

Article - Insurance

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§16–207.

(a) This section does not apply to:

- (1) term policies;
- (2) term insurance benefits provided by rider or supplemental policy provisions; or
- (3) industrial life insurance policies.

(b) Each policy of life insurance shall contain a provision that, on proper assignment or pledge of the policy and on the sole security of the policy, the insurer shall advance an amount equal to, or at the option of the party entitled to the advance, an amount not exceeding the loan value of the policy:

- (1) after premiums have been paid for at least 3 years;
- (2) after the policy has a cash surrender value; and
- (3) while no premium is in default beyond the grace period.

(c) (1) Except as provided in paragraph (2) of this subsection and subject to § 16-208 of this subtitle, the insurer may charge interest on the advance at a rate specified in the policy not exceeding an effective rate of 6% per year.

(2) The Commissioner may authorize an interest rate exceeding an effective rate of 6% but not exceeding 8% per year if the Commissioner finds that a greater rate will reduce the net cost of life insurance offered by the insurer in direct relationship to the revenue from the increase.

(d) (1) Subject to paragraph (2) of this subsection, the loan value of a policy shall at least equal the cash surrender value of the policy at the end of the current policy year.

(2) In determining the cash surrender value of a policy, the insurer may deduct from the loan value or from the proceeds of the loan:

(i) any existing indebtedness to the insurer not already deducted including any interest then accrued but not due;

(ii) any unpaid balance of the premium for the current policy year;
and

(iii) interest on the loan to the end of the current policy year.

(e) Each policy may also contain a provision that:

(1) interest on any indebtedness that is not paid when due shall be added to the existing indebtedness and shall bear interest at the same rate; and

(2) the policy terminates if:

(i) the total indebtedness on the policy, including interest due or accrued, equals or exceeds the amount of the loan value of the policy; and

(ii) at least 30 days before termination, the insurer mails notice to the last known address of the insured or policy owner and of any assignee of record at the home office of the insurer.

(f) Each policy shall allow the insurer to defer granting a loan, other than for the payment of a premium to the insurer, for 6 months after application for the loan.

(g) Except for those policies that require weekly premium payments, each policy shall provide for an automatic premium loan, subject to an election by the party entitled to elect.

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