

31A-22-420 Policy loans.

- (1) This section applies to all life insurance policies and annuity contracts, including certificates issued by fraternal insurers, which contain policy loan provisions. A "policy loan" includes any arrangement by which a premium is paid to the life insurer after the normal due date.
- (2) As used in this section, "published monthly average" means:
 - (a) The monthly average of the composite yield on Moody's Corporate Bond Yield Average--Monthly Average Corporates, as published by Moody's Investors Service, Inc., or any successor to that publication; or
 - (b) in the event that Moody's Corporate Bond Yield Average--Monthly Average Corporates is no longer published, a substantially similar average, established by the commissioner by rule.
- (3)
 - (a) Policies issued on or after May 12, 1981, shall provide for policy loan interest rates by:
 - (i) a provision permitting a maximum interest rate of not more than 8% per annum; or
 - (ii) a provision permitting an adjustable maximum interest rate calculated under this section.
 - (b) The rate of interest charged on a policy loan made under Subsection (3)(a)(ii) may not exceed the higher of:
 - (i) the published monthly average for the calendar month ending two months before the date on which the rate is determined; or
 - (ii) the rate used to compute cash surrender values under the policy during the same period, plus 1% per annum.
 - (c) If the maximum rate of interest is determined under Subsection (3)(a)(ii), 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 under Subsection (3)(a)(ii) for each policy shall be determined at regular intervals at least once every 12 months, but not more frequently than once in any three-month period. At the intervals specified in the policy:
 - (i) the rate being charged may be increased whenever the increase determined under Subsection (3)(b) would increase that rate by 1/2% or more per annum; and
 - (ii) the rate being charged shall be reduced whenever the reduction determined under Subsection (3)(b) would decrease that rate by 1/2% or more per annum.
 - (e) Every life insurer shall:
 - (i) notify the policyholder at the time a cash loan is made of the initial rate of interest on the loan;
 - (ii) notify the policyholder with respect to 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, but notice need not be given to the policyholder when a further premium loan is added, except as provided in Subsection (3)(e)(iii);
 - (iii) send to policyholders with loans, reasonable advance notice of any increase in the rate; and
 - (iv) include in the notices required by Subsection (3)(e)(i), (ii), and (iii) the substance of the pertinent provisions of Subsections (3)(a) and (c).
 - (f) No policy may terminate during a policy year solely because of a change in the interest rate during that policy year. Coverage shall continue during that policy year until it would have terminated if there had been no change in interest rate during that policy year.
 - (g) The pertinent provisions of Subsections (3)(a) and (c) shall be set forth in the policies to which they apply.
- (4) This section applies to an insurance policy issued before May 12, 1981, only if the policyholder agrees to its application in writing, after receiving explicit disclosure of the provisions regarding premiums, dividends, and nonforfeiture cash values of the existing and amended insurance

policies prior to execution of the written agreement. No other rights of the policyholder under the insurance policy are affected by this agreement.

- (5) The policy shall contain a provision permitting the insurer, upon the commissioner's approval, to defer granting a policy loan for up to six months after application for the loan. Policy loans for the payment of premium to the insurer may not be deferred under this subsection.

Amended by Chapter 204, 1986 General Session