

THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

500.2227 Withholding final settlement amount; notice; escrow procedure to be followed by city, village, or township; disposition of money by local treasurer; commingling funds prohibited; retention of interest to defray expenses; forwarding policy proceeds; proof; effect of failure to provide reasonable proof; demolition of property; civil action for return of policy proceeds; liability; applicability of section; list of cities, villages, and townships; exception to withholding requirements; definitions.

Sec. 2227.

(1) If a claim is filed for a loss to insured real property due to fire, explosion, vandalism, malicious mischief, wind, hail, riot, or civil commotion and a final settlement is reached on the loss to the insured real property, an insurer shall withhold from payment 25% of the actual cash value of the insured real property at the time of the loss or 25% of the final settlement, whichever is less. Until December 31, 2014, for residential property, the 25% settlement or judgment withheld must not exceed \$6,000.00 adjusted annually beginning June 1, 1999 in accordance with the Consumer Price Index. Beginning January 1, 2015 and before July 1, 2024, for residential property, the 25% settlement or judgment withheld must not exceed \$12,000.00 adjusted January 1 of each year in accordance with the Consumer Price Index. Beginning July 1, 2024, for residential property, the 25% settlement or judgment withheld must not exceed \$24,000.00 adjusted July 1 of each year in accordance with the Consumer Price Index. The director shall notify annually all insurance companies transacting property insurance in this state as to the new adjusted amount. At the time that 25% of the settlement or judgment is withheld, the insurer shall give notice of the withholding to the treasurer of the city, village, or township in which the insured real property is located, to the insured, and to any mortgagee having an existing lien or liens against the insured real property, if the mortgagee is named on the policy. For a judgment, the insurer shall also provide notice to the court in which judgment was entered. The notice must include all of the following:

- (a) The identity and address of the insurer.
- (b) The name and address or forwarding address of each policyholder, including any mortgagee.
- (c) The location of the insured real property.
- (d) The date of loss, policy number, and claim number.
- (e) The amount of money withheld.

(f) A statement that the city, village, or township may have the withheld amount paid into a trust or escrow account established for the purposes of this section if within 15 days after the mailing of the notice the city, village, or township states that the money should be withheld to protect the public health and safety; otherwise, the withheld amount must be paid to the insured 15 days after the mailing of the notice.

- (g) An explanation of the provisions of this section.

(2) For a city, village, or township to escrow the amount withheld by the insurer, and to retain that amount, the following procedure must be used:

(a) An authorized representative of the city, village, or township shall request the insurer to pay the withheld amount into an escrow account maintained by the treasurer of the city, village, or township. A final settlement that exceeds 49% of the insurance on the insured real property is prima facie evidence that the damaged insured structure violates existing health and safety standards of the city, village, or township and constitutes cause for the escrowing of the withheld amount as surety for the repair, replacement, or removal of the damaged structure.

(b) For a settlement, the request under subdivision (a) must be sent to the insurer with a copy to the insured and any mortgagees. The copy to the insured must contain the notice required under subdivision (d). On receipt of the request, the insurer shall forward the withheld amount to the treasurer of the city, village, or township, and shall provide notice of the forwarding to the insured and any mortgagees.

(c) For a judgment, the request under subdivision (a) must be sent to the insurer with a copy to the insured, any mortgagees, and the court in which judgment was entered. The copy to the insured must contain the notice required under subdivision (d). On motion of the city, village, or township, the court shall order the withheld amount transmitted to the treasurer of the city, village, or township.

(d) The city, village, or township shall notify the insured that the insured has 10 days from the date of the mailing of the notice to object to the city's, village's, or township's retention of the withheld amount. The notice must identify the authorized representative of the city, village, or township to whom the insured should address his or her objections and must state that the insured may do either of the following:

(i) Seek resolution with the representative of the city, village, or township designated to receive and resolve objections under this section. The city, village, or township shall make a final determination and shall notify the insured of that determination not later than 30 days after receipt of notice that the insured wishes to seek resolution under this subparagraph. This final determination must include notice to the insured that if the insured is still dissatisfied with the city's, village's, or township's determination, the insured may seek relief in circuit court.

(ii) Seek relief in the circuit court.

(3) On receipt of money and information from an insurer as prescribed in subsections (1) and (2), the local treasurer shall record the information and the date of receipt of the money and shall immediately deposit the money in a trust or escrow account established for the purposes of this section. The account may be interest-bearing. If a mortgage on the insured property is in default, the treasurer of the city, village, or township, on written request from the first mortgagee of the property, shall release to the mortgagee all or any part of the policy proceeds received by the city, village, or township not later than 10 days after receipt of the written request by the mortgagee, to the extent necessary to satisfy any outstanding lien of the mortgagee.

