



**House  
Legislative  
Analysis  
Section**

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**HOME IMPROVEMENT LOAN INTEREST RATE**

RECEIVED

House Bill 5649 as introduced  
First Analysis (6-7-88)

Sponsor: Rep. John Bennett  
Committee: Corporations and Finance State Law Library

***THE APPARENT PROBLEM:***

The Home Improvement Finance Act allows home improvement companies to sell goods and services to retail customers on an installment basis. Often the companies sell installment sales contracts to financial institutions rather than acting as lenders themselves. The act specifies a maximum interest rate that can be charged on the unpaid balance on home improvement contracts entered into before December 31, 1987 of 16.5 percent; contracts entered into after December 31, 1987 cannot have an interest rate exceeding eight percent. Because interest rates have remained fairly stable since 1983 (when, under Public Act 13, this 16.5 percent ceiling was reinstituted) and because some apparently feel this stability will continue, some have proposed extending the sunset date for the 16.5 percent interest rate ceiling on home improvement contracts to December 31, 1991.

***THE CONTENT OF THE BILL:***

The Home Improvement Finance Act specifies a maximum interest rate that can be charged on the unpaid balance on home improvement contracts of 16.5 percent (unless the interest rate paid at two successive auctions of 26-week U.S. Treasury bills is lower than eight percent, in which case the maximum rate on home improvement contracts cannot exceed \$8 per hundred per annum), and specifies that this rate applies to all contracts entered into before December 31, 1987, when this rate will revert to eight percent. The bill would extend the sunset date on the 16.5 percent maximum rate to December 31, 1991, at which time the maximum rate would revert to eight percent.

MCL 445.1301

***FISCAL IMPLICATIONS:***

According to the Financial Institutions Bureau of the Department of Commerce, the bill has no fiscal implications for the state. (6-2-88)

***ARGUMENTS:***

***For:***

Because interest rates have remained stable over the last few years and are not expected to rise dramatically in the near future, it makes sense to extend the 16.5 percent interest maximum for home improvement installment sales contracts. The bill would simply extend the maximum allowable interest rate on these types of contracts until December 31, 1991. At that time, the legislature could review the ceiling, considering current market conditions.

***POSITIONS:***

The Financial Institutions Bureau supports the bill. (6-1-88)

The Michigan Bankers Association supports the bill. (6-1-88)

The Michigan League of Savings Institutions supports the bill. (6-1-88)

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