



**House
Legislative
Analysis
Section**

Manufacturer's Bank Building, 12th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

THE APPARENT PROBLEM:

Public Act 135 of 1977 prohibits mortgage lenders from varying loan terms or conditions based on the racial or ethnic characteristics or trends in the neighborhood in which the real estate in question is located. The basic "watchdog" for the act is the local mortgage review board, a voluntary board formed to review complaints from rejected loan applicants and to attempt to place loans for them. Enforcement authority is vested in the state banking commissioner, who may investigate alleged violations and impose fines. Injured parties may also seek injunctive relief and civil damages.

This "anti-redlining" law has not been amended since its enactment, and is in need of a number of a number of amendments to bring it up to date with current terminology and practices, and to restore the banking commissioner's authority to establish a mandatory review board when a voluntary board was not functioning satisfactorily and the number of complaints suggested local problems with compliance with the act. That authority lapsed in 1983 under a expiration date specified in the act. In a related matter, while at the time of the statute's enactment banks generally used in-house appraisers, the tendency now is to use independent contract appraisers, with the result that there is now a need to include appraisers in its provisions. Various amendments have been proposed to "clean up" the act without making major changes in its basic direction.

THE CONTENT OF THE BILL:

The bill would amend Public Act 135 of 1977 to:

- prohibit real estate appraisers from varying their procedures for any of the various reasons prohibited for banks, such as racial make-up of the neighborhood or age of the house.
- restore the banking commissioner's authority to establish a mandatory review board.
- exempt business loans from the disclosure and reporting requirements of the act.
- base various reporting requirements on a calendar year, rather than the financial institution's fiscal year.
- apply to "depository" institutions with assets of less than \$10 million an exemption from disclosure that now applies to "credit granting" institutions. The bill also would provide a deadline for reports from institutions that once were exempt but later became subject to the disclosure provisions. (Note: the deadline provision refers to "credit granting" institutions, when consistency suggests that it should refer to "depository" institutions.) — throughout the act, replace the term "standard metropolitan statistical area" with "metropolitan statistical area or primary metropolitan statistical area" (these terms figure in the act's definition of "neighborhood," in the reporting requirements, and in the commissioner's authority to establish review boards).

AMEND ANTI-REDLINING LAW

House Bill 5116 (Substitute H-2)
First Analysis (5-29-90)

Sponsor: Rep. Raymond M. Murphy
Committee: Corporations and Finance

MCL 445.1601 et al.

FISCAL IMPLICATIONS:

The Financial Institutions Bureau reports that the bill would have no fiscal implications. (5-24-90)

ARGUMENTS:

For:

The bill proposes various amendments reflecting the experience and developments of the past decade. With lenders' increased reliance on outside appraisers has come a need to apply the act to appraisers in order to preserve its effect; the bill would do so. The commissioner's power to establish a mandatory review board can induce voluntary boards to be more effective in addressing concerns, thus increasing the effectiveness of the act; the bill would restore this authority, which lapsed in 1983. The basic thrust of the act is to prevent discrimination in home mortgage loans; consistent with this and federal law, the bill would exempt business loan activity from the act's disclosure requirements. These changes, together with amendments updating terms, would "clean up" the act without making major changes. While some may criticize the bill for missing an opportunity for more sweeping reform, such changes would be outside the proper scope of this bill.

Against:

Some may argue that the bill could do more to address continuing problems of racial bias in mortgage lending. The bill ignores recent reports of experience in other states, where lenders were found to discourage some people from applying for loans; such practices are not reflected in data on loan denials. In addition, the bill fails to include a provision contained in the original bill that would have given an applicant the right to a copy of the appraisal that he or she had paid for. In these and perhaps other respects, the bill may be criticized.

POSITIONS:

The Financial Institutions Bureau supports the bill. (5-24-90)

The Michigan Bankers Association does not oppose the bill. (5-24-90)

The Michigan Credit Union League does not oppose the bill. (5-24-90)

The Michigan League of Savings Institutions is neutral on the bill. (5-24-90)

The Michigan Housing Coalition is reviewing the bill and has no formal position at this time. (5-25-90)

H.B. 5116 (5-29-90)