



**House
Legislative
Analysis
Section**

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LESSEE RESPONSIBLE FOR AUTO INSURANCE

House Bill 4685 (Substitute H-3)
House Bill 4721 with committee amendments
First Analysis (3-15-88)

Sponsor: Rep. Lloyd F. Weeks
Committee: Insurance

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THE APPARENT PROBLEM:

The Insurance Code requires that the owner or registrant of a motor vehicle carry certain no-fault insurance coverages. Representatives of banks, credit unions, and other enterprises engaged in leasing vehicles, complain that this makes them responsible for maintaining insurance on cars over which others have custody and control. Financial institutions now enter into leasing arrangements that are much like traditional auto loans. A customer can enter into a 48-month lease, for example, and the leasing agency, which remains the titleholder and thus, under some interpretations, the "owner", will not see the car that it "owns" for four years. Even though leasing agencies require customers to carry auto insurance, ultimately the insurance responsibility rests with the agency. This insurance burden prevents some financial institutions from being involved in leasing at a time when they need that business activity to compete against the subsidized financing arrangements sponsored by the auto companies. It would make more sense, leasing agencies say, to make the person with custody and control of the vehicle responsible for carrying the no-fault insurance coverages.

THE CONTENT OF THE BILL:

House Bill 4685 would amend the Insurance Code (MCL 500.3101) to provide a definition of the term "owner" that would have the effect of requiring a person operating a vehicle under a lease or rental agreement (or otherwise having use of it) for more than 30 days to be responsible for the no-fault auto insurance coverages. House Bill 4721 would make corresponding changes to the Michigan Vehicle Code (MCL 257.37), and would specify that the leasing agency would not be liable at common law for damages for injuries to either person or property resulting from the operation of a vehicle leased to someone for a period of greater than 30 days. The two bills are tie-barred.

The Insurance Code requires the "owner or registrant" of a motor vehicle to maintain personal protection insurance, property protection insurance, and residual liability insurance. House Bill 4685 would define an "owner" as:

- a person renting a motor vehicle or having the use thereof, under a lease or otherwise, for a period that is greater than 30 days;
- a person who holds the legal title to a vehicle, other than a person engaged in the business of leasing motor vehicles who is the lessor of a motor vehicle under a lease providing for the use of a motor vehicle by the lessee for a period that is greater than 30 days; or
- a person who has the immediate right of possession of a motor vehicle under an installment sale contract.

The bill would specify that the term "registrant" also does not include a leasing agency when it was leasing a car to someone for more than 30 days.

FISCAL IMPLICATIONS: State Law Library

The bill has no fiscal implications to the state, according to the Department of Licensing and Regulation. (2-16-88)

ARGUMENTS:

For:

The bill would reduce the liability to which auto leasing agencies are exposed when they enter into long-term leases by making it clear in the Insurance Code that is the responsibility of the operator to maintain the mandatory no-fault auto insurance coverages and by specifying in the Vehicle Code that leasing agencies are not liable at common law for personal injury or property damage resulting from the operation of a leased vehicle. This will remove an impediment to engaging in the leasing business faced by banks and credit unions. People often now drive cars under 24 to 48 month lease arrangements that are very much like traditional auto loans. They have complete custody and control over the vehicle, and it is only reasonable to expect them to be responsible for their own driving behavior rather than the leasing agencies.

POSITIONS:

The Michigan Bankers Association supports the bill. (3-11-88)

The Michigan Credit Union League supports the bill. (3-11-88)

The Department of Licensing and Regulation does not support or oppose the bill. (2-16-88)

The Michigan Consumers Council is not opposed to the bill. (3-11-88)

H.B. 4685 & 4721 (3-15-88)