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### CIRCULAR LETTER

**TO : ALL LIFE INSURANCE COMPANIES AND MUTUAL BENEFIT ASSOCIATIONS (MBAs)**

**SUBJECT : NEW MAXIMUM POLICY LOAN INTEREST RATES**

Since more than two decades ago this Commission has been allowing life insurance companies and MBAs to charge policy loan interest rates up to 12% per annum for non-participating and 16% per annum for participating policies. The rationale then was to address their concern that policy loans have become a cheap source of funds because of high interest rates, ranging from 37% to 45%, prevailing then in the market. It would have led to high policy loan utilization and consequently caused a substantial drain in the investible funds of the insurance companies and MBAs.

However, these past few years we have seen a marked decline in market interest rates. Hence, this Commission, after a careful review of the current yield rates of government securities, the interest rate assumptions used in the pricing of life insurance products and the average investment yield of the life insurance industry for the past five years, hereby issues the following amended guidelines:

1. Effective July 1, 2006, the new maximum policy loan interest rates shall be **8%** per annum and **10%** per annum for dollar and peso policies, respectively, whether participating or non-participating.
2. Any previously approved policy loan interest rate beyond the new maximum rates is hereby revoked. All loans that will be granted or renewed on or after July 1, 2006 shall bear an interest rate not exceeding the new maximum.
3. For policies with previously approved policy loan interest rates below the new maximum rates, any request for change in policy loan interest rate shall be subject to the same minimum requirements for approval of change in policy loan interest rate provided under Circular Letter No. 27-2005 dated August 26, 2005.

A fine of five hundred pesos (P 500.00) per day for every non-compliant policy is hereby imposed. At the discretion of the Commissioner and taking into account the frequency and gravity of violations, other administrative sanctions provided under the Insurance Code, including suspension of license, may also be imposed.

This Circular supersedes inconsistent provisions of Circular Letter No. 27-2005.

This Commission shall regularly review the guidelines and effect the necessary amendments as it deems necessary.

*Evangelina Crisostomo Escobillo*

**EVANGELINE CRISOSTOMO-ESCOBILLO**  
Insurance Commissioner

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