

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-454

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 26, 1942

Dear Sir:

Enclosed is a copy of a letter written to a Federal Reserve Bank answering certain questions presented by The Association of Life Insurance Presidents in connection with Regulation W.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT
NEW YORK

FOR VICTORY



March 26, 1942

Mr. _____,
Assistant Vice President,
Federal Reserve Bank of _____,
_____, _____,

Dear Mr. _____:

Reference is made to your letter of February 24, 1942, regarding the questions presented by The Association of Life Insurance Presidents, _____, _____, as to whether life insurance companies are required to register under section 3(a) of Regulation W. These questions are discussed below, and a copy of this letter is being forwarded as an "S" letter to all Federal Reserve Banks in order that they may be in a position to make appropriate replies to any inquiries on the subject from insurance companies in various parts of the country.

1. Policy Loans.--Life insurance companies frequently make so-called "policy loans" in the amount of \$1,500 or less on life insurance policies issued by them. It is understood that the provisions of the policies require the companies to make these loans, and to make them on the sole security of the policy. It is perhaps arguable whether the policyholder undertakes to repay the loan at all, but it is understood that he clearly does not undertake to repay the loan in instalments. On the basis of this understanding, it is the view of the Board that the making of such "policy loans" does not cause an insurance company to be "engaged in the business" described in section 3(a) and hence does not require the company to register.

2. Instalment Loans.--A great many of the loans made by life insurance companies are repayable on an instalment basis. An insurance company which regularly makes or accepts applications for, instalment loans of \$1,500 or less (or instalment loans secured by recently purchased listed articles as specified in section 2(e)(2)) is engaged in the business of making extensions of instalment loan credit and is required to register pursuant to section 3(a). On the other hand, if a company does not make, or hold itself out as being prepared to receive applications for, any such instalment loans, it would not have to register unless there were some other facts that brought it under the requirement.

It is understood that there are also some insurance companies that do not clearly fall within either of the descriptions in the preceding paragraph. They do not regularly make, and do not hold themselves out as being prepared to receive applications for, any instalment loans secured by recently purchased listed articles or any instalment loans of \$1,500 or less, but they nevertheless make one or two such loans in isolated instances on infrequent occasions.

In general, and in the absence of other facts, a company would not be "engaged in the business" unless it makes such loans with at least some degree of repetition or holds itself out as being prepared to receive applications for such loans. For example, the inquiry states that one such insurance company which does not hold itself out as prepared to receive any applications for any such loans has made two instalment loans of \$1,500 or less in the past 20 years. Assuming that these two loans were made as isolated instances, they would not cause the company to be "engaged in the business" described in section 3(a). The question whether a particular company is "engaged in the business" by virtue of having made certain of such loans must, of course, depend upon all the relevant facts of the individual case.

3. Advances for Taxes and Insurance Premiums under Mortgage Loans.--Frequently a provision of a first mortgage authorizes the holder of the mortgage to pay taxes and insurance premiums on the property when the mortgagor fails to pay them, and provides further that the amount of such payments shall be a first lien on the premises and become a part of the sum secured by the mortgage. Life insurance companies from time to time make payments pursuant to such provisions. The fact that such advances are exempted as a part of the first mortgage under section 6(a) and W-128 would not prevent them from requiring the company to register. However, it is the view of the Board that the payment of taxes and insurance premiums in these circumstances does not cause an insurance company to be "engaged in the business" described in section 3(a) even though such supplemental advances are repayable in instalments and are in the amount of \$1,500 or less.

4. Partially Repaid Loans.--An instalment loan which is made in good faith in excess of \$1,500, and is not secured by a recently purchased listed article as described in section 2(e)(2), does not become subject to the regulation when the outstanding amount of the loan is reduced to \$1,500 or less. Hence, the fact that an insurance company has on its books many such loans which were originally made in amounts exceeding \$1,500 but which have been paid down to \$1,500 or less does not cause the insurance company to be "engaged in the business" described in section 3(a).

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.