

**STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

Bulletin 2013-10-INS

In the matter of

**Exceptions for extraordinary life events in the application
of credit information to home and auto insurance policies**

**Issued and entered
this 1st day of April 2013
By R. Kevin Clinton
Director**

Public Act 207 of 2012 requires an insurer that uses credit information to provide reasonable exceptions to rates, rating classifications, company or tier placement or underwriting rules or guidelines for an applicant whose credit information has been directly influenced by an extraordinary life event. An insurer is required to provide an applicant or an insured with a notice that reasonable exceptions are available and information on how to inquire further.

Under the statute, an extraordinary life event includes:

- (a) a catastrophic event, as declared by the federal or state government;
- (b) a serious illness or injury, or serious illness or injury to an immediate family member;
- (c) death of a spouse, child, or parent;
- (d) divorce or involuntary interruption of legally owed alimony or support payments;
- (e) identity theft;
- (f) temporary loss of employment for a period of 3 months or more, if it results from involuntary termination;
- (g) military deployment overseas;
- (h) predatory lending resulting in the foreclosure of, or commencement of proceedings or an action to foreclose, a mortgage of real property owned by the insured or insurance applicant; and
- (i) other events, as determined by the insurer. MCL 500.2154.

This list of extraordinary life events is very similar to that found in model legislation adopted in other states, with the exception of the provision related to predatory lending. The Department has received several inquiries from insurers as to how the term “predatory lending” is defined. While there is no statutory definition of the term in Michigan, federal agency definitions provide some guidance. The Federal Deposit Insurance Corporation (FDIC) broadly defines predatory lending as “imposing unfair and abusive loan terms on borrowers.” The following practices are generally considered to be predatory:

- Excessive cost – charging interest rates and/or fees that far exceed reasonable compensation for a lender’s costs or risks.
- Equity stripping – lending at a high interest rate, then repeatedly refinancing at a lower interest rate to strip the borrower’s equity in order to pay new points and fees.
- Failure to report borrower credit information – limiting the ability of borrowers to obtain the lowest interest rate available based on the borrower’s complete credit history.
- Steering to higher-cost mortgages – referring borrowers to high-cost loans when they are eligible for lower cost financing.
- Credit insurance products that are financed up front – including single premium credit insurance that is paid in a single premium or financed in the loan amount.

Under PA 207, the exception for predatory lending applies if practices such as those listed above result in “the foreclosure of, or commencement of proceedings or an action to foreclose” a mortgage or real property owned by the insured or insurance applicant.

This bulletin is intended to offer guidance on the application of the predatory lending exception and does not preclude the consideration of other definitions or factors by insurers when developing procedures under Public Act 207 of 2012. Any questions regarding this bulletin should be directed to:

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