

NORTH CAROLINA GENERAL ASSEMBLY  
1981 SESSION

CHAPTER 841  
HOUSE BILL 353

AN ACT TO REGULATE INTEREST RATES ON LIFE INSURANCE POLICY LOANS.

The General Assembly of North Carolina enacts:

**Section 1.** Chapter 58 of the General Statutes is hereby amended by adding a new Article 22B to read as follows:

"ARTICLE 22B.

"Regulation of Interest Rates on Life Insurance Policy Loans.

"§ 58-213.13. **Purpose.** — The purpose of this Article is to permit and set guidelines for life insurers to include in life insurance policies issued after the effective date of this Article a provision for periodic adjustment of policy loan interest rates. Nothing in this Article shall be construed to prohibit a life insurer from issuing a policy that contains only the provision specified in G.S. 58-213.15(a)(i) with respect to policy loan interest rates.

"§ 58-213.14. **Definitions.** — For purposes of this Article the 'Published Monthly Average' means:

(a) The Monthly Average of the Composite Yield on Seasoned Corporate Bonds as published by Moody's Investors Service, Inc., or any successor thereto; or

(b) In the event that the Monthly Average of the Composite Yield on Seasoned Corporate Bonds is no longer published, a substantially similar average, established by regulation issued by the Commissioner.

"§ 58-213.15. **Maximum rate of interest on policy loans.** — (a) Policies issued on or after the effective date of this Article shall provide for policy loan interest rates as follows:

- (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 established from time to time by the life insurer as permitted by law.

(b) The rate of interest on a policy loan made under subsection (a)(ii) shall not exceed the higher of the following:

- (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 the cash surrender values under the policy during the applicable period plus 1% per annum.

(c) If the maximum rate of interest is determined pursuant to subsection (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 for each policy must 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 such increase as determined under subsection (b) would increase that rate by 1/2% or more per annum;

- (ii) The rate being charged must be reduced whenever such reduction as determined under subsection (b) would decrease that rate by 1/2% or more per annum.
- (e) The 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. Notice need not be given to the policyholder when a further premium loan is added, except as provided in (iii) below;
  - (iii) Send to policyholders with loans reasonable advance notice of any increase in the rate; and
  - (iv) Include in the notices required above the substance of the pertinent provisions of subsections (a) and (c).
- (f) 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:
  - (i) 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.
  - (ii) 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.
  - (iii) 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.
  - (iv) 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.

**"§ 58-213.16. Applicability to existing policies.** — The provisions of this Article shall not apply to any insurance contract issued before the effective date of this Article."

**Sec. 2.** This act shall become effective September 1, 1981.

In the General Assembly read three times and ratified, this the 7th day of July, 1981.