MCUL & Affiliates Government Affairs

State Issue Brief

2015

Principal Residence Tax Exemption

Effect

Senate Bill 81 was introduced by Senator Jack Brandenburg (R-Harrison Twp.) to allow financial institutions the ability to realize the full benefit and exemption of the PRE on residential property once they take possession after foreclosure for twenty-four months. If enacted, SB 81 will also increase the number of consumers who qualify for mortgages on property where taxes are escrowed.

When members face financial hardship and fall behind in their mortgage payments, credit unions communicate early with their borrowers to determine whether a loan modification is possible. Unfortunately, some situations result in a foreclosure. When foreclosures happen, lenders typically end up expensing thousands to pay for property taxes, insurance, legal fees, structure rehabilitation, maintenance and administrative expenses. SB 81 will help to lower the costs incurred by credit unions on PRE residential property while also increasing the number of credit union members that will qualify for a mortgage where the taxes are escrowed. This legislation will also increase the number of credit unions filing paperwork to claim the PRE exemption, helping make the transfer of the homestead exemption easier for prospective home buyers.

Background

Every property in the state of Michigan is designated as either a principal residence or non-principal residence. A principal residence is exempt (PRE) from the tax levied by a local school district for school operating purposes, so when a person no longer owns or occupies a property as a principal residence or a lender forecloses on a mortgage, the principal residence is rescinded and the tax rate goes up as the property transitions to a non-principal residential property, which is usually 18 mills.

Over the past several years, the MCUL & Affiliates has been working with lawmakers to pass legislation that would allow financial institutions to retain the homestead property tax rate after the property is reverted back to them after foreclosure. Last session, Senate Bill 349 was signed into law to, among other things allow a land contract vendor or lending institution that owns property as a result of foreclosure to retain a PRE, if that property had been exemption immediately preceding the foreclosure and if it was not occupied, was for sale, was foreclosure, and was not used for any business or commercial purpose. A conditional rescission form would have to be filed. However, even though the bill claims it allowed the financial institution to retain the PRE on a foreclosed property, it still requires them to pay that same cost into the School Aid Fund and to pay an administrative fee if they filed for the PRE. In sum, under the current law, the net result for the administrative burden is preservation of the PRE for a future buyer, but no relief (and added administrative burden) for any participating institution. Thus, with no real incentive or benefit, participation is almost non-existent.

Status/MCUL Position

The MCUL & Affiliates is supportive of this legislation, which was passed by the State Senate in late February. The bill has been passed by the Senate, and was recently passed out of the House Tax Policy, and is now awaiting a vote on the House Floor.

Given that foreclosures bear many hidden expenses (property taxes, insurance legal fees, administrative costs, repair costs, ongoing maintenance, etc.) and that lenders take back property through no fault of their own, allowing financial institutions to retain the PRE is good public policy. This bill would help to lower costs placed on financial institutions during the foreclosure process while increasing the number of credit union members who will qualify for mortgage products where the taxes are escrowed. The MCUL is continuing to work with stakeholder groups as SB 81 moves further through the legislative process.