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§16–208.

(a) (1) In this section the following words have the meanings indicated.

(2) "Policy" includes:

(i) a certificate issued by a fraternal benefit society that provides for policy loans; and

(ii) an annuity contract that provides for policy loans.

(3) "Policyholder" includes:

(i) the owner of a policy; and

(ii) the person designated to pay premiums as shown on the records of the life insurer.

(4) "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 the premiums fell due.

(5) "Published monthly average" means:

(i) Moody's corporate bond yield average - monthly average corporates as published by Moody's Investors Service, Inc. or its successor; or

(ii) if the Moody's corporate bond yield average - monthly average corporates is not published, a substantially similar average that the Commissioner establishes by regulation.

(b) Each policy of life insurance issued on or after July 1, 1983, shall contain a provision that:

(1) allows a maximum interest rate on a policy loan, including the interest rate charge on reinstatement of a policy loan during and after any lapse of a policy, not exceeding an effective rate of 8% per year; or

(2) allows an adjustable maximum annual interest rate on a policy loan, including the interest rate charge on reinstatement of a policy loan during and after any lapse of a policy, set by the insurer as allowed by law not exceeding the greater of:

(i) the published monthly average for the calendar month ending 2 months before the date the rate is determined; or

(ii) the annual rate used to calculate the cash surrender values under the policy during the applicable period plus 1%.

(c) (1) If the maximum rate of interest is determined under subsection (b)(2) of this section, the policy shall include provisions that disclose the frequency at which the rate will be determined for the policy.

(2) The maximum annual interest rate for each policy with an adjustable policy loan interest rate must be determined at regular intervals at least once every 12 months, but not more than once in any 3-month period.

(d) For a policy with an adjustable policy loan interest rate, at the intervals specified in the policy:

(1) the interest rate may be increased if the calculation under subsection (b)(2) of this section would increase the annual rate by at least 0.5%; and

(2) the interest rate shall be reduced if the calculation under subsection (b)(2) of this section would reduce the annual rate by at least 0.5%.

(e) (1) This subsection applies only to a policy with an adjustable policy loan interest rate.

(2) When a cash loan is made, the life insurer shall notify the policyholder of the beginning annual interest rate on the loan.

(3) When a premium loan is made, the life insurer shall notify the policyholder as soon as is reasonably practical after making the initial loan of the beginning annual interest rate on the loan.

(4) The life insurer shall give reasonable advance notice to policyholders with outstanding loans of any increase in interest rates.

(5) The notices required under this subsection shall include the substance of the relevant provisions of subsections (b) and (c)(2) of this section.

(f) (1) This subsection applies only to a policy with an adjustable policy loan interest rate.

(2) The loan value of the policy shall be determined under Subtitle 3 of this title.

(3) A policy may not terminate during a policy year solely as the result of a change in the interest rate during the policy year.

(4) The life insurer shall maintain coverage during the policy year until the time that the policy would otherwise have terminated had there been no change in interest rate during the policy year.

(g) Unless made specifically applicable to policy loan interest rates, other provisions of law do not apply to policy loan interest rates.

(h) On request, a life insurer shall notify the policyholder each year of the cash value of the policy for the current policy year.

(i) A life insurer that offers policies with an adjustable policy loan interest rate shall establish a written pricing or dividend policy that provides that the policyholders shall receive the benefits from increased earnings of the insurer that result from the use of an adjustable rate by receiving higher dividends, higher cash values, lower premiums, or a combination of benefits.

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