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CIRCULAR No. 8
OF THE
**RECONSTRUCTION
FINANCE CORPORATION**

INFORMATION REGARDING APPLICATIONS TO THE
RECONSTRUCTION FINANCE CORPORATION FOR SUBSCRIPTION
FOR PREFERRED STOCK AND PURCHASE OF CAPITAL NOTES
OF INSURANCE COMPANIES, AND LOANS ON SUCH PREFERRED
STOCK OR CAPITAL NOTES AS COLLATERAL SECURITY, AS
AUTHORIZED BY ACT OF CONGRESS, APPROVED JUNE 10, 1933
(PUBLIC, No. 35, 73D CONGRESS)



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INFORMATION REGARDING APPLICATIONS FOR: (a) SUBSCRIPTIONS FOR PREFERRED STOCK OR PURCHASES OF CAPITAL NOTES OF INSURANCE COMPANIES, OR (b) LOANS UPON PREFERRED STOCK OR CAPITAL NOTES OF INSURANCE COMPANIES, BY THE RECONSTRUCTION FINANCE CORPORATION, AS AUTHORIZED IN THE ACT OF CONGRESS, APPROVED JUNE 10, 1933. (PUBLIC, NO. 35, 73d CONGRESS)

The Act of Congress "to authorize the Reconstruction Finance Corporation to subscribe for preferred stock and purchase the capital notes of insurance companies," approved on June 10, 1933, provides that if, in the opinion of the Secretary of the Treasury, any insurance company of any State of the United States is in need of funds for capital purposes either in connection with the organization of such company or otherwise, the Secretary of the Treasury may, with the approval of the President, request the Reconstruction Finance Corporation to subscribe for preferred stock of any class, exempt from assessment or additional liability, in such insurance company, or to make loans secured by such stock and/or other collateral. The Reconstruction Finance Corporation may comply with such request, subject to conditions hereinafter set forth.

The Act defines an insurance company as including "any corporation engaged in the business of insurance, or in the writing of annuity contracts, irrespective of the nature thereof, and operating under the supervision of the State superintendent or department of insurance in any of the States of the United States."

The Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury and under such rules and regulations as he may prescribe, sell in the open market the whole or any part of the preferred stock of any such insurance company acquired by the Corporation pursuant to this section.

Funds Available

The total amount of loans outstanding, preferred stock subscribed for, and capital notes purchased and held by the Reconstruction Finance Corporation, under the provisions of sections 1, 2, and 3 of this act, shall not exceed at any one time \$50,000,000.

Companies Incorporated in States Which Do Not Permit the Issuance of Preferred Stock

In the case of companies incorporated under the laws of States which do not permit the issuance of preferred stock, exempt from assessment or additional liability, or if such laws permit such issuance of preferred stock only by unanimous consent of stockholders, or upon notice of more than 20 days, the Reconstruction Finance Corporation is authorized under this act to purchase the legally issued capital notes of such insurance companies or to make loans secured by such notes as collateral, which may be subordinated in whole or in part or to any degree to claims of other creditors.

In the case of mutual companies, fraternal associations, etc., determining factors as to type of securities that may be issued by the applicant aside from the laws of the State under which they are organized, may be found in the provisions of the company's bylaws and/or its contracts of insurance issued to its policyholders; or in the mutual contracts, as between policyholders constituting the membership of any association or reciprocal exchange.

**Amount of Subscriptions for Preferred Stock and Purchase of Capital Notes,
or Loans Secured by Such Stock or Notes**

Section 3 of the Act provides that the Reconstruction Finance Corporation shall not subscribe for or purchase any preferred stock or capital notes of any applicant insurance company until the applicant shows to the satisfaction of the Corporation that it has unimpaired capital stock, or that it will furnish new capital which will be subordinate to the preferred stock or capital notes to be subscribed for or purchased by the Corporation, equal to the amount of said preferred stock or capital notes so subscribed for or purchased by the Corporation: *Provided*, That the Corporation may make loans upon said preferred stock or capital notes, if, in its opinion, such loans will be adequately secured by said stock or capital notes, and/or such other forms of security as the Corporation may require.

The gross amount of direct subscriptions for preferred stock and purchases of capital notes or loans upon such preferred stock and/or capital notes which the Corporation will make in respect of any insurance company will be determined on the basis of the sound net worth of the company, or the net worth created by any new capital proposed to be paid in to the net worth of the company from sources other than those contemplated by the application to this Corporation and the probable future of the company. The net worth of the company will be determined after full provision has been made for required reserves and all losses or doubtful assets. In appraising the assets market values will be used for securities having a market value, and sound values will be used for all mortgages and securities having no readily marketable value.

Any compromises or scaling down of liabilities or subordination of funds belonging to policyholders or creditors, whether in connection with a reorganization or otherwise, must be undertaken in strict conformity with statutory authority and must have the unqualified approval of the supervisory authorities having jurisdiction over such transactions.

