

See Commerce 2/16 To Pass 2/23 (p 540)
HOUSE FILE 2263

Commerce
Palmer, Chair
Bruher
Jensen

~~FILED~~ 1984

Calendar

HOUSE FILE 2263

BY COMMITTEE ON SMALL
BUSINESS AND COMMERCE

(Formerly House File 2174)

Passed House, Date 2-14-84 (p 397) Passed Senate, Date 3-2-84 (p 620)

Vote: Ayes 91 Nays 6 Vote: Ayes 32 Nays 9

Approved March 16, 1984

A BILL FOR

- 1 An Act to regulate interest rates on life insurance policy
- 2 loans.
- 3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HOUSE FILE 2263

H-5164

- 1 Amend House File 2263 as follows:
- 2 1. Page 1, by striking lines 5 and 6 and inserting
- 3 in lieu thereof the following:
- 4 "a. For fixed rate loans, a maximum interest rate
- 5 not to exceed eight percent per annum. However, if
- 6 the usury limit established under section 535.2,
- 7 subsection 3, drops below eight percent per annum,
- 8 then the maximum interest rate shall not exceed the
- 9 usury limit on new fixed rate loans."

BY HOLVECK of Polk
KREWSON of Polk
STURGEON of Woodbury

H-5164 FILED FEB, 13, 1984

Law 2/14/84 (p 397)

HOUSE FILE 2263

S-5175

- 1 Amend House File 2263 as follows:
- 2 1. Page 1, by striking lines 16 through 18 and
- 3 inserting in lieu thereof the following:
- 4 "(1) A rate determined in accordance with an index
- 5 selected by the commissioner. The index selected
- 6 may include Moody's corporate bond yield average-
- 7 monthly average corporates as published in Moody's
- 8 investors service, inc., or any successor to the
- 9 investors service."

BY PATRICK DELUHERY

S-5175 FILED
FEBRUARY 28, 1984

Law 3/2 (p 620)

1 Section 1. NEW SECTION.

2 1. Life insurance policies issued after July 1, 1984 may
3 provide interest rates on policy loans in accordance with
4 either of the following:

5 a. A maximum interest rate of not more than eight per-
6 cent per annum.

7 b. An adjustable maximum interest rate established as
8 permitted under this section.

9 2. The rate of interest charged on a policy loan made
10 under subsection 1, paragraph "b", shall not exceed the greater
11 of the following:

12 a. The published monthly average for the calendar month
13 ending two months before the date on which the rate is deter-
14 mined. For purposes of this subsection, "published monthly
15 average" means one of the following:

16 (1) Moody's corporate bond yield average-monthly average
17 corporates as published in Moody's investors service, inc.,
18 or any successor to the investors service.

19 (2) If Moody's corporate bond yield average-monthly average
20 corporates is no longer published, a substantially similar
21 average established by rule issued by the commissioner of
22 insurance.

23 (3) On or before the first day of each month, the commis-
24 sioner of insurance shall determine the "published monthly
25 average" for the calendar month ending one month before the
26 date on which the monthly average is determined, and publish
27 the rate, as a notice in the Iowa administrative bulletin
28 or as a legal notice in a newspaper of general circulation
29 published in Polk county prior to the first day of the
30 following calendar month. This published monthly average
31 is effective on the first day of the following calendar month.
32 The determination of this published monthly average by the
33 commissioner of insurance is exempt from chapter 17A.

34 b. The rate used to compute the cash surrender values
35 under the policy during the applicable period plus one percent

1 per annum.

2 3. If the maximum rate of interest is determined under
3 subsection 1, paragraph "b", the policy shall state the
4 frequency at which the rate is to be determined for that
5 policy.

6 4. The maximum rate for the policy shall be determined
7 at established intervals at least once every twelve months,
8 but not more frequently than once every three months. At
9 the intervals established in the policy the rate:

10 a. May be increased when an increase as determined under
11 subsection 2 would increase the charged rate by one-half per-
12 cent or more per annum.

13 b. Shall be reduced when a reduction as determined under
14 subsection 2 would decrease the charged rate by one-half per-
15 cent or more per annum.

16 5. When a cash loan is made, the insurer shall notify
17 the policyholder of the initial interest rate on the loan.
18 With respect to premium loans, the insurer shall notify the
19 policyholder of the initial interest rate as soon as the
20 insurer can reasonably do so after making the loan. An insurer
21 need not inform the policyholder of the interest rate when
22 an additional premium loan is made unless the interest rate
23 increases. However, policyholders with either cash or premium
24 loans shall receive reasonable advance notice of any increase
25 in the interest rate. Notices required under this subsection
26 shall also contain the following information:

27 a. The maximum interest rate on the loan if the loan is
28 a fixed rate loan.

29 b. The fact that the interest rate is adjustable if the
30 loan is an adjustable rate loan.

31 c. The frequency at which the rate is to be determined
32 for that policy or if an adjustable interest rate, the es-
33 tablished intervals at which the rate may be adjusted.

34 6. A policy shall not terminate in a policy year solely
35 as the result of change in the interest rate during that year.

1 The life insurer shall maintain coverage during that policy
2 year until the time at which it would otherwise have terminated
3 if there had been no change during that policy year.

4 7. Policies of insurance upon which a loan can be made
5 shall state the following:

6 a. Whether fixed rate loans or adjustable rate loans are
7 permitted.

8 b. If fixed rate loans are permitted, the maximum rate
9 of interest on those loans.

10 c. If adjustable rate loans are permitted, the established
11 intervals at which the rate may be adjusted.

