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**Chapter 8. Loans**

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**8.01 GENERAL**

1. Authority for granting loans on Government insurance is included in:
	* 1. 38 U.S.C. 1906, 38 CFR 8.13 (NSLI)
		2. 38 U.S.C. 1944, 38 CFR 6.13 (USGLI)
2. A loan may be granted on any policy issued on a permanent plan at any time after the first policy year which has a loan value and is in force on a premium-paying basis (including waiver of premium) or as paid-up insurance and any 5-year level term policy with paid-up additions attached. This includes policies surrendered for reduced paid-up insurance, but excludes policies matured because of total and permanent disability or surrendered for cash or extended term insurance. A lapsed policy does not have a loan value; however, a loan may be granted as an incident to reinstatement of a lapsed permanent plan after the first policy year.
3. A loan may not be granted while a claim for total and permanent disability is pending or in amount to exceed 94 percent of the reserve of the policy. Multiple loans may be granted if the amount of the loan requested exceeds the loan value of any one of the policies and the amount is available on more than one of the policies.
4. Application for a loan may be made on:
	* 1. VA Form 29-1546, Application for Cash Surrender/ Policy Loan, or
		2. VA Form 29-5772, Loan and Cash Surrender Values (Government Life Insurance), or
		3. Any type of document or letter, signed by the insured, which clearly expresses the intent of the insured.

**NOTE**: When the insured submits an informal application for cash surrender which does not clearly express his or her intent, it will be accepted and processed as an informal application for loan in the maximum amount. If the insured reiterates his or her request for cash surrender, the effective date will be governed by the postmark date of the original request.

1. When processing loans for the maximum amount, the term “MAX” will be used during internal processing, but the loan letter will provide the full loan value, including dollars and cents.
2. When processing requests for loan information, the full loan value, including dollars and cents, will be provided to the insured.
3. The annual rate of interest charged on loans is as follows:

**NATIONAL SERVICE LIFE INSURANCE (NSLI)**

LOAN EFFECTIVE DATE PERCENT

From 08/08/40 through 07/31/46 5

 On 08/01/46 the rate of interest for 5% loans

 was changed to 4% per annum

From 08/01/46 through 01/10/71 4

From 01/11/71 through 07/28/81 5

From 07/29/81 through 11/01/87 11

From 11/02/87 through 09/30/1992 Variable (initial rate set at 8%)

From 10/01/1992 through 09/30/1993 Variable (7%)

From 10/01/1993 through 09/30/1995 Variable (5%)

From 10/01/1995 through 09/30/1998 Variable (6%)

From 10/01/1998 through 09/30/2000 Variable (5%)

From 10/01/2000 through 09/30/2001 Variable (6%)

From 10/01/2001 through Current Date Variable (5%)

**UNITED STATES GOVERNMENT LIFE INSURANCE (USGLI)**

LOAN EFFECTIVE DATE PERCENT

From 05/01/19 through 07/18/39 6

From 07/19/39 through 07/31/46 5

From 08/01/46 through 01/10/71 4

From 01/11/71 through Current Date 5

1. All NSLI policy loans issued on or after November 2, 1987 are assigned the variable interest rate. The new rate was initially set at 8 percent per annum based on the June 1987 level of the economic indicator. The rate will be reviewed annually at the end of the June calendar month. If a change is necessary, the new rate will become effective on the following October 1st. Rate changes will not be made more frequently than once a year. A loan issued under the variable interest rate provision will be limited to a maximum interest rate of 12 percent and a minimum of 5 percent per annum. Existing loans issued at the 4 or 5 percent fixed rate were not affected by this change.

**8.02 PERSONS TO WHOM LOANS MAY BE GRANTED**

Loans may be granted to:

1. The insured, if the insurance records do not indicate incompetency.
2. VA appointed Guardian/Fiduciary 38 CFR 6.21 (USGLI), 38 CFR 8.32 (NSLI).
3. The insured, through an attorney-in-fact, if the insured gives specific delegation of authority to the attorney-in-fact to negotiate the loan and specifies the particular policy to be affected.
4. The legal guardian, committee, conservator, curator, or trustee for the insured, provided the application is supported by a court order from the court of jurisdiction if required under the State law.

**8.03 REQUIREMENTS FOR GRANTING AND PROCESSING LOANS**

1. Requirements for granting a loan are as follows:
	* 1. Normal loan processing: The application must be completed properly and signed by the insured or any person listed under section 8.02. The signature on the application for a loan will be compared with the insured's signature on the original application for insurance or other documents in the insurance folder to ascertain that the insured signed the request for loan. If the insured expressed in figures the amount of loan desired and also checks the maximum loan block, the loan will be processed by accepting the amount expressed in figures, provided sufficient loan value is available. Otherwise, the loan will be processed for the maximum amount available.
		2. Urgent Loan processing: If a completed and signed application for a loan has been received indicating an urgent need, an Insurance Specialist can verify the request by phone in cases where there is any issue with the validity of the loan request that might delay processing.
		3. The insurance must have a loan value, and premiums must be paid or waived through the month in which the loan is granted. Applications made within 30 days after the end of the grace period will be accepted as timely. The necessary deductions will be made from the loan to pay premiums through the premium month in which the loan is granted.

