

**§2553. Maximum rate of interest on policy loans**

1. Policies issued on or after the effective date of this Act shall provide for policy loan interest rates as follows:

A. A provision permitting a maximum interest rate of not more than 8% each year; or [PL 1981, c. 188, §4 (NEW).]

B. A provision permitting an adjustable maximum interest rate established from time to time by the life insurer as permitted by law. [PL 1981, c. 188, §4 (NEW).]  
[PL 1981, c. 188, §4 (NEW).]

2. The rate of interest charged on a policy loan made under subsection 1, paragraph B, shall not exceed the higher of the following:

A. The published monthly average for the calendar month ending 2 months before the date on which the rate is determined; or [PL 1981, c. 188, §4 (NEW).]

B. The rate used to compute the cash surrender values under the policy during the applicable period plus 1% each year. [PL 1981, c. 188, §4 (NEW).]  
[PL 1981, c. 188, §4 (NEW).]

3. If the maximum rate of interest is determined pursuant to subsection 1, paragraph B, the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy. [PL 1981, c. 188, §4 (NEW).]

4. The maximum rate for each policy shall be determined at regular intervals at least once every 12 months, but not more frequently than once in any 3-month period. At the intervals specified in the policy:

A. The rate being charged may be increased whenever such increase, as determined under subsection 2, would increase that rate by 1/2% or more each year; and [PL 1981, c. 188, §4 (NEW).]

B. The rate being charged shall be reduced whenever such reduction, as determined under subsection 2, would decrease that rate by 1/2% or more each year. [PL 1981, c. 188, §4 (NEW).]  
[PL 1981, c. 188, §4 (NEW).]

5. The life insurer shall:

A. Notify the policyholder at the time a cash loan is made of the initial rate of interest on the loan; [PL 1981, c. 188, §4 (NEW).]

B. 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. Notice need not be given to the policyholder when a further premium loan is added, except as provided in paragraph C; [PL 1981, c. 188, §4 (NEW).]

C. Send to policyholders with loans, reasonable advance notice of any increase in the rate; and [PL 1981, c. 188, §4 (NEW).]

D. Include in the notices required under this subsection the substance of the pertinent provisions of subsections 1 and 3. [PL 1981, c. 188, §4 (NEW).]  
[PL 1981, c. 188, §4 (NEW).]

6. The loan value of the policy shall be determined in accordance with section 2510, but no policy may terminate in a policy year as the sole result of a 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 and if there had been no change during that policy year.  
[PL 1981, c. 188, §4 (NEW).]

7. The substance of the pertinent provisions of subsections 1 and 3 shall be set forth in the policies to which they apply.

[PL 1981, c. 188, §4 (NEW).]

8. For purposes of this section:

A. 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; [PL 1981, c. 188, §4 (NEW).]

B. 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; [PL 1981, c. 188, §4 (NEW).]

C. 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; and [PL 1981, c. 188, §4 (NEW).]

D. The term "policy" includes certificates issued by a fraternal benefit society and annuity contracts which provide for policy loans. [PL 1981, c. 188, §4 (NEW).]

[PL 1981, c. 188, §4 (NEW).]

9. No other provision of law may apply to policy loan interest rates unless made specifically applicable to such rates.

[PL 1981, c. 188, §4 (NEW).]

#### SECTION HISTORY

PL 1981, c. 188, §4 (NEW).

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