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1981 Senate Bill 169

Date published: **November 10, 1981**

CHAPTER 51 , Laws of 1981

AN ACT to create 632.475 of the statutes, relating to interest rates on life insurance policy loans and granting rule-making authority.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 632.475 of the statutes is created to read:

632.475 Life insurance policy loans. (1) DEFINITIONS. In this section:

(a) "Policy" includes a life insurance policy, a certificate issued by a fraternal benefit society and an annuity contract.

(b) "Policy loan" means a loan by an insurer, including a premium loan, secured by the cash surrender value of a policy issued by the insurer.

(c) "Policy year" means a year beginning on the anniversary date of a policy.

(2) INTEREST RATES. A policy providing for policy loans shall contain a provision for a maximum interest rate on the loans in accordance with one but not both of the following:

(a) A provision permitting an adjustable maximum rate under sub. (3) established from time to time by the insurer.

(b) A provision permitting a specified rate not exceeding 12% per year.

(3) ADJUSTABLE MAXIMUM RATE. The rate of interest charged on a policy loan under sub. (2) (a) shall not exceed Moody's corporate bond yield average (monthly average corporates), as published by Moody's investors service, inc., or its successor, for the month ending 2 months before the rate is applied. If such monthly average is no longer published, a comparable average shall be substituted by the commissioner by rule.

(4) FREQUENCY OF CHANGES. If the maximum rate of interest is determined under sub. (2) (a) the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy.

(5) INTERVALS AND LIMITS ON CHANGES. The maximum rate of interest for a policy subject to sub. (2) (a) shall be determined at regular intervals at least once every 12 months, but not more frequently than once in any 3-month period. At the intervals specified in the policy:

(a) The rate being charged may be changed as permitted under sub. (3) but no such change shall be less than 0.5% per year; and

(b) The rate being charged must be reduced to or below the maximum rate as determined under sub. (3) whenever the maximum is lower than the rate being charged by 0.5% or more per year.

(6) NOTICE. The life insurer shall:

(a) Notify the policyholder of the initial rate of interest on the loan at the time a policy loan is made, if the loan is not a premium loan.

(b) 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 par. (c).

(c) Send to policyholders with loans 30 days' advance notice of any increase in the interest rate.

(7) COVERAGE CONTINUATION. If the sum of the outstanding principal and interest on a policy loan having an adjustable interest rate under sub. (2) (a) exceeds the cash surrender value of the policy because of a change in the interest rate during the policy year, the insurer shall maintain coverage under the policy during that policy year unless the policy is terminated for another reason.

(8) POLICY PROVISIONS. The pertinent provisions of subs. (2) and (4) shall be set forth in substance in the policies to which they apply.

SECTION 2. Nonimpairment. This act does not impair a policy issued before the effective date of this act.
