

### **304.15-115 Life insurance policy loan interest rates.**

- (1) As used in this section:
  - (a) "Policy" includes annuity contracts as defined in KRS 304.5-030 which provide for policy loans, and certificates issued by a fraternal benefit society as defined in KRS 304.29-011;
  - (b) "Policyholder" includes the owner of the policy or the person designated to pay premiums as shown on the records of the life insurer;
  - (c) "Policy loan" includes an advance of cash as specified in KRS 304.15-110 and any premium loan made under a policy to pay one (1) or more premiums that were not paid to the life insurer as they fell due; and
  - (d) "Published monthly average" means Moody's Corporate Bond Yield Average - Monthly Average Corporates as published by Moody's Investors Service, Inc. or any successor thereto, or, in the event that Moody's Corporate Bond Yield Average - Monthly Average Corporates is no longer published, a substantially similar average prescribed by the commissioner.
- (2) Notwithstanding any other provision of law:
  - (a) Policies issued on or after July 13, 1984, shall contain either, but not both, of the following policy loan interest rate provisions:
    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 at regular intervals by the life insurer as permitted by law;
  - (b) The rate of interest charged on a policy loan made under paragraph (a)2. of this subsection shall not exceed eighteen percent (18%) nor 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 cash surrender values under the policy during the applicable period plus one percent (1%) per annum;
  - (c) If the maximum rate of interest is determined pursuant to paragraph (a)2. of this subsection, 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 shall be determined at regular intervals at least once every twelve (12) months, but not more frequently than once in any three (3) month period. At the intervals specified in the policy:
    1. The rate being charged may be increased whenever such increase as determined under paragraph (b) of this subsection would increase the rate by one-half of one percent (0.5%) or more per annum;
    2. The rate being charged shall be reduced whenever such reduction as determined under paragraph (b) of this subsection would decrease that rate by one-half of one percent (0.5%) or more per annum;

- (e) The life insurer shall:
    - 1. Notify the policyholder at the time an advance of cash is made of the initial rate of interest on the loan;
    - 2. 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 subparagraph 3. of this paragraph;
    - 3. Send to policyholders with loans reasonable advance notice of any increase in the rate; and
    - 4. Include in the notices required in subparagraphs 1., 2., and 3. of this paragraph the substance of the pertinent provisions of paragraphs (a) and (c) of this subsection;
  - (f) The loan value of the policy shall be determined in accordance with KRS 304.15-110, but no policy shall terminate in a policy year as the sole result of changes in the interest rate during that policy year. The life insurer shall maintain coverage during that policy year until such 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 paragraphs (a) and (c) of this subsection shall be set forth in the policies to which they apply;
  - (h) For the purposes of this section, the rate of interest on policy loans permitted under this section shall include the interest rate charged for reinstatement of policy loans for the period during and after any lapse of a policy; and
  - (i) No other provision of law shall apply to policy loan interest rates unless such provision specifically applies to such rates.
- (3) The provisions of this section shall not apply to any policy issued before July 13, 1984, unless the policyholder agrees in writing to the applicability of such provisions.

**Effective:** July 15, 2010

**History:** Amended 2010 Ky. Acts ch. 24, sec. 1178, effective July 15, 2010. -- Amended 1988 Ky. Acts ch. 310, sec. 39, effective January 1, 1989. -- Created 1984 Ky. Acts ch. 265, sec. 1, effective July 13, 1984.