AN ACT Relating to insurance; amending section .23.08, chapter 79, Laws of 1947 as amended by section 1, chapter 250, Laws of 1977 ex. sess. and RCW 48.23.080; amending section .23.12, chapter 79, Laws of 1947 and RCW 48.23.120; adding a new section to chapter 48.23 RCW; creating a new section; and providing an effective date.

Be it enacted by the Legislature of the State of Washington:

NEW SECTION. Section 1. The purpose of this act is to permit and set guidelines for life insurers to include in life insurance policies issued after the effective date of this act a provision for periodic adjustment of policy loan interest rates.

NEW SECTION. Sec. 2. There is added to chapter 48.23 RCW a new section to read as follows:

(1) As used in this section, "published monthly average" means:
   (a) The "Moody's Corporate Bond Yield Average – Monthly Average Corporates" as published by Moody's Investors Service, Incorporated or any successor thereto; or
   (b) If the "Moody's Corporate Bond Yield Average – Monthly Average Corporates" is no longer published, a substantially similar average, established by rule issued by the commissioner.

(2) Policies issued on or after the effective date of this act shall provide for policy loan interest rates by containing:
   (a) A provision permitting a maximum interest rate of not more than eight percent per annum; or
   (b) A provision permitting an adjustable maximum interest rate established from time to time by the life insurer as permitted by law.

(3) The rate of interest charged on a policy loan made under (2)(b) of this section shall not exceed the higher of the following:
   (a) The published monthly average for the calendar month ending two months before the date on which the rate is determined; or
   (b) The rate used to compute the cash surrender values under the policy during the applicable period plus one percent per annum.

(4) If the maximum rate of interest is determined pursuant to (2)(b) of this section, the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy.

(5) The maximum rate for each policy shall be determined at regular intervals at least once every twelve months, but not more frequently than once in any three-month period. At the intervals specified in the policy:
   (a) The rate being charged may be increased whenever such increase as determined under subsection (3) of this section would increase that rate by one-half of one percent or more per annum; and
(b) The rate being charged shall be reduced whenever such reduction as determined under subsection (3) of this section would decrease that rate by one-half of one percent or more per annum.

(6) The life insurer shall:
   (a) Notify the policyholder at the time a cash loan is made of the initial rate of interest on the 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 (c) of this subsection;
   (c) Send to policyholders with loans reasonable advance notice of any increase in the rate; and
   (d) Include in the notices required in this subsection the substance of the pertinent provisions of subsections (2) and (4) of this section.

(7) The substance of the pertinent provisions of subsections (2) and (4) of this section shall be set forth in the policies to which they apply.

(8) The loan value of the policy shall be determined in accordance with RCW 48.23.080, 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.

(9) For purposes of this section:
   (a) 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;
   (b) 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;
   (c) 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; and
   (d) The term "policy" includes certificates issued by a fraternal benefit society and annuity contracts which provide for policy loans.

(10) No other provision of law shall apply to policy loan interest rates unless made specifically applicable to such rates.

Sec. 3. Section .23.08, chapter 79, Laws of 1947 as amended by section 1, chapter 250, Laws of 1977 ex. sess. and RCW 48.23.080 are each amended to read as follows:

(1) There shall be a provision that after three full years' premiums have been paid thereon, the insurer at any time, while the policy is in force, will advance, on proper assignment or pledge of the policy and on the sole security thereof, at a rate of interest provided ((for in paragraph (c) of this
subsection)) in this chapter as now or hereafter amended, a sum to be determined as follows:

(a) If such policy is issued prior to the operative date of RCW 48.23-.350, the sum, including any interest paid in advance but not beyond the end of the current policy year, shall be equal to or at the option of the owner of the policy less than, the reserve at the end of the current policy year on the policy and on any dividend additions thereto, less a sum not more than two and one-half percent of the amount insured by the policy and of any dividend additions thereto. The policy may contain a provision by which the insurer reserves the right to defer the making of the loan, except when made to pay premiums, for a period not exceeding six months after the date of application therefor.