Restrictions on Subscriptions, Purchases, and Loans

The Reconstruction Finance Corporation shall not subscribe for any preferred stock or purchase any capital notes or make loans on such stock or notes as collateral security, (1) if at the time of such subscription, purchase, or loan any officer, director, or employee of the applicant is receiving total compensation in a sum in excess of \$17,500 per annum from the applicant and/or any of its affiliates, and (2) unless at such time the applicant agrees to the satisfaction of the Corporation not to increase the compensation of any of its officers, directors, or employees, and not to retire any of its stock, notes, bonds, or debentures issued for capital purposes, while any part of the preferred stock, notes, bonds, or debentures of such company is held by the Corporation. The term "compensation," as used herein and defined by the Act, includes any salary, fee, bonus, commission, or other payment, direct or indirect, in money or otherwise, for personal services.

Applications to the Reconstruction Finance Corporation for Subscription for Preferred Stock and Purchase of Capital Notes of Insurance Companies

1. Applications may be made for subscription for the preferred stock or the purchase of capital notes of an existing insurance company, or of a company formed for the purpose of reinsuring or taking over the business of another company or companies, within the limitations suggested in the preceding paragraphs.

2. Application may be made by insurance companies directly to the loan agency of the Corporation serving the territory in which the applicant's home office is located, or to the Washington office of the Corporation. The application should be made in triplicate on the prescribed forms and should be accompanied by the following information and documents:

- (a) A copy of the charter and proposed amendments thereto under which the preferred stock and/or capital notes offered to the Corporation are to be issued.
- (b) A copy of the statutes under which the applicant derives its authority to issue preferred stock and/or capital notes.
- (c) A copy of resolutions already adopted or proposed to be adopted by the board of directors of the applicant authorizing the issuance and sale of such stock and/or such capital notes.
- (d) A copy of the latest report of examination of the applicant, by a legally designated supervising agency.
- (e) Copies of the applicant's convention reports as filed with the superintendents of insurance of the various States for the last preceding 5 full years, and a complete copy of the annual financial statement on the regulation convention forms as of the most recent date available, but in no event more than 4 months prior to the date of application.

Actual market values of securities should be extended on these reports for the purpose of ready reference thereto by the examiners of the Corporation. However, it is understood that such market values may not be reflected in the balance sheets and other supporting schedules in cases where the reports were filed on the basis of convention values.

- (f) Statement of applicant's cash receipts and disbursements for the last 5 full years, and for the elapsed period of time from the last convention report to the date of the interim report filed on a convention form referred to in (e) above.
- (g) If not fully reflected in the convention reports, supporting schedules should be filed showing in detail all assets pledged to secure borrowed money, together with schedules of assets deposited with the various State departments of insurance.
- (h) A complete statement of any plan of reorganization, financial and/or otherwise, which the applicant proposes to put into operation.
- (i) A complete statement of the sources from which other funds are to be raised, showing the names of the subscribers to any capital stock by classes, capital notes, and otherwise, distinguishing between subscriptions applied for to the Corporation, subscriptions to be made by others, and subscriptions to be made by those proposing to offer such stock as collateral for loans from this Corporation.

- (j) A copy of the resolution of the board of directors showing that no officer, director, or employee of the applicant is receiving a total compensation as defined by the Act in a sum in excess of \$17,500 per annum from the applicant or any of its affiliates, and that such compensation will not be increased while any part of the preferred stock, capital notes, bonds, or debentures of such company is held by the Corporation.
- (k) A copy of the resolution of the board of directors of the applicant company showing that there are no agreements outstanding to retire any of its preferred stock, capital notes, bonds, or debentures issued for capital purposes, and that the company will not enter into any such agreement while any of the preferred stock, capital notes, bonds, or debentures are held by the Reconstruction Finance Corporation.
- (l) A complete statement of approval of the reorganization or refinancing plan by the supervisory insurance authority of the State in which the home office of the applicant is located, together with any conditions imposed by such supervisory authority in connection with approval of the plan.
- (m) A statement showing the names of holders of 10 percent or more of the capital stock of the applicant and the amount of stock held by each.

The Corporation also should be furnished with any contracts of reinsurance whereby the applicant, as a part of the plan under consideration in connection with the proposed subscription for preferred stock, purchase of capital notes or loan by this Corporation, intends to reinsure or take over any other company or part or all of the business of any other company or companies. Such contracts should be accompanied by the specific approval of the supervisory authorities of the States having jurisdiction over such contracts of reinsurance.

3. The applicant should show that its earning capacity will be sufficient at least to enable it to pay dividends on the preferred stock at the rate of 5 percent (five percent) per annum to the dividend payment date nearest to 5 years from the date dividend begins to accrue, and thereafter at the rate of 6 percent (six percent) per annum, after meeting all other expenses, assuming a mortality rate or a loss and expense ratio of no greater than the average ratio for the last full 5 years taken as a whole. Proper adjustments should be made to reflect the full rates of mortality or the full loss and expense ratios in respect to business taken over or reinsured during the 5-full-year period. Full provision should be made at the time of reorganization or refinancing against all losses and/or doubtful assets reasonably determinable.

