

(b) Loans applied for or exchanged on and after the effective date of this regulation (November 2, 1987) shall bear interest at a rate which may be varied during the term of the loan, not more frequently than once a year, as provided by paragraphs (c) and (d) of this section. After October 1, 1988, the policy loan rate shall not be varied more frequently than once a year. Notification of the initial rate of interest on new loans will be forwarded at the time the loan is made. Policyholders with existing variable rate loans will be forwarded reasonable advance notice of any increase in the rate. Reasonable advance notice of any change in the variable loan rate will be published in the FEDERAL REGISTER. A notice pertaining to variable loans which is sent to the policyholder's last address of record will constitute sufficient evidence of notice.

(c) Subject to the provisions of paragraph (d) of this section, loan rates established pursuant to paragraph (b) of this section shall equal the yield on the Ten-Year Constant Maturities Index for U.S. Treasury Securities for the month of June of the year of calculation rounded down to the next whole percentage. Such loan rate shall be effective on the date on or after the first day of October on which the rate change is made in the insurance automatic data processing system, and shall remain in effect for not less than one year after the date of establishment. The prevailing variable loan rate shall apply to all loans granted under paragraph (b) of this section.

(d) Notwithstanding any other provisions of this section, the variable loan rate shall not exceed 12 percent or be lower than 5 percent per annum.

(Authority: 38 U.S.C. 1906)

[52 FR 39626, Oct. 2, 1987, as amended at 53 FR 17466, May 17, 1988; 59 FR 65717, Dec. 21, 1994. Redesignated at 61 FR 29290, June 10, 1996. Redesignated at 65 FR 7437, Feb. 15, 2000]

EXTENDED TERM AND PAID-UP
INSURANCE

§ 8.14 Provision for extended term insurance—other than 5-year level premium term or limited convertible 5-year level premium term policies.

(a) After the expiration of the first policy year and upon default in the payment of a premium within the grace period, if a permanent plan National Service Life Insurance policy other than the modified life plan has not been surrendered for cash or for paid-up insurance, the policy shall be extended automatically as term insurance. The extended term insurance shall be for an amount of the insurance equal to the face value of the policy less any indebtedness for such time from the due date of the premium in default as the cash value less any indebtedness and a charge for administrative cost for insurance issued under 38 U.S.C. 1925, will purchase when applied as a net single premium at the attained age of the insured. For this purpose the attained age is the age on the birthday anniversary nearest to the effective date of the policy plus the number of years and months from that date to the date the extended term insurance becomes effective. The extended term insurance shall not have a loan value, but shall have a cash value.

(b) Upon default in payment of a premium within the grace period on any permanent plan of National Service Life Insurance other than the modified life plan and any plan of insurance issued under 38 U.S.C. 1925, if the policy has been in force by payment or waiver of premiums for not less than 3 months nor more than 11 months, the policy shall be extended automatically as term insurance. The extended term insurance shall be for an amount of insurance equal to the face value of the policy less any indebtedness for such time from the due date of the premium in default as the reserve of the policy less any indebtedness will purchase when applied as a net single premium at the attained age of the insured. For this purpose the attained age is the age on the birthday anniversary nearest to the effective date of the policy plus the number of months from that date to

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the date extended term insurance becomes effective. Extended term insurance under this provision shall not have a cash or loan value. This paragraph shall be effective from and after August 2, 1948.

(c) Upon default in payment of a premium within the grace period, if a modified life plan of National Service Life Insurance has not been surrendered for cash or paid-up insurance and if the policy has been in force by payment or waiver of premiums for not less than 3 months, or for not less than 1 year for insurance issued under 38 U.S.C. 1925, the policy shall be extended automatically as of insurance equal to (1) the Initial Face Amount of Insurance (face amount of policy in force prior to insured's 65th birthday) less any indebtedness, for lapses which occur prior to the insured's 65th birthday, or (2) the Ultimate Face Amount of Insurance (face amount of policy in force on or after insured's 65th birthday) less any indebtedness, for lapses which occur on or after the insured's 65th birthday. The extended term insurance shall be for an amount of insurance equal to:

(i) The initial face amount of insurance (face amount of policy in force prior to the insured's 65th or 70th birthday, depending on the plan of insurance), less any indebtedness, for lapses which occur prior to the insured's 65th or 70th birthday, depending on the plan of insurance, or

(ii) The ultimate face amount of insurance (face amount of policy in force on or after insured's 65th or 70th birthday, depending on the plan of insurance) less any indebtedness, for lapses which occur on or after the insured's 65th or 70th birthday, depending on the plan of insurance. If a modified life plan policy is on extended term insurance at the end of the day preceding the insured's 65th or 70th birthday, depending on the plan of insurance, the amount of extended term insurance in effect under such policy shall be automatically reduced by one-half thereof. If the policy lapsed prior to the end of the first policy year, the extended term insurance shall not have a cash or loan value. If the policy lapsed after the first policy year, the extended term in-

surance shall not have a loan value, but shall have a cash value.

(Authority: 38 U.S.C. 1906)

[30 FR 3647, Mar. 19, 1965, as amended at 47 FR 11658, Mar. 18, 1982. Redesignated at 61 FR 29290, June 10, 1996. Redesignated at 65 FR 7437, Feb. 15, 2000]

§ 8.15 Provision for paid-up insurance; other than 5-year level premium term or limited convertible 5-year level premium term policies.

If a National Service Life Insurance policy on any plan other than 5-year level premium term or limited convertible 5-year level premium term plan has not been surrendered for cash, upon written request of the insured and complete surrender of the insurance with all claims thereunder, after the expiration of the first policy year and while the policy is in force under premium-paying conditions, the United States will issue paid-up insurance for such amount as the cash value less any indebtedness, and a charge for administrative cost for insurance issued under 38 U.S.C. 1925, will purchase when applied as a net single premium at the attained age of the insured. For this purpose the attained age is the age on the birthday anniversary nearest to the effective date of the policy plus the number of years and months from that date to the date the paid-up insurance becomes effective. Such paid-up insurance will be effective as of the expiration of the period for which premiums have been paid and earned; and, any premiums paid in advance for months subsequent to that in which the application for paid-up insurance is made shall be refunded to the insured. The paid-up insurance, if eligible to participate in and to receive dividends, shall be with the right to dividends. The insured may at any time surrender the paid-up policy for its cash value or obtain a loan on such paid-up insurance.

[30 FR 3648, Mar. 19, 1965. Redesignated and amended at 61 FR 29290, 29293, June 10, 1996. Redesignated at 65 FR 7437, Feb. 15, 2000]