(b) If such policy is issued on or after such operative date, the sum, including any interest to the end of the current policy year shall not exceed the cash surrender value at the end of the current policy year, as required by RCW 48.23.350.

(c) (i) The policy shall contain (A) a provision that policy loans shall bear interest at a specified rate not exceeding six percent per annum, or (B) a provision that policy loans shall bear interest at a variable of not less than four nor more than eight percent per annum.

(ii) The variable rate shall not be changed more frequently than once per year and no change may exceed one percent per annum except reductions. The insurer shall give at least thirty days' notice to the policy owner or the owner's designee of any changes in the interest rate.

(iii) The provisions of (c)(i) and (c)(ii) of this subsection shall apply only in policies in existence prior to August 1, 1981.

(2) Such policy shall further provide that the insurer may deduct from such loan value any existing indebtedness on the policy (unless such indebtedness has already been deducted in determining the cash surrender value) and any unpaid balance of the premium for the current policy year; and that if the loan is made or repaid on a date other than the anniversary of the policy, the insurer shall be entitled to interest for the portion of the current policy year at the rate of interest specified in the policy.

(3) Such policy may further provide that if the interest on the loan is not paid when due, it shall be added to the existing indebtedness and shall bear interest at the same rate; and that if and when the total indebtedness on the policy, including interest due or accruing, equals or exceeds the amount of the loan value thereof which would otherwise exist at such time, the policy shall terminate in full settlement of such indebtedness and become void; except, that it shall be stipulated in the policy that no such termination shall be effective prior to the expiration of at least thirty days after notice of the pendency of the termination was mailed by the insurer to the insured and the assignee, if any, at their respective addresses last of record with the insurer.
(4) The insurer shall provide in any policy issued on or after the operative date of RCW 48.23.350 that the making of any loan, other than a loan to pay premiums, may be deferred for not exceeding six months after the application for the loan has been received by it.

Sec. 4. Section .23.12, chapter 79, Laws of 1947 and RCW 48.23.120 are each amended to read as follows:

There shall be a provision that the policy may be reinstated at any time within three years after the date of default in the payment of any premium, unless the policy has been surrendered for its cash value, or the period of any extended insurance provided by the policy has expired, upon evidence of insurability satisfactory to the insurer and the payment of all overdue premiums, and payment (or, within the limits permitted by the then cash values of the policy, reinstatement) of any other indebtedness to the insurer upon the policy with interest as to ((both)) premiums ((and indebtedness)) at a rate not exceeding six percent per annum compounded annually.

NEW SECTION. Sec. 5. This act shall take effect August 1, 1981, and shall not apply to any insurance contract before that date.

Passed the House April 2, 1981.
Passed the Senate April 22, 1981.
Approved by the Governor May 18, 1981.
Filed in Office of Secretary of State May 18, 1981.

CHAPTER 248
[House Bill No. 615]
COUNTY SCHOOL FUNDS DISTRIBUTION

AN ACT Relating to certain school accounts; creating new sections; and repealing section 7, chapter 124, Laws of 1972 ex. sess. and RCW 28A.44.120.

Be it enacted by the Legislature of the State of Washington:

NEW SECTION. Section 1. Section 7, chapter 124, Laws of 1972 ex. sess. and RCW 28A.44.120 are each hereby repealed.

NEW SECTION. Sec. 2. Any county treasurer having a fund balance in an account effected by section 1 of this 1981 act shall distribute those funds to school districts within that county on the effective date of this 1981 act.

NEW SECTION. Sec. 3. Any distribution of funds by the county treasurer to school districts shall be in accordance with section 4 of this 1981 act and shall be certified by the educational service district superintendent serving the largest number of school districts in the county. A distribution schedule shall be provided to each appropriate county treasurer twenty days before distribution of funds is to take place by the appropriate educational service district superintendent.