

HOUSE BILL NO. 571

Introduced: 01/29/83

Referred to Committee on Business & Industry: 01/29/83

Hearing: 2/8/83

Report: 02/08/83, Do Pass

2nd Reading: 02/10/83, Do Pass

3rd Reading: 02/12/83, Do Pass

Transmitted to Senate: 02/12/83

Referred to Committee on Business & Industry: 2/12/83

Hearing: 3/11/82

Report: 03/19/83, Be Not Concurred In. Report Adopted.

Bill Killed

1 House BILL NO. 571  
 2 INTRODUCED BY Kitselman  
 3  
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FOR THE  
 5 REGULATION OF INTEREST RATES ON LIFE INSURANCE POLICY LOANS;  
 6 AMENDING SECTION 33-20-112, MCA."

7  
 8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

9 NEW SECTION. Section 1. Purpose. The purpose of  
 10 [sections 1 through 4] is to permit and set guidelines for  
 11 life insurers to include in life insurance policies issued  
 12 after October 1, 1983, a provision for periodic adjustment  
 13 of policy loan interest rates.

14 NEW SECTION. Section 2. Exclusions from application.  
 15 The provisions of [sections 1 through 4] do not apply to:

- 16 (1) term policies;
- 17 (2) term insurance benefits provided by rider or
- 18 supplemental policy provisions; or
- 19 (3) industrial life insurance policies except as
- 20 provided in 33-20-112.

21 NEW SECTION. Section 3. "Published monthly average"  
 22 defined. For purposes of [sections 1 through 4], the  
 23 "published monthly average" means:

- 24 (1) Moody's corporate bond yield average—monthly
- 25 average corporates, as published by Moody's investors

1 service, inc.; or

2 (2) in the event that Moody's corporate bond yield  
 3 average—monthly average corporates is no longer published,  
 4 a substantially similar average, established by rule of the  
 5 commissioner.

6 NEW SECTION. Section 4. Interest rates on life  
 7 insurance policy loans. (1) Life insurance policies issued  
 8 on or after October 1, 1983, may have a provision permitting  
 9 policy loan interest rates as follows:

10 (a) a maximum interest rate of not more than 8% a  
 11 year; or

12 (b) an adjustable maximum interest rate established  
 13 from time to time by the life insurer as permitted by  
 14 [sections 1 through 4].

15 (2) The rate of interest charged on a policy loan made  
 16 under subsection (1)(b) may not exceed the greater of:

17 (a) the published monthly average for the calendar  
 18 month ending 2 months before the date on which the rate is  
 19 determined; or

20 (b) the rate used to compute the cash surrender values  
 21 under the policy during the applicable period plus 1% a  
 22 year.

23 (3) If the maximum rate of interest is determined  
 24 pursuant to subsection (1)(b), the policy must contain a  
 25 provision setting forth the frequency at which the rate is

1 to be determined for that policy.

2 (4) The maximum rate for each policy must be  
3 determined at regular intervals at least once every 12  
4 months, but not more frequently than once in any 3-month  
5 period. At the intervals specified in the policy, the rate  
6 being charged:

7 (a) may be increased whenever an increase as  
8 determined under subsection (2) would increase the rate by  
9 0.5% or more a year;

10 (b) must be reduced whenever a reduction as determined  
11 under subsection (2) would decrease the rate 0.5% or more a  
12 year.

13 (5) The life insurer shall:

14 (a) notify a policyholder of the initial rate of  
15 interest on the loan at the time a cash loan is made;

16 (b) notify a policyholder, with respect to premium  
17 loans, of the initial rate of interest on the loan as soon  
18 as practical after making the initial loan. Notice need not  
19 be given to the policyholder when a further premium loan is  
20 added, except as provided in subsection (5)(c).

21 (c) send to policyholders with loans reasonable  
22 advance notice of any increase in the rate; and

23 (d) include in the notices required by this subsection  
24 the substance of subsection (1) and the frequency of rate  
25 determinations as provided in subsection (3).

