

SFA

BILL ANALYSIS

Senate Fiscal Agency

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House Bill 4106 (Substitute S-1 as reported)
Sponsor: Representative William R. Keith
House Committee: Corporations and Finance
Senate Committee: Commerce and Technology

Date Completed: 5-3-90

RATIONALE

Under the general usury Act, a depository institution, as a condition of making a mortgage loan or land contract, may require the borrower to maintain an interest-bearing account in any depository institution for the purpose of making the payments through automatic withdrawals. Evidently, the requirement that the account be interest-bearing is creating problems for banks. Most borrowers prefer that the payments be deducted from their checking accounts, but banks are prohibited by Federal law from paying interest on regular checking accounts. In addition, some smaller banks apparently have servicing arrangements with out-of-state institutions that require the transactions to be on "demand deposit", that is, checking accounts. It has been suggested, therefore, that banks be allowed to offer mortgages for which biweekly payments are deducted automatically from a client's noninterest-bearing checking account.

CONTENT

The bill would amend the general usury Act's provisions concerning biweekly mortgage payments account to provide that if a depository institution did not offer interest-bearing transaction accounts, or if it did not generally offer automatic withdrawals from interest-bearing accounts, a noninterest-bearing checking account could be maintained for the purpose of making the biweekly payments.

MCL 438.31c

SENATE COMMITTEE ACTION

The Senate Committee adopted an amendment to delete the requirement that a financial institution disclose the facts that it has interest-bearing accounts available and that it does not require the account from which mortgage payments are deducted to be maintained at the institution.

FISCAL IMPACT

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

ARGUMENTS**Supporting Argument**

The bill would ease a restriction in the general usury Act that makes it difficult for some banks to establish systems in which payments on biweekly mortgages are automatically deducted from borrowers' accounts. At present, such accounts must be interest-bearing, which makes deductions from checking accounts problematic. Under the bill, payments could be deducted from noninterest-bearing checking accounts if automatic deductions from other sorts of accounts were not feasible.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

H.B. 4106 (5-3-90)