REDUCING INTEREST RATE ON UNITED STATES GOVERNMENT LIFE INSURANCE LOANS

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON FINANCE UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

FIRST SESSION

ON

S. 447

A BILL TO REDUCE THE RATE OF INTEREST ON LOANS SECURED BY UNITED STATES GOVERNMENT LIFE INSURANCE TO 3 PER CENTUM PER ANNUM

APRIL 4, 1945

Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
73895 WASHINGTON : 1945

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REDUCING INTEREST RATE ON UNITED STATES GOVERNMENT LIFE INSURANCE LOANS

WEDNESDAY, APRIL 4, 1945

United States Senate,
Subcommittee on Veterans' Legislation
of the Committee on Finance,
Washington, D. C.

The subcommittee met, pursuant to call, at 11:45 a. m., in room 312, Senate Office Building, Senator Edward C. Johnson (chairman), presiding.

Present: Senators Johnson and Butler.

Senator Johnson. The committee will be in order.

We will take up Senate bill 447.

S. 447 is a very short bill. I will read it into the record.

[S. 447, 79th Cong., 1st sess.]

A BILL To reduce the rate of interest on loans secured by United States Government life insurance to 3 per centum per annum

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the rate of interest charged for any period of time after June 30, 1945, on any loan secured by a lien on United States Government life (converted) insurance shall be 3 per centum per annum.

Senator Johnson. We will hear first from Mr. Breining.

Mr. Breining, will you give us your viewpoint on Senate bill 447?

STATEMENT OF HAROLD W. BREINING, ASSISTANT ADMINISTRATOR, VETERANS' ADMINISTRATION

Mr. Breining. May I ask, Mr. Chairman, that the report of the Administrator, made to this committee under date of March 3, be included in the record? It is some 5 pages and I do not believe you wish me to read it.

Senator Johnson. Yes. I have it right here. It will be made a part of the record.

(The report referred to is as follows:)

Veterans' Administration,
Washington, D. C., March 3, 1945.

Hon. Walter F. George,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

My Dear Senator George: Further reference is made to your letter dated February 6, 1945, requesting a report on S. 447, Seventy-ninth Congress, a bill to reduce the rate of interest on loans secured by United States Government life insurance to 3 percent per annum, which provides as follows:

"That the rate of interest charged for any period of time after June 30, 1945, on any loan secured by a lien on United States Government life (converted) insurance shall be 3 per centum per annum."

The introduction of level premium life insurance brought about the necessity of building up large insurance reserves and companies operating on this system are frequently referred to as "old line" or "legal reserve" companies. From a practical viewpoint, these reserves represent prepayment on account of protection to be furnished in the future, since the level premium by itself would not be sufficient at the older attained ages to cover the current cost of protection. The premiums are calculated on the assumption that these reserves are invested to earn a certain rate of interest. These interest earnings are necessary in addition to the contributions from the premiums to produce an amount sufficient to enable the insurer to meet the obligations under the contract. One of the advantages of this form of insurance is the low net cost due to the fact that interest earnings help to pay the cost of protection.

In the early days of life insurance, if the insured stopped paying premiums, his insurance lapsed and the reserve was forfeited to the company, but it was recognized that the insured had an equity therein and the so-called nonforfeiture values, such as cash, paid-up, and extended insurance values, were introduced into the policy contracts. The only way in which the insured could avail himself of these values, however, was to lapse his policy. In order to conserve the insurance and enable the insured to retain his insurance in full force, loan values based upon the cash-surrender values were introduced. At first these loans were granted only for the purpose of paying premiums on the policy, but competition among the companies resulted in a liberalization of the loan provisions so that now there are no restrictions as to the purpose for which loans may be obtained.

This liberalization resulted in a condition which tended to defeat the very purpose the loan provision was originally designed to accomplish—the conservation of the insurance. A policy loan can be procured much more easily than any other form of loan; no comaker is required or any evidence of financial standing.