(4) Except as provided in subsection (7), money deposited in an account under subsection (3) must not be commingled with city, village, or township funds. Any interest earned on money placed in a trust or escrow account may be retained by the city, village, or township to defray administrative costs incurred under this section.

(5) Except as provided in subdivision (c), the policy proceeds deposited under subsection (3) must immediately be forwarded to the insured when the authorized representative of the city, village, or township designated by the governing body of the city, village, or township receives or is shown reasonable proof of any of the following:

(a) That the damaged or destroyed portions of the insured structure have been repaired or replaced, except to the extent that the amount withheld under this section is needed to complete repair or replacement.

(b) That the damaged or destroyed structure and all remnants of the structure have been removed from the land on which the structure or the remnants of the structure were situated, in compliance with the local code requirements of the city, village, or township in which the structure was located.

(c) That the insured has entered into a contract to perform repair, replacement, or removal services for the insured real property and that the insured consents to payment of money directly to the licensed contractor performing the services on completion. Money released under this subdivision may be forwarded only to a licensed contractor performing services on the insured property.

(6) Reasonable proof required under subsection (5) includes any of the following:

(a) Originals or copies of pertinent verifiable contracts, invoices, receipts, and other similar papers evidencing both the work performed or to be performed and the materials used or to be used by all contractors performing repair, replacement, or removal services for the insured real property, other than a licensed contractor subject to subdivision (b).

(b) An affidavit executed by the licensed contractor that has performed the greatest amount of repair or replacement work on the structure, or that has done most of the clearing and removal work if structure repair or replacement is not to be performed. The licensed contractor shall attach to the affidavit all pertinent contracts, invoices, and receipts and shall swear that these attached papers correctly indicate the nature and extent of the work performed to date by the licensed contractor and the materials used.

(c) An inspection of the insured real property to verify that repair, replacement, or clearing has been completed in accordance with subsection (5).

(7) Except as otherwise provided in this subsection, if, with respect to a loss, reasonable proof is not received by or shown to an authorized representative of the city, village, or township designated by the governing body of the city, village, or township within 120 days after the policy proceeds portion was received by the treasurer, the city, village, or township shall use the retained proceeds to secure, repair, or demolish the damaged or destroyed structure and clear the insured property so that the structure and property comply with local code requirements and applicable ordinances of the city, village, or township. The city, village, or township shall return to the insured any unused portion of the retained proceeds. The city, village, or township may extend the 120-day time period under this subsection. A city, village, or township may retain and use policy proceeds for repairing or demolishing any property if on or before the effective date of the amendatory act that added subsection (16)(g) the authorized representative had not received or been shown reasonable proof within 1 year after the insurer provided notice to the insured under subsection (1). The insured may file a civil action against the city, village, or township for the return of the policy proceeds. An action filed under this subsection must be filed within 3 years after the insurer provided notice to the insured under subsection (1) or 1 year after the effective date of the amendatory act that added subsection (16)(g), whichever is later.

(8) There is no liability on the part of, and a cause of action does not arise against, an insurer or an agent or employee of an insurer for withholding or transferring money in the course of complying or attempting to comply with this section. If there is a dispute with a lienholder concerning the distribution of an amount withheld from payment under this section, the insurer may file an action in circuit court to identify all parties that may have a financial interest in the withheld amount and to determine how the withheld amount should be distributed.

(9) This section applies only to property located in a city, village, or township described in subsection (12) if the city, village, or township under a resolution by its governing body notifies the director in writing that the city, village, or township has established a trust or escrow account to be used as prescribed in this section and intends to uniformly apply this section with respect to all property located within the city, village, or township following written notification to the director. The director shall prepare and distribute a list of all cities, villages, and townships that have elected to apply this section to all insurance companies transacting property insurance in this state.

(10) A city, village, or township may apply to be added to the list prepared under subsection (9) by making a written request for addition to the director. When a written request for addition from a city, village, or township has been received by the director, an amended list must be prepared and distributed indicating the addition. The addition is effective on the date specified by the director in the amendment. The director shall notify the city, village, or township, and the insurance companies, of the effective date of the addition that must be effective not less than 30 days after receipt of notice by the insurance company. A city, village, or township shall not apply this section to any loss that occurred before the effective date of the addition.

(11) A city, village, or township may request to be deleted from the list prepared under subsection (9) or may cease to apply this section for a period of not less than 6 months on not less than 30 days' written notice to the director. After receipt of a request to be deleted from the list, the director shall prepare and distribute an amendment to the list indicating the deletion. The deletion is effective on the date specified by the director in the amendment. The director shall notify the city, village, or township, and the insurance companies, of the effective date of the deletion that must be effective not less than 30 days after receipt of the notice by the insurance company. A city, village, or township shall continue to apply this section to any loss that occurred before the effective date of the deletion, notwithstanding the deletion.