1 (6) The policy may provide that if interest on any  
2 indebtedness is not paid when due, the interest will be  
3 added to the existing indebtedness and will bear interest at  
4 the same rate as the indebtedness.

5 (7) The loan value of the policy must be determined in  
6 accordance with the provisions of 33-20-109, but no policy  
7 may be terminated in a policy year solely as a result of a  
8 change in the interest rate during that policy year. The  
9 life insurer shall maintain coverage during that policy year  
10 until the time at which the policy would otherwise have  
11 terminated if there had been no interest rate change during  
12 that policy year.

13 (8) For purposes of this section, the following  
14 provisions apply:

15 (a) The term "policy loan" includes any premium loan  
16 made under a policy to pay one or more premiums that were  
17 not paid to the life insurer as they became due. The rate of  
18 interest on policy loans permitted under this section  
19 includes the interest rate charged on reinstatement of  
20 policy loans for the period during and after the lapse of a  
21 policy.

22 (b) The term "policyholder" includes the owner of the  
23 policy or the person designated to pay premiums as shown on  
24 the records of the life insurer.

25 (c) The term "policy" includes certificates issued by

1 a fraternal benefit society and annuity contracts that  
2 provide for policy loans.

3 (9) No other provision of law applies to policy loan  
4 interest rates unless it is made specifically applicable to  
5 such rates.

6 Section 5. Section 33-20-112, MCA, is amended to read:

7 "33-20-112. Reinstatement. There shall be a provision  
8 that the policy will be reinstated at any time within 3  
9 years, or 2 years in the case of industrial life insurance  
10 policies, from the date of premium default upon written  
11 application therefor, the production of evidence of  
12 insurability satisfactory to the insurer, the payment of all  
13 premiums in arrears, and the payment or reinstatement of any  
14 other indebtedness to the insurer upon the policy, ~~all~~ with  
15 interest on all premiums in arrears at a rate not exceeding  
16 6% per annum compounded annually and with interest on any  
17 indebtedness at a rate as provided in [sections 1 through  
18 4], unless:

19 (1) the policy has been surrendered for its cash  
20 surrender value;

21 (2) its cash surrender value has been exhausted; or

22 (3) the paid-up term insurance, if any, has expired."

23 NEW SECTION. Section 6. Codification instruction.

24 Sections 1 through 4 are intended to be codified as an  
25 integral part of Title 33, chapter 20.

-End-

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Approved by Committee  
on Business and Industry

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11 year; or  
12 (b) an adjustable maximum interest rate established  
13 from time to time by the life insurer as permitted by  
14 [sections 1 through 4].  
15 (2) The rate of interest charged on a policy loan made  
16 under subsection (1)(b) may not exceed the greater of:  
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18 month ending 2 months before the date on which the rate is  
19 determined; or  
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21 under the policy during the applicable period plus 1% a  
22 year.  
23 (3) If the maximum rate of interest is determined  
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25 provision setting forth the frequency at which the rate is

1 to be determined for that policy.

2 (4) The maximum rate for each policy must be  
3 determined at regular intervals at least once every 12  
4 months, but not more frequently than once in any 3-month  
5 period. At the intervals specified in the policy, the rate  
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(9) No other provision of law applies to policy loan interest rates unless it is made specifically applicable to such rates.

Section 5. Section 33-20-112, MCA, is amended to read:

"33-20-112. Reinstatement. There shall be a provision that the policy will be reinstated at any time within 3 years, or 2 years in the case of industrial life insurance policies, from the date of premium default upon written application therefor, the production of evidence of insurability satisfactory to the insurer, the payment of all premiums in arrears, and the payment or reinstatement of any other indebtedness to the insurer upon the policy, ~~at~~ with interest on all premiums in arrears at a rate not exceeding 6% per annum compounded annually and with interest on any indebtedness at a rate as provided in [sections 1 through 4], unless:

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