4. The terms of the preferred stock and/or capital notes offered must provide for retirement, dividends, and/or interest. Other terms shall be in accordance with the requirements established by the Corporation.

Applications for Loans Secured by Preferred Stock and/or Capital Notes and/or Other Form of Security

1. The Corporation may make loans to individuals, firms, or corporations desiring to purchase the preferred stock and/or capital notes of an insurance company, provided these loans are adequately secured. In making such loans the Corporation will be governed by the factors usually taken into consideration in determining a sound credit risk. Preferred stock and/or capital notes will

be considered as collateral, together with such other forms of security as may be offered or as the Corporation may require.

2. Applications for loans on preferred stock and/or capital notes should include all of the information and documents which are required in applications for direct subscriptions for such stock and/or purchase of capital notes. The terms of such preferred stock and/or capital notes should include substantially the same provisions as outlined in paragraphs 3 and 4 under the heading Applications to the Reconstruction Finance Corporation for Subscription for Preferred Stock and Purchase of Capital Notes of Insurance Companies.

In addition thereto, there should be attached to the application—

- (a) A statement of the proposed terms of the loan.
- (b) A statement of the applicant's financial condition.
- (c) A statement of any collateral (with full credit information in support thereof) offered as security for the loan in addition to the preferred stock and/or capital notes.

Form of Application

Application forms will be obtainable at the loan agencies and at the Washington office of the Corporation. Meanwhile, applications may be made in writing to the loan agencies or to the Washington office of the Corporation in any form that will briefly but adequately supply the information herein requested.

Statutory Provisions

The pertinent provisions of the act of Congress approved June 10, 1933 (Public, No. 35, 73d Congress), are copied below:

An Act To authorize the Reconstruction Finance Corporation to subscribe for preferred stock and purchase the capital notes of insurance companies, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That during the continuance of the existing emergency heretofore recognized by Public, No. 1, of the Seventy-third Congress, or until this Act shall be declared no longer operative by proclamation of the President, and notwithstanding any other provision of any other law, if, in the opinion of the Secretary of the Treasury, any insurance company of any State of the United States is in need of funds for capital purposes either in connection with the organization of such company or otherwise, he may, with the approval of the President, request the Reconstruction Finance Corporation to subscribe for preferred stock of any class, exempt from assessment or additional liability, in such insurance company, or to make loans secured by such stock as collateral, and the Reconstruction Finance Corporation may comply with such request. The Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury and under such rules and regulations as he may prescribe, sell in the open market the whole or any part of the preferred stock of any such insurance company acquired by the corporation pursuant to this section. The total face amount of loans outstanding, preferred stock subscribed for, and capital notes purchased and held by the Reconstruction Finance Corporation, under the provisions of this section and section 2, shall not exceed at any one time \$50,000,000, and the amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by an amount sufficient to carry out the provisions of this section and section 2.

SEC. 2. In the event that any such insurance company shall be incorporated under the laws of any State which does not permit it to issue preferred stock, exempt from assessment or additional liability, or if such laws permit such issue of preferred stock only by unanimous consent of stockholders, or upon notice of more than 20 days, the Reconstruction Finance Corporation is authorized for the purposes of this Act to purchase the legally issued capital notes of such insurance company or to make loans secured by such notes as collateral, which may be subordinated in whole or in part or to any degree to claims of other creditors.

SEC. 3. The Reconstruction Finance Corporation shall not subscribe for or purchase any preferred stock or capital notes of any applicant insurance company, (1) until the applicant shows to the satisfaction of the Corporation that it has unimpaired capital stock, or that it will furnish new capital which will be subordinate to the preferred stock or capital notes to be subscribed for or purchased by the Corporation, equal to the amount of said preferred stock or capital notes so subscribed for or purchased by the Corporation: *Provided*, That the Corporation may make loans upon said preferred stock or capital notes, if, in its opinion, such loans will be adequately secured by said stock or capital notes, and/or such other forms of security as the Corporation may require; (2) if at the time of such subscription, purchase, or loan any officer, director, or employee of the applicant is receiving total compensation in a sum in excess of \$17,500 per annum from the applicant and/or any of its affiliates; and (3) unless at such time the applicant agrees to the satisfaction of the Corporation not to increase the compensation of any of its officers, directors, or employees, and not to retire any of its stock, notes, bonds, or debentures issued for capital purposes, while any part of the preferred stock, notes, bonds, or debentures of such company is held by the Corporation. For the purposes of this section, the term "compensation" includes any salary, fee, bonus, commission, or other payment, direct or indirect, in money or otherwise, for personal services.

SEC. 11. As used in this act the term "insurance company" shall include any corporation engaged in the business of insurance or in the writing of annuity contracts, irrespective of the nature thereof, and operating under the supervision of a State superintendent or department of insurance in any of the States of the United States.

