

Vermont Insurance Division

BULLETIN 62 (REVISED) Life Policy Loans with Adjustable Interest Rate

July 8, 1983

Vermont Public Act No. 144 (House Bill No. 388, effective April 9, 1982) amends 8 V.S.A., Section 3731 (7) and (9) relating to the standard policy loans' provisions in life insurance policies issued in Vermont. Any policy form effecting an adjustable interest rate on policy loans must substantially communicate the following therein:

1. An explanation of how the adjustable interest rate is determined and applied to a policy loan.
2. Notice of how often the policy loan interest rate will be determined.
3. Notice that a change in the policy loan interest rate shall apply to any new existing policy debt.
4. Notice that the policy loan interest rate shall not exceed the maximum rate allowed. An explanation that the maximum rate allowed is the greater of: (A) the Published Monthly Average for the calendar month ending two months before the calendar month in which the rate is determined, and (B) the interest rate used to compute cash values during the applicable period, plus 1% per annum.

An explanation that the Published Monthly Average shall be the Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc. or any successor to it, and that, if the Published Monthly Average is no longer published, a substantially similar average, established by law in the state where this policy was delivered, shall be used.

5. Notice of when the insurer may increase the rate and when the insurer must decrease the rate.
6. Notice that the insurer will disclose to the policyowner at the time a cash loan is made, and as soon as is reasonably practical after a premium loan is made, the applicable loan interest rate and notice that the insurer will give policyowners with policy and/or premium loans reasonable written notice prior to the effective date of any subsequent interest rate increase.
7. Notice of the effects the adjustable policy loan interest rate has on the reinstatement provision of the policy. The adjustable policy loan interest rate may be applied to contracts issued prior to April 9, 1982, with the approval of the commissioner. An insurer may choose to file provisions more favorable to the policyowner than those specified in the statutes. Any insurer with questions concerning this Bulletin may contact Richard

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COMMISSIONER OF BANKING AND INSURANCE