Life-insurance contracts cover long periods of time, sometimes running for 50 or 60 years, and the terms of the contracts must provide for conditions over similar periods as nearly as such conditions can be anticipated. The funds must be safely invested over long periods; they cannot be handled like a banking business. It is not feasible or practical to provide for changes in the interest rate on policy loans conforming with the fluctuations in the money market. The interest rate must be fixed at a fair rate which it may be reasonably expected will remain static during the life of the policy, so that both the assured and the insurer may be protected, the one against being charged an excessive rate when money is commercially commanding high rates, and the other against having to invest its funds at a low rate when rates of interest temporarily are low for commercial transactions. It will be perceived that such a policy is entirely consistent with the theory of level-premium insurance.

The determination of the rate of interest to be charged on policy loans is not entirely a question of value of the security but it is also to a great extent a question of solvency. The World War Veterans' Act, 1924, as amended, specifies that the basis of calculation of the reserve and all other values shall be the American Experience Table of Mortality and interest at 3½ percent per annum. The rate of interest on policy loans, if fixed at a rate not to exceed 3 percent per annum in accordance with the terms of the proposed legislation, would be lower than the rate required to be earned on invested assets in order to maintain the reserve.

The factors which govern the fixing of the rate on policy loans are not at all comparable with the reasons which influence the determination of the rate to be charged on mortgages or collateral loans. The company can consider each of these latter types of loans according to its current inclinations and accept or reject at will. It can also refuse to renew the loan at the end of any renewal period.

The experience of insurers generally has definitely demonstrated that the rate of interest on policy loans has a decided effect upon the question of conserving the insurance for the beneficiaries. Any material reduction in the interest rate might result in many unnecessary loans, thus defeating the very purpose for which the insurance was intended and, as it is the policy of the Government to expend every effort toward conserving the veterans' equities in their policies, it is not believed that it would prove generally beneficial to reduce the interest rate on policy loans.

The question of the most equitable rate to charge on policy loans granted under United States Government life (converted) insurance has been under consideration on various occasions and Section 7 of Public Law No. 198, Seventy-sixth Congress, approved July 19, 1939, provides as follows:

"On and after the date of enactment of this Act, the rate of interest charged on any loan secured by a lien on United States Government life (converted) insurance shall not exceed 5 per centum per annum."

All premiums paid on United States Government life (converted) insurance and all interest earned thereon are covered into a separate fund in the United States Treasury designated as the "United States Government life insurance fund," which is a trust fund administered by the Government as trustee for the sole benefit of the policyholders. The Government derives no profit whatever from the administration of the fund, which may be used only for the payment of claims under United States Government life (converted) insurance contracts and dividends to the policyholders themselves. In considering the United States Government life insurance fund, it must be clearly understood that the beneficial interest in the reserves belongs exclusively to the policyholders. When an insured borrows on his policy he is not borrowing his own money but he is borrowing from the general fund which is for the benefit of all policyholders. If money were loaned to one policyholder at a decreased rate of interest, it is obvious that it would be done at the expense of the other policyholders who have not exercised their loan privilege.

The following statement shows the number of outstanding loans as of July 31, 1944, and indicates the amount of the loss which the fund would sustain between August 1, 1944, and August 1, 1945, if the interest rate on loans were reduced from 5 percent to 3 percent:

Number of loans outstanding July 31, 1944	145, 196
Amount of loans outstanding, principal and interest, July 31, 1944	$131, 073, 860. 37
Interest on $131,073,860.37 at rate and period indicated August 1, 1944 to August 1, 1945:	
5 percent compounded annually	$6, 553, 693. 02
3 percent compounded annually	$3, 932, 215. 81
Difference	$2, 621, 477. 21

Therefore, on the basis of the amount of loans outstanding July 31, 1944, the amount of the indicated loss to the fund would be approximately $2,600,000, which would be reflected in reduced dividends, thereby increasing the cost of protection to the policyholders. Moreover, if the rate of interest charged on policy loans were reduced as proposed, there is no doubt there would be an increase in the number and amount of such loans, with a correspondent increase in the amount of the loss to the fund.