(12) This section applies only to insured real property located in cities, villages, and townships that are located in counties with a population of 425,000 or more and to insured real property located in cities, villages, and townships that are located in counties with a population of less than 425,000 if the city, village, or township has a population of 50,000 or more. This section applies to insured real property located in a city, village, or township that has elected to apply this section as provided in subsection (9) or (10) or that has been included in this section as provided in subsection (13).

(13) Cities, villages, and townships located in counties with a population of 425,000 or more and cities, villages, and townships that are located in counties with a population of less than 425,000 if the city, village, or township has a population of 50,000 or more and that are on the list prepared by the director under section 2845(9) or (10) on October 1, 1998 are automatically included as participants in the procedure established in this section unless the city, village, or township makes a written request to be deleted under subsection (11).

(14) The director shall prepare and distribute to all insurance companies transacting property insurance in this state by November 1, 1998 new lists indicating which cities, villages, and townships are subject to this section and which cities, villages, and townships are subject to section 2845.

(15) The withholding requirements of this section do not apply if all of the following occur:

(a) Within 15 days after agreement on a final settlement between the insured and the insurer, the insured has filed with the insurer evidence of a contract to repair as described in subsection (6).

(b) The insured consents to the payment of money directly to the licensed contractor performing the repair services. Money released under this subdivision may be forwarded only to a licensed contractor performing the repair services on the insured property.

(c) On receipt of the contract to repair, the insurer gives notice to the city, village, or township in which the property is located that there will not be a withholding under this section because of the repair contract.

(16) If the insured and the insurer have agreed on the demolition costs or the debris removal costs as part of the final settlement of the real property insured claim, the insurer shall withhold 1 of the following amounts, whichever is the largest, and shall pay that amount in accordance with this section:

(a) The agreed cost of demolition or debris removal.

(b) Until December 31, 2014, 25% of the actual cash value of the insured real property at the time of loss if this amount for residential property does not exceed \$6,000.00 adjusted annually beginning June 1, 1999 in accordance with the Consumer Price Index.

(c) Beginning January 1, 2015 and before July 1, 2024, 25% of the actual cash value of the insured real property at the time of the loss if this amount for residential property does not exceed \$12,000.00 adjusted January 1 of each year in accordance with the Consumer Price Index.

(d) Beginning July 1, 2024, 25% of the actual cash value of the insured real property at the time of the loss if this amount for residential property does not exceed \$24,000.00 adjusted July 1 of each year in accordance with the Consumer Price Index.

(e) Until December 31, 2014, 25% of the final settlement of the insured real property claim if this amount for residential property does not exceed \$6,000.00 adjusted annually beginning June 1, 1999 in accordance with the Consumer Price Index.

(f) Beginning January 1, 2015 and before January 1, 2024, 25% of the final settlement of the insured real property claim if this amount for residential property does not exceed \$12,000.00 adjusted January 1 of each year in accordance with the Consumer Price Index.

(g) Beginning July 1, 2024, 25% of the final settlement of the insured real property claim if this amount for residential property does not exceed \$24,000.00 adjusted July 1 of each year in accordance with the Consumer Price Index.

(17) This section applies only to final settlements that exceed 49% of the insurance on the insured real property.

(18) If an insurer withholds payment under a policy in good faith because of suspected arson, fraud, or other

question concerning coverage, this section does not apply until the issue or question is resolved and final settlement is made.

(19) As used in this section:

(a) "Consumer Price Index" means that term as defined in section 2080.

(b) "Final settlement" means a determination of the amount due and owing to the insured for a loss to insured real property, but does not include contents damage, losses to personal property, or additional coverage not contained in the building coverage portion of the fire insurance policy, which determination is made by any of the following means:

(i) Acceptance of a proof of loss by the insurer.

(ii) Execution of a release by the insured.

(iii) Acceptance of an arbitration award by both the insured and the insurer.

(iv) Judgment of a court of competent jurisdiction.

(c) "Home insurance" means that term as defined in section 2103.

(d) "Residential property" means property on which home insurance can be issued.

History: Add. 1998, Act 217, Eff. (see compiler's note) ;-- Am. 2014, Act 509, Imd. Eff. Jan. 14, 2015 ;-- Am. 2024, Act 82, Imd. Eff. July 23, 2024

Compiler's Notes: Enacting section 1 of Act 217 of 1998 provides: "Enacting section 1. (1) Section 2227(1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (11), (12), (13), (15), (16), (17), (18), and (19) of the insurance code of 1956, 1956 PA 218, MCL 500.2227, as added by this amendatory act, take effect on January 1, 1999 and apply to any loss that occurs on and after January 1, 1999. "(2) Section 2227(14) of the insurance code of 1956, 1956 PA 218, MCL 500.2227, as added by this amendatory act, takes effect October 1, 1998."

Popular Name: Act 218