

THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

500.4023 Policy loans; interest rates; notice; information; policy not to terminate as sole result of change in interest rate; applicability of section to insurance or annuity contract.

Sec. 4023.

(1) As used in this section:

(a) "Policyholder" includes the owner of the policy or the person designated to pay premiums as shown on the records of the insurer.

(b) "Policy loan" includes any premium loan made under a policy to pay 1 or more premiums that were not paid to the insurer as the premiums became due.

(c) "Published monthly average" means the Moody's corporate bond yield average-monthly average corporates as published by Moody's investors service, inc., or in the event that the Moody's corporate bond yield average-monthly average corporates is no longer published, a substantially similar average as determined by the commissioner.

(2) Policies issued on or after the effective date of this section shall provide for policy loan interest rates by 1 of the following:

(a) A provision permitting a maximum interest rate of not more than 8% per annum.

(b) A provision permitting an adjustable maximum interest rate of not more than 18% per annum, which rate is established from time to time by the insurer as provided by this section.

(3) The rate of interest charged on a policy loan made under subsection (2)(b) shall not exceed the higher of the following:

(a) The published monthly average for the calendar month ending 2 months before the date on which the rate is determined.

(b) The rate used to compute the cash surrender values under the policy during the applicable period plus 1% per annum.

(4) If the maximum rate of interest is determined pursuant to subsection (2)(b), the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy. The maximum rate of interest for a policy loan made under subsection (2)(b) shall be determined at least once every 12 months, but not more than once every 3 months. With respect to a policy loan made under subsection (2)(b), at the intervals specified in the policy:

(a) The interest rate being charged may be increased when an increase as determined under subsection (2)(b) would increase the rate by 1/2% or more per annum.

(b) The interest rate being charged shall be reduced when a reduction as determined under subsection (2)(b) would decrease that rate by 1/2% or more per annum.

(5) Each insurer which makes a policy loan under subsection (2)(b) shall do all of the following:

(a) Notify the policyholder at the time the loan is made of the initial rate of interest on the loan.

(b) Not less than 30 days before making a change in the interest rate pursuant to subsection (4), notify the policyholder of the change.

(c) Furnish to the policyholder the information provided in subsections (2) and (4).

(6) A policy shall not terminate in a policy year as the sole result of change in the interest rate during that policy year, and the insurer shall maintain coverage during that policy year until the time at which the policy would otherwise have terminated if there had not been a change during that policy year.

(7) This section shall not apply to any insurance or annuity contract issued before the effective date of this section unless the policyholder agrees in writing to the applicability of this section. Prior to the receipt of any policyholder's written agreement as to the applicability of this section, each insurer shall furnish to the policyholder written notice identifying all the changes in terms and conditions of the policy including information in subsections (2), (3), and (4). This written notice shall identify the benefits which may insure to the policyholder as a result of the applicability of this section.

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