1. A loan application will be processed as indicated below:
2. The loan application will be processed without regard to the date of a recent payment on loan and lien indebtedness provided the amount of the payment is less than $100. When the remittance is a check for $100 or more, processing will be delayed if less than 20 days have elapsed since the payment was deposited, and the total loan indebtedness and remittance will exceed the maximum reserve value. Processing will not be delayed if the remittance was a certified check, money order, or deduction from VA benefits, or service pay.
3. The loan application will be processed without regard to the date of a recent premium payment. If a remittance is later returned as uncollectible, and, as a result, premiums are not paid through the premium month in which the loan was granted, a premium lien will be established immediately and the account updated.
4. When a new variable loan is granted on a policy with existing outstanding 4 and 5 percent loans, the 4 and 5 percent loans will be combined as a single 4 percent loan. Then, the remaining two loans must be treated separately from the standpoint of maintenance and loan interest billing. Both loans will have the same anniversary date. Interest on the 5 percent loan is capitalized to the month and day of the new loan.

**8.04 EFFECTIVE DATE OF LOANS**

The effective date of a loan will not be later than the date through which premiums are paid. Loans which would normally be granted with an effective date of February 29 will be processed with an effective date of February 28.

1. When the proceeds of the loan are to be applied to pay premiums only on one or more of the insured's policies, the effective date of the loan will be the postmark date of the application.
2. When the proceeds are to be paid in cash or when part is to be paid in cash and the remainder applied to premiums, the effective date of the loan will be the date on which the loan payment is released.
3. When the proceeds are to be applied to effect a change of contract from a lower to higher reserve or from a term to an antedated permanent plan, the effective date of the loan will be the same as the effective date of change of contract. Loans of this type will be established on the new contract.
4. When a loan is granted at the time of reinstatement, the effective date of loan will be the postmark date of the application for reinstatement.

**8.05 DEDUCTION OF INDEBTEDNESS AND PREMIUM FROM A LOAN**

1. The following types of indebtedness will be deducted from the amount of the loan:
2. Outstanding loan on the policy on which the loan is to be granted, plus interest to the effective date of the new loan.
3. Premium lien or shortage on the policy on which the loan is to be granted.
4. Insurance overpayment lien on the policy on which the loan is to be granted. If the lien exists on a policy other than the one on which the loan is to be granted, the lien will be deducted from the loan and the insured will be advised of the action taken. The insured will be notified that if he or she objects to the action taken and returns the check representing the loan, the transaction will be canceled and the loan application disapproved.
5. Finance indebtedness if any part of the loan is to be paid in cash. If the indebtedness is on a policy other than the one on which the loan is granted, the indebtedness will be deducted and the insured advised of the action taken. The insured will be notified that if he or she objects to the action taken and returns the check representing the loan, the transaction will be canceled and the loan application disapproved.
6. When premiums are not paid through the premium month in which a loan is to be granted and reinstatement requirements need not be met, the unpaid premiums, plus interest if applicable, will be deducted from the amount of the loan. However, if there is a dividend credit balance sufficient to pay the unpaid premium(s), the application will be processed after premiums are paid current. The insured may request to use dividend credit to bring the account current. Deductions from the loan to pay premiums in advance will be made only if authorized by the insured or persons authorized to apply for a loan on his or her behalf under 8.02.
7. When the amount of loan requested does not take into consideration outstanding indebtedness of the types mentioned in subparagraph “a” above or unpaid premiums, the amount of the loan will be increased by the amount of indebtedness and/or unpaid premiums if the loan value is sufficient.
8. When deductions are made for indebtedness, premiums and/or premium interest, the postmark date of the loan application will be used as the postmark date of the deductions.

**8.06 GRANTING A LOAN AS INCIDENT TO REINSTATEMENT**

1. After the first policy year, a loan may be granted to cover the cost of reinstatement in full or in part, even though the insurance lapsed before the end of the first policy year.
2. When reinstatement of the full amount of the policy is effected and there was an outstanding loan at time of lapse, the outstanding loan, plus interest to the date of reinstatement, must either be paid or reinstated. If the total indebtedness exceeds the cash value of the policy at time of reinstatement, the excess indebtedness must be paid as a condition to reinstating the policy and the balance of the indebtedness. When reinstatement of only a portion of the policy is effected, the proportionate part of the loan, plus interest to the date of reinstatement, must either be repaid or reinstated.
3. In granting a loan as an incident to reinstatement, a disbursement may also be issued for any remaining loan value provided the amount of loan covers both the amount to be applied to the cost of reinstatement and the amount to be paid in cash.