12 8. Unless the context otherwise requires, for purposes
13 of this section:

14 a. The rate of interest on policy loans includes the in-
15 terest rate charged on reinstatement of policy loans for the
16 period during and after a lapse of the policy.

17 b. "Policy loan" includes a premium loan made under a
18 policy to pay a premium that was not paid to the insurer when
19 due.

20 c. "Policyholder" includes the owner of the policy or
21 the person designated, on the records of the insurer, to pay
22 premiums.

23 d. "Policy" includes certificates issued by a fraternal
24 benefit society and annuity contracts which provide for policy
25 loans.

26 9. Other provisions of law do not apply to policy loan
27 interest rates unless made specifically applicable to the
28 rates.

29 Sec. 2. This Act applies to all insurance contracts is-
30 sued on or after the effective date of this Act, but this
31 Act does not apply to an insurance contract issued before
32 the effective date of this Act unless the policyholder agrees
33 in writing to its applicability.

34 EXPLANATION

35 This bill, a model bill adopted by the national association

1 of insurance commissioners, allows insurers to make periodic
2 adjustments in the interest rates charged on loans made under
3 the policy. The Moody's corporate bond average-monthly average
4 corporates was chosen as the interest rate index. It corres-
5 ponds to the rates available to insurers on new, long-term
6 investments, and it is the index used in the standard valuation
7 and nonforfeiture laws for calculating policy values. Under
8 the bill the interest rate must be established at least once
9 a year and may be established and adjusted quarterly. Policy-
10 holders must receive advance notice of an interest rate in-
11 crease.

12 The bill takes effect July 1 following its enactment.

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HOUSE FILE 2263

AN ACT

TO REGULATE INTEREST RATES ON LIFE INSURANCE POLICY LOANS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. NEW SECTION.

1. Life insurance policies issued after July 1, 1984 may provide interest rates on policy loans in accordance with either of the following:

a. A maximum interest rate of not more than eight percent per annum.

b. An adjustable maximum interest rate established as permitted under this section.

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

a. The published monthly average for the calendar month ending two months before the date on which the rate is determined. For purposes of this subsection, "published monthly average" means one of the following:

(1) Moody's corporate bond yield average-monthly average corporates as published in Moody's investors service, inc., or any successor to the investors service.

(2) If Moody's corporate bond yield average-monthly average corporates is no longer published, a substantially similar average established by rule issued by the commissioner of insurance.

(3) On or before the first day of each month, the commissioner of insurance shall determine the "published monthly average" for the calendar month ending one month before the date on which the monthly average is determined, and publish the rate, as a notice in the Iowa administrative bulletin or as a legal notice in a newspaper of general circulation

published in Polk county prior to the first day of the following calendar month. This published monthly average is effective on the first day of the following calendar month. The determination of this published monthly average by the commissioner of insurance is exempt from chapter 17A.

b. The rate used to compute the cash surrender values under the policy during the applicable period plus one percent per annum.

3. If the maximum rate of interest is determined under subsection 1, paragraph "b", the policy shall state the frequency at which the rate is to be determined for that policy.

4. The maximum rate for the policy shall be determined at established intervals at least once every twelve months, but not more frequently than once every three months. At the intervals established in the policy the rate:

a. May be increased when an increase as determined under subsection 2 would increase the charged rate by one-half percent or more per annum.

b. Shall be reduced when a reduction as determined under subsection 2 would decrease the charged rate by one-half percent or more per annum.

5. When a cash loan is made, the insurer shall notify the policyholder of the initial interest rate on the loan. With respect to premium loans, the insurer shall notify the policyholder of the initial interest rate as soon as the insurer can reasonably do so after making the loan. An insurer need not inform the policyholder of the interest rate when an additional premium loan is made unless the interest rate increases. However, policyholders with either cash or premium loans shall receive reasonable advance notice of any increase in the interest rate. Notices required under this subsection shall also contain the following information:

a. The maximum interest rate on the loan if the loan is a fixed rate loan.

b. The fact that the interest rate is adjustable if the loan is an adjustable rate loan.

c. The frequency at which the rate is to be determined for that policy or if an adjustable interest rate, the established intervals at which the rate may be adjusted.

6. A policy shall not terminate in a policy year solely as the result of change in the interest rate during that year. 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.

7. Policies of insurance upon which a loan can be made shall state the following:

a. Whether fixed rate loans or adjustable rate loans are permitted.

b. If fixed rate loans are permitted, the maximum rate of interest on those loans.

c. If adjustable rate loans are permitted, the established intervals at which the rate may be adjusted.

8. Unless the context otherwise requires, for purposes of this section:

a. The rate of interest on policy loans includes the interest rate charged on reinstatement of policy loans for the period during and after a lapse of the policy.

b. "Policy loan" includes a premium loan made under a policy to pay a premium that was not paid to the insurer when due.

c. "Policyholder" includes the owner of the policy or the person designated, on the records of the insurer, to pay premiums.

d. "Policy" includes certificates issued by a fraternal benefit society and annuity contracts which provide for policy loans.

9. Other provisions of law do not apply to policy loan interest rates unless made specifically applicable to the rates.

Sec. 2. This Act applies to all insurance contracts issued on or after the effective date of this Act, but this Act does not apply to an insurance contract issued before the effective date of this Act unless the policyholder agrees in writing to its applicability.

DONALD D. AVENSON
Speaker of the House

ROBERT T. ANDERSON
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2263, Seventieth General Assembly.

JOSEPH O'HERN
Chief Clerk of the House

Approved *March 16*, 1984

TERRY E. BRANSTAD
Governor