

Therefore, the answers to both questions are 'yes.'

FRANK J. KELLEY,
Attorney General.

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INSURANCE: Credit Insurance Act.

LOANS: Small Loan Act – Regulatory Loan Act of 1963.

The amount of group credit life insurance on the life of a borrower on a loan made pursuant to the Regulatory Loan Act of 1963 may not exceed the exact amount of the total obligation of the borrower to the creditor on the date of death, the total obligation being the unpaid principal plus accrued interest to the date of death.

No. 4334

September 23, 1964.

Mr. Allen L. Mayerson
Commissioner of Insurance
Lansing, Michigan

You have requested my opinion on the following questions:

"1. What is the meaning of the word 'indebtedness' as used in Act 173, Public Acts 1958, section 3(5) and section 5, and the Regulatory Loan Act of 1963, section 13(a)?"

"2. Should the amount of insurance on a loan (executed through a small loan licensee) be only the amount of money advanced or may it further include the total of the charges payable?"

Section 13a¹ of the Regulatory Loan Act of 1963, which licenses the small loan business, authorizes licensees at the option of the borrower, to obtain or provide life insurance or the borrower may obtain his own insurance. This section does not set forth the amount of insurance which may be obtained or provided by a licensee, but it does state that "All additional requirements of Act No. 173 of the Public Acts of 1958 shall apply to transactions under this subsection."

Section 3(5) of Act 173, P.A. 1958,² known as the Credit Insurance Act, defines the term "indebtedness" as follows:

"As used in this act: * * * 'Indebtedness' means the total amount payable by a debtor to a creditor in connection with a loan or other credit transaction."

Section 5 of said Act 173³ reads as follows:

"The amount of credit life insurance shall not exceed the indebtedness. Where indebtedness repayable in substantially equal installments is secured by an individual policy of credit life insurance the amount of insurance shall not exceed the approximate unpaid indebtedness on

¹ Added by Act 103, P.A. 1963 to Act 21, P.A. 1939; M.S.A. Cum. Supp. § 23.667(13a).

² C.L.S. 1961 § 550.603; M.S.A. 1963 Cum. Supp. § 24.568(3).

³ C.L.S. 1961 § 550.605; M.S.A. 1963 Cum. Supp. § 24.568(5).

the date of death and, where secured by a group policy of credit life insurance shall not exceed the exact amount of unpaid indebtedness on such date."

From your letter and the documents attached thereto, it is apparent that you are primarily concerned with the answers to the foregoing questions as they apply to credit life insurance issued under a group policy with a small loan licensee as the policyholder.

The foregoing definition of the term "indebtedness" in Act 173 has meaning only when read in context with the provisions of the act, here particularly section 5.⁴

I have been informed by the Michigan Banking Department that it is the common, recognized practice in the small loan business in Michigan to set up repayment in equal monthly installments. With this in mind, I have attached the chart which you furnished me, illustrating a \$1000.00 loan dated 1-1-65, with equal monthly payments of \$52.02 over a two-year period.

Assuming the payments are made on time (the language of neither the Regulatory Loan Act nor the Credit Insurance Act makes any provision for early or late payments), the repayment schedule irrefutably shows that at any moment during the two-year period the "total amount payable" would never be more than \$1016.79. That level would be reached on January 30, 1965 when the amount owed would be \$1000.00 principal and \$16.79 interest. Since this is immediately followed by the first payment, it is self-evident that the principal and interest due would commence reducing to their ultimate zero balance. Therefore, should the debtor die any time after 1-1-65, the most that could be payable would be that amount due at the end of the first month. This is true regardless of the size of the loan or the time allowed for repayment.

This conclusion is in accord with the language of section 13(c)⁵ of the Regulatory Loan Act which specifically prohibits the collection of advance charges on loans:

"(c) No charges on loans made under this act shall be paid, deducted, or received in advance, or compounded. All charges on loans made under this act (a) shall be computed and paid only as a percentage per month of the unpaid principal balance or portions thereof, and (b) shall be so expressed in every obligation signed by the borrower, and (c) shall be computed on the basis of the number of days actually elapsed, for the purpose of which computations a month shall be any period of 30 consecutive days."

Answering your first question, the indebtedness is the unpaid principal and interest accrued at any point in time during the life of the loan.

It is evident that Section 13(c) does not allow a licensee under the Regulatory Loan Act to obligate a borrower for an amount more than the unpaid principal balance plus interest computed on a daily basis. Thus, in

⁴ "A definition of words and phrases in an act carries no force unless employed in the enactment * * *."

J. B. Simpson, Inc. v. State Board of Tax Administration, 297 Mich. 403, at p. 406.

⁵ C.L.S. 1961 § 493.13; M.S.A. 1963 Cum. Supp. § 23.667(13).

the event that a borrower dies, the exact amount of his total obligation to the licensee on the date of his death can be only the unpaid principal plus interest computed to that date.

In answer to your second question, it is my opinion that the amount of group credit life insurance on a loan made pursuant to the Regulatory Loan Act may not exceed the exact amount of the total unpaid principal, plus accrued interest, on the date of the borrower's death. It may not include additional interest and other charges, if any, which would have accrued and been paid had the loan continued to maturity.

FRANK J. KELLEY,
Attorney General.

Loan of \$1,000.00 for 2 years made under Regulatory Loan Act—
Dated 1-1-65 (Payments \$52.02 per month) 365 days basis.

1965		Payment per month	Charges	Principal	Balance
					\$1000.00
Feb 1	31 days.....	\$ 52.02	\$ 16.79	\$ 35.23	\$ 964.77
Mar 1	28 days.....	52.02	14.76	37.26	927.51
Apr 1	31 days.....	52.02	15.86	36.16	891.35
May 1	30 days.....	52.02	14.89	37.13	854.22
June 1	31 days.....	52.02	14.91	37.11	817.11
July 1	30 days.....	52.02	13.96	38.06	779.05
Aug 1	31 days.....	52.02	13.94	38.08	740.97
Sep 1	31 days.....	52.02	13.45	38.57	702.40
Oct 1	30 days.....	52.02	12.53	39.49	662.91
Nov 1	31 days.....	52.02	12.44	39.58	623.33
Dec. 1	30 days.....	52.02	11.54	40.48	582.85
<u>1966</u>					
Jan 1	31 days.....	\$ 52.02	\$ 11.40	\$ 40.62	\$ 542.23
Feb 1	31 days.....	52.02	10.88	41.14	501.09
Mar 1	28 days.....	52.02	9.35	42.67	458.42
Apr 1	31 days.....	52.02	9.80	42.22	416.20
May 1	30 days.....	52.02	8.95	43.07	373.13
June 1	31 days.....	52.02	8.69	43.33	329.80
July 1	30 days.....	52.02	7.87	44.15	285.65
Aug 1	31 days.....	52.02	7.38	44.64	241.01
Sept 1	31 days.....	52.02	6.23	45.79	195.22
Oct 1	30 days.....	52.02	4.88	47.14	148.08
Nov 1	31 days.....	52.02	3.83	48.19	99.89
Dec 1	30 days.....	52.02	2.50	49.52	50.37
<u>1967</u>					
Jan 1	31 days.....	\$ 51.67	\$ 1.30	\$ 50.37	-0-
Total	\$1248.13	\$248.13	\$1000.00	

This does not include credit insurance premium.