**8.07 ISSUANCE OF A LOAN DISBURSEMENT**

Loan disbursements will be made payable only to a competent insured at the address given on the loan application or the address given by the attorney-in-fact. When the insured is incompetent, the loan will be made payable to the insured, care of the fiduciary, guardian, committee, conservator, curator or trustee of the insured and in accordance with the rules in paragraph 8.02.

**8.08 CANCELLATION OF LOAN OR LOAN APPLICATION**

1. A loan application will not be processed if the insured's request for cancellation is received before processing is completed for issuance of a loan disbursement or before 706 Notice of Refund for an approved manual policy loan is released.
2. When a loan disbursement is returned, the loan will be canceled under the following conditions:
3. The insured states he or she does not want the loan, the insured's request was misunderstood in the granting of the loan, or the period of time between the request for and the processing of the loan was delayed (10 workdays).
4. The loan was granted to an insured that is incompetent.
5. The disbursement was returned because of death of the insured.
6. The disbursement was returned as undeliverable and cannot be remailed immediately.
7. The returned disbursement was issued in foreign currency.

**8.09 LOAN INTEREST AND LOAN CREDIT**

1. At any time after the first policy year and upon the execution of a loan agreement, VA will lend to the insured any amount which shall not exceed 94 percent of the cash value of the policy. Any indebtedness shall be deducted from the amount advanced on such loan. The loan shall bear interest at a rate no less than 5 percent per annum and not to exceed 12 percent per annum, payable annually, and the loan may be repaid in full or in amounts of $5 or more. Failure to pay either the amount of the loan or the interest thereon shall not void the policy unless the total indebtedness shall equal or exceed the cash value thereof. When the amount of the indebtedness equals or exceeds the cash value, the policy shall cease and become void.
2. On loans applied for before November 2, 1987 and not exchanged pursuant to paragraph b. of this section, the policy loan interest rate in effect when the loan was applied for shall not be increased for the term of the loan.
3. Interest is due on the anniversary date of a loan or at the time of final settlement of that loan. If it is not timely paid, it becomes part of the loan principal and bears interest in the same manner. Upon request, the insured may prepay interest as much as 365 days before the next interest due date; however, no discount or interest credit is allowed for this type of early payment.
4. A period of 20 days after the loan anniversary date is allowed for paying annual interest with no additional allowance for the 20th day falling on a Saturday, Sunday or holiday. VA Form 29-369, Notice of Payment Due, is used to notify the insured of the amount of annual interest due. Payments will be processed as follows:
5. Interest will not be charged when processing a loan transaction if the transaction date is 20 days or less after the loan anniversary date and the transaction amount is equal to or less than the amount of interest billed.
6. On non-deduction accounts, payments received during the 30-day period before and the 20-day period after the loan anniversary date, will be applied first to the interest billed and any remaining payment to the loan principal balance. If the transaction amount is greater than the amount of interest billed, interest will be charged on that portion of the transaction amount which exceeds the amount of interest billed.
7. On deduction accounts, the deductions received during the 30-day period before and the 20-day period after the loan anniversary date, will be applied to the loan principal balance. For this reason, during the interest-free period, there will be no interest credit nor accumulated interest involved on any portion of deductions exceeding the amount of interest billed.
8. Interest credit is allowed whenever an outstanding loan is liquidated or a repayment is made after capitalization of annual loan interest, but before the loan anniversary date of the outstanding loan, except as noted below:
9. Interest credit will not be given when processing a loan transaction if the transaction date is 30 days or less before the loan anniversary date and the transaction amount is equal to or less than the amount of interest billed.
10. If the transaction amount is greater than the amount of interest billed, interest credit will be given on the portion of the amount which exceeds the amount of interest billed.
11. On deduction accounts, the deductions received during the 30-day period before and the 20-day period after the loan anniversary date, will be applied to the loan principal balance. For this reason, during the interest free-period, there will be no interest credit nor accumulated interest involved on any portion of deductions exceeding the amount of principal and interest billed. Any overpayments will be refunded.
12. Annual interest on policy loans is capitalized 22 days before the loan anniversary date for domestic addresses and 30 days before the loan anniversary date for foreign addresses.
13. Dates of death, and cash surrenders that are within the 20-day period before or after the anniversary date of the loan, are considered when computing accumulated interest or interest credit. If the policy matures within the 20-day period prior to the loan anniversary date, an interest credit is due from the date of maturity to the loan anniversary date. The loan balance prior to capitalization of the annual interest is used to determine the interest credit. If the policy matures within the 20-day period after the loan anniversary date, accumulated interest is due from the loan anniversary date to the date of maturity. The loan balance after annual interest has been capitalized is used to determine the accumulated interest on matured policies.

