

**MODEL POLICY LOAN INTEREST RATE BILL**  
**AN ACT TO REGULATE INTEREST RATES ON LIFE INSURANCE POLICY LOANS**

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**Section 1. Purpose**

The purpose of this Act is to permit and set guidelines for life insurers to include in life insurance policies issued after the effective date of this Act a provision for periodic adjustment of policy loan interest rates.

**Section 2. Definitions**

For purposes of this Act the “published monthly average” means:

- A. The Moody’s Corporate Bond Yield Average—Monthly Average Corporates as published by Moody’s Investors Service, Inc. or any successor thereto; or
- B. In the event that the Moody’s Corporate Bond Yield Average—Monthly Average Corporates is no longer published, a substantially similar average, established by regulation issued by the commissioner.

**Section 3. Maximum Rate of Interest of Policy Loans**

- A. Policies issued on or after the effective date of this Act shall provide for policy loan interest rates as follows:
  - (1) A provision permitting a maximum interest rate of not more than eight percent (8%) per annum; or
  - (2) A provision permitting an adjustable maximum interest rate established from time to time by the life insurer as permitted by law.
- B. The rate of interest charged on a policy loan made under Subsection A(2) shall not exceed the higher of the following:
  - (1) The published monthly average for the calendar month ending two (2) months before the date on which the rate is determined; or
  - (2) The rate used to compute the cash surrender values under the policy during the applicable period plus one percent per annum.
- C. If the maximum rate of interest is determined pursuant to Subsection A(2), the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy.
- D. The maximum rate for each policy must be determined at regular intervals at least once every twelve (12) months, but not more frequently than once in any three-month period. At the intervals specified in the policy:
  - (1) The rate being charged may be increased whenever an increase determined under Subsection B would increase that rate by one-half percent (1/2%) or more per annum;
  - (2) The rate charged must be reduced whenever a reduction as determined under Subsection B would decrease that rate by one-half percent (1/2%) or more per annum.

- E. The life insurer shall:
- (1) Notify the policyholder at the time a cash loan is made of the initial rate of interest on the loan;
  - (2) Notify the policyholder with respect to the premium loans of the initial rate of interest on the loan as soon as it is reasonably practical to do so after making the initial loan. Notice need not be given to the policyholder when a further premium loan is added, except as provided in Paragraph (3);
  - (3) Send to policyholders with loans reasonable advance notice of any increase in the rate; and
  - (4) Include in the notices required above the substance of the pertinent provisions of Subsections A and C.
- F. [The loan value of the policy shall be determined in accordance with Section \_\_\_\_, but] no policy shall terminate in a policy year as the sole result of change in the interest rate during that policy year, and the life insurer shall maintain coverage during that policy year until the time at which it would otherwise have terminated if there had been no change during that policy year.
- G. The substance of the pertinent provisions of Subsections A and C shall be set forth in the policies to which they apply.
- H. For purposes of this section:
- (1) The rate of interest on policy loans permitted under this section includes the interest rate charged on reinstatement of policy loans for the period during and after any lapse of a policy.
  - (2) The term “policy loan” includes any premium loan made under a policy to pay one or more premiums that were not paid to the life insurer as they fell due.
  - (3) The term “policyholder” includes the owner of the policy or the person designated to pay premiums as shown on the records of the life insurer.
  - (4) The term “policy” includes certificates issued by a fraternal benefit society and annuity contracts which provide for policy loans.
- I. No other provision of law shall apply to policy loan interest rates unless made specifically applicable to such rates.

#### **Section 4. Applicability to Existing Policies**

The provisions of this Act shall not apply to any insurance contract issued before the effective date of this Act unless the policyholder agrees in writing to the applicability of such provisions.

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*Chronological Summary of Actions (all references are to the Proceedings of the NAIC).*

*1981 Proc. 147, 51, 421, 517, 534, 535-536 (adopted).*

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**This chart is intended to provide readers with additional information to more easily access state statutes, regulations, bulletins or administrative rulings related to the NAIC model. Such guidance provides readers with a starting point from which they may review how each state has addressed the model and the topic being covered. The NAIC Legal Division has reviewed each state's activity in this area and has determined whether the citation most appropriately fits in the Model Adoption column or Related State Activity column based on the definitions listed below. The NAIC's interpretation may or may not be shared by the individual states or by interested readers.**

**This chart does not constitute a formal legal opinion by the NAIC staff on the provisions of state law and should not be relied upon as such. Nor does this state page reflect a determination as to whether a state meets any applicable accreditation standards. Every effort has been made to provide correct and accurate summaries to assist readers in locating useful information. Readers should consult state law for further details and for the most current information.**

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**KEY:**

**MODEL ADOPTION:** States that have citations identified in this column adopted the most recent version of the NAIC model in a **substantially similar manner**. This requires states to adopt the model in its entirety but does allow for variations in style and format. States that have adopted portions of the current NAIC model will be included in this column with an explanatory note.