In considering legislation which tends to decrease the income of the fund, it is essential that some thought be given to its potential liabilities. In addition to insurance against death, Government life-insurance policies provide protection against total and permanent disability at no increased premium cost. The rate of loss under such matured policies advances as the age of the insurance group increases, and it is very likely that a large number of such group will have become totally and permanently disabled at the advanced ages. While, in the opinion of our actuaries, the reserves established will prove sufficient to meet all future liabilities, this may be a doubtful prospect were future investment earnings severely curtailed; and, if the rate of losses should increase to any appreciable degree over and above the rate of expected losses established by the American Experience Mortality Table the reserves may prove to be inadequate with the result that the Government would be required to make substantial appropriations to support the fund. If the Government life-insurance fund is to be maintained on a self-supporting and solvent basis, the advisability of retaining present interest rates on loans is clearly indicated. The reduction of such rates for the benefit of borrowers will be accomplished at the expense of those of the insurance group who do not avail themselves of loan privileges.

It may also be assumed that the expense of administering the Government life insurance fund would be greater because of the increase in the number and amount of such loans. It is a fact that in every transaction under a policy the cost is greater when a loan is in existence than when there is no loan. Additional and sometimes arduous calculations are necessary, thus involving considerable additional expense in determining the period of extended insurance, surrender value, death claim, total and permanent disability claim, reinstatement, and other similar operations where a loan is involved. It follows that the cost of operations incidental to the granting of loans and the maintenance of loan accounts would be increased. Additional expense in handling this work would also be incurred by the Treasury Department and the General Accounting Office, if the number of policy loans were materially increased which would no doubt be the result if the loan interest rate were reduced to 3 percent. It is not believed, however, that the cost to the Government because of any additional administrative operations would be a valid reason for opposing the enactment of this bill because if the bill were correct in principle, the cost, which would be limited, should not be a factor.

In view of the foregoing, the Veterans' Administration is unable to recommend favorable consideration of the bill.

Advice has been received from the Bureau of the Budget that there would be no objection by that office to the submission of this report to your committee.

Very truly yours,

FRANK T. HINES, *Administrator.*

Mr. BREINING. The question of the rate on loans made on Government insurance policies has been the subject of much study.

This insurance is on the mutual basis and not dissimilar in any way to any other mutual insurance except that in this case the Government administers the fund as the trustee rather than a board of trustees or a board of directors.

The beneficial interest in this fund rests with the policyholders, not with the Government, so that from a standpoint of cost the Government would not be directly interested. It would be a question as to equity among the policyholders—that is, the borrowers—as against nonborrowers. The ratio is about 1 and 3 as to borrowing on the Government policies. We have about 138,000 borrowers at the present time as against a little less than 500,000 policies outstanding. The Government pays, of course, all administrative expenses and bears any losses occasioned on account of the hazards of military and naval service.

All calculations on Government insurance are on the basis of 3½ percent. In other words, the premiums and reserve values are calculated on a basis of an assumed earning of 3½ percent, so that the premium that the man pays takes into consideration that any moneys to his credit on the reserves will earn 3½ percent.

To reduce the interest to 3 percent would mean that a man could borrow from the general fund at a half of 1 percent less than he was guaranteed in the calculation of his original premium. As a matter of fact, through the form of dividends, we have been paying, for many years, at least one-half of 1 percent in excess of that, so that a man has, on his reserves, been earning 4 percent, or in excess of 4 percent. Obviously, if a man can borrow money at a lesser rate than he is getting for his money, it would be to his advantage, and it is not unlikely that many who were not in need of the money would borrow their money as a financial proposition, and, as we know through the experience of life insurance, a loan is often the first step to a lapse of the insurance.

This encouragement would probably be to the disinterest of many of the policyholders because it would encourage them to borrow and start them on the road to lapsing their policies.

