the amount of the loan or an annually adjusted figure; allow an insurer to provide for or pay to a lending or servicing financial institution monetary or financial benefits as a result of mortgage life insurance, but require certain conditions to be met if the insurance were offered in connection with the origination of a loan; allow dividends to be paid to a financial institution on stock owned in a reinsurer of mortgage life insurance; and repeal a section of the Code pertaining to reinsurance.

Currently, the initial amount of mortgage life insurance is limited to the lesser of the amount of the loan or $80,000 adjusted annually by the U.S. consumer price index (CPI). (The $80,000 ceiling was established in 1982; adjusted for the U.S. CPI, that figure would be approximately $126,000 in 1995 dollars.) Under the bill, a mortgage life insurance policy's initial amount would be limited only to the amount of the mortgage loan.

An insurer may not provide for or pay to a lending or servicing financial institution any benefits as a result of insurance on the life of a borrower in connection with a mortgage loan, except as specifically provided. Under the bill, an insurer could provide for or pay to a financial institution benefits of insurance on the life of a borrower. If mortgage insurance were offered in connection with the origination of a loan, however, an insurer could provide for or pay to the financial institution the benefits of the insurance only if the insurer had taken reasonable steps to ensure that the loan and insurance transactions were separated through a written disclosure given by the financial institution to the borrower stating that the insurance would not have to be purchased as a condition of the loan; the written disclosure stated that the borrower was not required to decide whether to apply for the insurance until after approval of the loan; the financial institution gave a written disclosure to the borrower that it or an affiliate had a financial interest in the insurance transaction; and the loan and insurance transactions were completed through separate documents.

The bill specifies that dividends paid before, on, or after the bill's effective date to a financial institution or its affiliate on stock owned in a reinsurer that accepted cessions from an insurance company that provided group mortgage life insurance would be lawful.

MCL 500.4418 Legislative Analyst: P. Affholter

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Date Completed: 3-7-96 Fiscal Analyst: M. Barsch

floor\hb5238