**RELATED STATE ACTIVITY:** Examples of Related State Activity include but are not limited to: older versions of the NAIC model, statutes or regulations addressing the same subject matter, or other administrative guidance such as bulletins and notices. States that have citations identified in this column **only** (and nothing listed in the Model Adoption column) have **not** adopted the most recent version of the NAIC model in a **substantially similar manner**.

**NO CURRENT ACTIVITY:** No state activity on the topic as of the date of the most recent update. This includes states that have repealed legislation as well as states that have never adopted legislation.

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Alabama	ALA. CODE 27-15-8.1 (1981).	
Alaska		ALASKA STAT. § 21.45.080 (1982).
American Samoa	NO CURRENT ACTIVITY	
Arizona	ARIZ. REV. STAT. ANN. §§ 20-1209 to 20-1209.01 (1978/1982).	
Arkansas	ARK. CODE ANN. § 23-81-109 (1981).	
California	CAL. INS. CODE §§ 1230 to 1239.5 (1982).	
Colorado	NO CURRENT ACTIVITY	
Connecticut	CONN. GEN. STAT. § 38a-444 (1981).	
Delaware	DEL. CODE ANN. tit. 18, § 2911 (1983).	
District of Columbia	D.C. CODE § 31-4703(a)(6) (1985).	
Florida	FLA. STAT. § 627.4585 (1981).	
Georgia	GA. CODE ANN. § 33-25-3.1 (1983).	
Guam	NO CURRENT ACTIVITY	

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NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Hawaii	HAW. REV. STAT. § 431:10D-103 (1988/2004).	
Idaho	IDAHO CODE ANN. § 41-1909 (1981).	
Illinois	215 ILL. COMP. STAT. 5/229.5 (1982/1983).	
Indiana	IND. CODE §§ 27-1-12.3-1 to 27-1-12.3-6 (1981).	
Iowa	IOWA CODE § 511.36 (1984).	
Kansas	KAN. STAT. ANN. §§ 40-420a to 40-420d (1982).	
Kentucky	KY. REV. STAT. ANN. § 304.15-115 (1984).	
Louisiana	LA. REV. STAT. ANN. § 22:170.1 (1982).	
Maine	ME. REV. STAT. ANN. tit. 24-A, §§ 2552 to 2554 (1982).	
Maryland	MD. CODE ANN., INS. § 16-208 (1983/1997).	
Massachusetts	MASS. GEN. LAWS ch. 175, § 142 (1981).	
Michigan	MICH. COMP. LAWS § 500.4023 (1982).	
Minnesota	MINN. STAT. § 61A.03 (1984).	
Mississippi	MISS. CODE ANN. § 83-7-26 (1984).	
Missouri	MO. REV. STAT. § 400-1.090 (1982).	MO. CODE REGS. ANN. tit. 20, § 376.672 (1982).
Montana		MONT. CODE ANN. §§ 33-20-131 (1959/1985).

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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
Nebraska	NEB. REV. STAT. §§ 44-502.01 to 44-502.04 (1981).	
Nevada		NEV. REV. STAT. § 688A.110 (1971).
New Hampshire	N.H. CODE ADMIN. R. ANN. INS. 401.01(b)(1)(h) (1983).	
New Jersey		N.J. STAT. ANN. § 17B:25-8 (1971).
New Mexico	N.M. STAT. ANN. § 59A-20-10 (1985).	
New York	N.Y. INS. LAW § 3206 (1984).	
North Carolina	N.C. GEN. STAT. §§ 58-61-1 to 58-61-15 (1981).	
North Dakota	N.D. ADMIN. CODE 45-04-03-01 to 45-04-03-04 (1982/1986).	
Northern Marianas	NO CURRENT ACTIVITY	
Ohio	OHIO REV. CODE § 3915.051 (1982/1984).	
Oklahoma	OKLA. STAT. tit. 36, § 4008 (1982).	
Oregon	OR. REV. STAT. § 743.187 (1981).	
Pennsylvania	40 PA. STAT. ANN. § 37-118.1 (1982).	
Puerto Rico		P.R. LAWS ANN. tit. 26, § 1308 (1980/1984).
Rhode Island	R.I. GEN. LAWS § 27-4-13.1 (1982).	
South Carolina	S.C. CODE ANN. §§ 38-63-240 to 38-63-280 (1988).	
South Dakota	S.D. CODIFIED LAWS §§ 58-15-15.5 to 58-15-15.12 (1982).	
Tennessee	TENN. CODE ANN. § 56-7-303 (1982).	

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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
Texas	TEX. INS. CODE ANN. §§ 1110.001 to 1110.008 (2003).	
Utah	UTAH CODE ANN. § 31A-22-420 (1986).	
Vermont	VT. STAT. ANN. tit. 8, § 3731(7) (1982).	
Virgin Islands		V.I. CODE ANN. tit. 22, § 958 (1968).
Virginia	VA. CODE ANN. § 38.2-3308 (1986).	
Washington	WASH. REV. CODE ANN. § 48.23.085 (1981).	
West Virginia	W. VA. CODE § 33-13-8a (1983).	
Wisconsin	WIS. STAT. § 632.475 (1981).	
Wyoming	WYO. STAT. ANN. § 26-16-108 (1983).	