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SFA BILL ANALYSIS

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House Bill 5692 (Substitute S-1 as reported)
Sponsor: Representative Samuel Buzz Thomas III
House Committee: Commerce
Senate Committee: Financial Services

Date Completed: 11-10-98

RATIONALE

The Insurance Code prohibits the issuance or delivery of a policy of casualty insurance, except for workers' compensation insurance, unless the policy contains specific provisions relative to its cancellation and the minimum earned premium on a canceled policy.

Financial institutions that lend people money to purchase homes often require the buyer to purchase mortgage guaranty insurance, which protects the financial institution from default. This insurance, also know as private mortgage insurance (PMI), is usually required when new, first-time buyers do not have the minimum down payment required by the lending institution to secure the loan (usually 20% of the purchase price). Once purchased, PMI is renewed annually, reportedly at a cost of generally around $1,200 each year. Different from homeowners' insurance, PMI is typically required by the financial institution or mortgage provider (mortgagee) as a condition of the loan, until the purchasing homeowner (mortgagor) has paid a portion of the debt that is specified in the loan agreement as a percentage of equity (typically 20%). Usually, after the specified threshold is reached, the mortgage agreement specifies that the buyer is not required to carry the insurance that protects the mortgagee. Some people believe that this type of insurance, which is purchased through the mortgage process and is required by the mortgagee, should not be subject to the Code's prohibition against issuance without the cancellation and minimum earned premium provisions.

CONTENT

The bill would amend the Insurance Code to exclude a policy of mortgage guaranty insurance from the Code's prohibition under which a casualty insurance policy may not be issued unless the policy contains certain specified provisions pertaining to its cancellation. (That is, a mortgage guaranty insurance policy could be issued without the specified cancellation provisions.)

MCL 500.3020

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Mortgage insurance provides an opportunity for lower-to-middle income people to secure a home loan for which they otherwise might not qualify due to not meeting minimum deposit requirements. The insurance makes it possible to buy a home without paying a large down payment, and most mortgagees require PMI until 20% equity has been obtained. Since this is such a specialized niche in the insurance industry and the purchase of PMI is a necessary requirement for many mortgagors, it should not be required to meet the Code's cancellation and minimum earned premium requirements for issuance.

Opposing Argument

While most lenders do not require PMI beyond the time a mortgagor reaches 20% equity, few apparently give notice to the borrower of this drop off in the PMI requirement or the attainment of the equity threshold level. To encourage home ownership and sound financial and business practices, and to ensure thorough consumer protection, the bill should include requirements that a mortgagee inform a borrower when he or she may discontinue PMI. Indeed, as passed by the House, the bill contained notice requirements and was part of a larger package of legislation, including House Bill 5691 which proposed a new law to be known as the "Mortgage Insurance Limitation and Notification Act". That bill would require that any mortgagee who required PMI as a condition of receiving a loan for a single-family, owner-occupied residence provide information as to the reason that PMI was required; the target percentage of equity to be acquired before the borrower could request cancellation of the insurance; and the conditions under which PMI could be terminated. The bill should include these consumer protection notice requirements.

Response: Reportedly, due to recently passed Federal legislation regarding PMI, those measures are no longer necessary. The new Federal legislation is said to impose uniform standards for mortgagees regarding PMI.

Legislative Analyst: P. Affholter

FISCAL IMPACT

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

Fiscal Analyst: M. Tyszkiewicz

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