Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5238 (Substitute H-1 as passed by the House)
Sponsor: Representative Willis Bullard, Jr.
House Committee: Insurance
Senate Committee: Financial Services

Date Completed: 3-5-96

CONTENT

The bill would amend the Insurance Code to do all of the following:

- **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.**
- **Repeal a section of the Code pertaining to reinsurance.**

Insurance Policy Ceiling

The Code allows group life insurance to be issued in connection with loans on dwellings or mobile homes, if the lending or servicing financial institution directly or indirectly is the group policyholder. The insurance may only be on a decreasing term basis (i.e., the death benefit decreases as the principal of the loan decreases), and its initial amount 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.

Payment of Benefits

Currently, the Code provides that an insurer may not, directly or indirectly, by any means, device, transaction, or agreement, through its agents, employees, or otherwise, provide for or pay to a lending or servicing financial institution any monetary or financial benefits as a result of insurance on the life of a borrower in connection with a loan on a dwelling or mobile home made or serviced by the financial institution, except as specifically provided for mortgage life insurance.

The bill specifies, instead, that an insurer could provide for or pay to a financial institution monetary or financial benefits of insurance on the life of a borrower in connection with a loan on a dwelling or mobile home. If mortgage insurance were offered in connection with the origination of a loan, however, an insurer could provide for or pay to the lending or servicing financial institution the benefits of the insurance only if the insurer had taken reasonable steps to ensure each of the following:

- The loan and insurance transactions were separated through a written disclosure given by the financial institution to the borrower, at the time it first initiated discussion of the insurance with 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 was communicated to the borrower.
- The financial institution gave a written disclosure to the borrower that it or an affiliate had a financial interest in the insurance transaction no later than the time the borrower was asked to decide whether to apply for mortgage life insurance.
- The loan and insurance transactions were completed through separate documents.

The bill would delete a provision allowing insurers to reimburse financial institutions making or servicing loans on dwellings or mobile homes and issuing insurance through group policies and for individual policies being serviced by those financial institutions before January 1, 1969, for reasonable expenses incurred in servicing the insurance.

Stock Dividends

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. (According to Black's Law Dictionary, a "cession" is a relinquishment of property or rights.)

Repealer

The bill would repeal a section of the Code specifying that a transaction of reinsurance for which a ceding insurer did not take credit for reinsurance as either an asset or a deduction from liability on account of reinsurance ceded, and for which no credit or deduction is needed for the ceding insurer to be safe, reliable, and entitled to public confidence, is not a transaction of insurance under the Code (MCL 500.402c).

MCL 500.4418 Legislative Analyst: P. Affholter

FISCAL IMPACT

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

Fiscal Analyst: M. Barsch

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