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BILL ANALYSIS

Senate Fiscal Agency

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**House Bill 5649 (as reported without amendment)****Sponsor: Representative John Bennett****House Committee: Corporations and Finance****Senate Committee: Finance****Date Completed: 10-11-88*****RATIONALE***

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. In 1983 the Act was amended to increase the maximum rate of interest from 14.55% to 16.5%. When this provision expired on December 31, 1987, the maximum interest rate reverted to 14.55%. Because interest rates have remained fairly stable since 1983, it has been proposed that the sunset date for the 16.5% interest rate ceiling on home improvement contracts be extended to December 31, 1991.

***CONTENT***

The bill would amend the Home Improvement Finance Act to provide that until October 31, 1991, if the interest rate paid at two successive auctions of 26-week U.S. Treasury Bills were 8% or more, the maximum interest rate on a home improvement installment contract could not exceed 16.5%. If the interest rate paid at two successive auctions of 26-week U.S. Treasury Bills were lower than 8%, the maximum rate on home improvement contracts would still be \$8 per \$100 per annum (14.55%).

MCL 445.1301

***FISCAL IMPACT***

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

***ARGUMENTS******Supporting Argument***

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% 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.

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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. 5649 (10-11-88)