

**40-420c. Same; methods to determine interest rates; definitions.** (a) Policies issued on or after the effective date of this act 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 charged on a policy loan made under paragraph (ii) of subsection (a) 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 paragraph (ii) of subsection (a), 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 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 paragraph (iii) of this subsection;
    - (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) The loan value of the policy shall be determined in accordance with the provisions of K.S.A. 40-429 and 40-2611 and K.S.A. 40-420, and amendments thereto, but 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.

**History:** L. 1982, ch. 203, § 3; July 1.