



**House
Legislative
Analysis
Section**

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BIWEEKLY PMT MORTGAGE: REQUIRED ACCT

House Bill 4727 with committee amendments
First Analysis (9-24-87)

Sponsor: Rep. William R. Keith
Committee: Corporations and Finance

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THE APPARENT PROBLEM:

The usury law generally prohibits a lender from requiring a borrower to maintain a deposit as a condition of making the loan. Although certain exceptions are made, the law bars a lender whose portfolio has a large proportion of mortgage loans from requiring an account as a condition of the mortgage agreement.

An increasingly popular method of mortgage payment is the biweekly, rather than the monthly, mortgage. By making smaller mortgage payments every two weeks, rather than larger ones once a month, a borrower can build equity faster. Savings and loan associations wish to be able to require accounts as a condition of biweekly payment mortgages so that payments may be automatically transferred.

THE CONTENT OF THE BILL:

The bill would amend the usury law to specify that in the case of a mortgage loan or land contract providing for biweekly payments, a regulated depository financial institution or its subsidiary could require (or have required) as a condition of making the loan that the borrower maintain an interest bearing account with any depository institution for the purpose of making the payments through automatic withdrawals. However, the borrower could not be required to maintain an account balance in excess of that necessary to meet the biweekly payments as they become due. (A "regulated depository financial institution" would be a state or nationally chartered bank, savings and loan association, or credit union.)

MCL 438.31c

FISCAL IMPLICATIONS:

Fiscal information is not available. (9-23-87)

ARGUMENTS:

For:

The bill would explicitly allow mortgage lenders to place a sensible restriction on biweekly mortgages. It would ensure that lenders receive regular payments while protecting borrowers by demanding that the lender-required accounts be interest-bearing and by prohibiting lenders from requiring deposits in amounts greater than those necessary to make the payments.

Against:

To ensure that borrowers receive their "money's worth", the bill should require the automatically transferred payments to be immediately applied and specify that interest is to be charged only on the unpaid balance remaining after the last biweekly payment.

POSITIONS:

The Financial Institutions Bureau of the Department of Commerce supports the bill. (9-23-87)

The Michigan Consumers Council supports the bill. (9-23-87)

The Michigan Credit Union League supports the bill. (9-23-87)

The Michigan League of Savings Institutions supports the bill. (9-23-87)

Great Lakes Bancorp supports the bill. (9-23-87)

H.B. 4727 (9-24-87)