 **8.10 COMPUTATION OF LOAN INTEREST**

1. The formula for calculation of annual loan interest is based on a 365-day year, irrespective of leap year. When partial repayments of loans are made, interest will be computed for the period of time that portion of the indebtedness has been outstanding since the effective date of the loan or the loan anniversary date, whichever is later. It will be held as accumulated interest until the next loan anniversary date or final settlement of the loan, whichever is earlier.
2. Annual loan interest will be computed by determining the amount of interest due on the outstanding loan balance on the anniversary date and adding it to any interest accumulated due to partial repayment of the loan since the last loan anniversary date.
3. Loan interest for less than a year will be computed by determining the amount of interest on the loan principal balance as of a given date and adding it to any interest accumulated due to partial repayment of the loan since the last loan anniversary date or effective date of loan, whichever is later.

**8.11 REPAYMENT OF LOAN INDEBTEDNESS**

1. Loan indebtedness may be paid at any time before default in payment of premiums. Repayment may be made by direct remittance, dividends, deductions from VA benefits or service pay, or any credits. Repayment of loan indebtedness is not compulsory except as indicated below:
2. The policy lapses for nonpayment of premiums. (The loan plus interest to the date of lapse is deducted from the policy reserves.)
3. The policy matures as an endowment or is surrendered for cash. (The loan plus interest to the date of maturity or date of surrender is deducted from the proceeds of the policy.)
4. The policy matures by death. (The beneficiary may repay the indebtedness in full before monthly installments begin, and interest will not be charged after the date of death. Otherwise, the indebtedness plus interest to the date of death is deducted from the proceeds of the policy.)
5. The plan of insurance is changed to one with a lower reserve or the policy is reduced. (The amount of the indebtedness which exceeds the loan value of the retained amount of insurance must be paid with interest or deducted from that part of the reserve payable to the insured.)
6. The policy is surrendered for reduced paid-up insurance. (A loan not in excess of the loan value of the reduced paid-up insurance may be continued on the reduced paid-up policy if requested by the insured.)
7. A new loan is granted on the policy. (The old loan plus interest to the date of the new loan must be paid or included in the new loan.)
8. Loan balances of less than $1 will be transferred to the Variance Shortage Account (29). Overpayment on loans of less than $1 will be transferred to one of the Variance Overage Accounts (28 – Cash Collections or 30 – Offset Amounts) unless refund is requested.
9. When a notice of an uncollectible or invalid loan payment is received, the credit previously applied will be reversed.
10. Repayments of loan/lien indebtedness will be processed as of the date furnished by Collections. The Collections Section considers the repayments as OPEN MAIL and the processing date is calculated from the date of receipt of the repayments. The PMD (postmark date) is no longer used.)
11. If an insured requests that his/her paid-up additions be surrendered and the entire proceeds applied to reduce the loan indebtedness, the loan interest will be calculated as of the postmark date of the request. If only a portion of the cash value is to be applied to the loan, the repayment will be processed as of the last date of the premium month in which the cash surrender application is submitted.

**8.12 PREPAYMENT OF LOAN INTEREST**

Upon request, the insured may prepay interest as much as 365 days before the next loan anniversary date. The full year's interest must be paid. No partial or installment payments to prepay interest are acceptable.

**8.13 CHANGE OF PLAN WITH EXISTING LOAN**

When a plan with an existing loan is changed to a plan with a lower reserve, the loan may not exceed the maximum loan value of the new plan. If it is necessary to reduce the loan, the amount of the reduction with interest to the date of the change will be recovered from the difference in reserve.

**8.14 TRANSACTIONS INVOLVING TWO POLICY LOANS**

When functions involving computer-generated output other than maintenance and loan interest billing are involved; i.e., lapses (including extended insurance), cash surrenders, maturing endowments, calculation of critical dates (automatic surrender), death, etc., all loan information will appear as one indebtedness (both loan principals plus the appropriate interest).

**8.15 LOAN ON POLICY AND/OR PAID-UP ADDITIONS**

1. There is no waiting period before a loan may be made on paid-up additions.
2. The reserve of the paid-up additions will be combined with the reserve of the basic policy when computing the loan value of a policy.
3. If the basic policy is 5-LPT, a loan will be granted on the paid-up additions only. Any unpaid term insurance premiums will not be deducted from the loan. However, a loan may be granted to pay premiums or to satisfy a request made by the insured.