I would like to point out that in connection with dividends these dividends are, in fact, an adjustment of the premium. In other words, the premium is predicated upon a certain loss ratio and a certain guaranteed earnings on the reserves. Dividends are an adjustment of those premiums from year to year.

If the reserves were in excess of that amount which is stated in the contract, in this case 3½ percent, then a distribution is made of the excess earnings. For instance, if your interest earns 4½ percent, and you do not have to take any of that excess interest to place in any fund for contingent liability, you have distributed to the policyholders, according to their several interests, the excess of the 1 percent. Likewise, your mortality, if it is less than that which is calculated in connection with the original premium, the distribution of that is made.

So that your dividends are in fact an adjustment of your premium.

Now, these loans are very dissimilar to loans which are made by a bank or any other lending agency in that the lender has no option as to making the loan. In other words, a banking institution can take its funds and lend them in the most advantageous manner, where the risk is least in ratio to the income it derives from the interest.

In this insurance fund the policyholder has the privilege at any time of coming in at the stated rate without regard to the market conditions as to loans and getting the money at that stated rate, and the insurer, in this case the Government life insurance fund, must make that loan.

As an example, during the time of high money rates in the early thirties we were making loans then at the contract rate, whereas we could have otherwise invested their funds much more advantageously to the benefit of the other policyholders—that is, the nonborrowing policyholders. The interest rate is fixed at a mean, recognizing that insurance contracts usually run over a long period, instead of attempting to fluctuate the interest earnings, even on the reserves, or to have a fluctuating interest charge to the policyholder on loans, an amount is fixed which is believed to be reasonable, both to the insurer, that is, the group of all policyholders, and the borrowers, so that in advance the insurer will know what to expect on these loans in the way of interest income and the insurer will know that at any time without regard to the tightness of money they can go in and make these loans at a certain fixed interest rate.

The question in this bill, as I see it, is a question of equity as between the policyholders. These policyholders have contributed their funds with the expectation that they would be most advantageously used. The insurance is participating and to make any provision which would lower the interest rate below what is a reasonable mean and could be expected over a long period of time, would be at the expense of those policyholders who are paying their premiums, who have not made loans, and who wish to carry their insurance as a long-range insurance proposition rather than on the basis of utilizing their reserves for loan purposes.

Thank you.

Senator JOHNSON. Senator Butler, do you have any questions?

Senator BUTLER. I wonder if you have in mind the average rate on such loans made by life insurance companies and other mutuals?

Mr. BREINING. Yes, sir. The lowest rate that I know of is 5 percent. Many of the companies lowered the rate to 5 percent a few years back. At that time, however, those policies were outstanding at a higher rate, which was, say, 6 percent, and was not changed as was done in connection with the Government insurance.

Senator BUTLER. You spoke about a loan usually being the first step toward a lapse. Do you have any figures that show the percentage of the loans made that become lapses?

Mr. BREINING. I do not have readily available those figures, but I believe that they would be procurable probably from the Life Insurance Institute. Of course, it is difficult to ascribe particularly the reason for the lapse of the policy. But that is the general experience and it is accepted among insurance persons that that is the fact.

Senator JOHNSON. Did I understand you to say that there were 50,000 policies?

Mr. BREINING. There is a little less than 500,000 policies. Four hundred and some-odd. I mean a little less than 600,000. It is 572,907 policies in force and 138,000 outstanding loans.

The assets of the fund are $1,234,000,000; the amount of outstanding loans $120,750.

Senator JOHNSON. 120,000?

Mr. BREINING. 120,000,000, I am sorry.

Senator JOHNSON. One hundred and twenty million.

Mr. BREINING. Seven hundred and fifty thousand.

Senator JOHNSON. That 138,000—that is the number that had borrowed $120,750,000 from the fund?

Mr. BREINING. Yes, sir.

Senator JOHNSON. And the assets are $1,234,000,000?

Mr. BREINING. Yes, sir.

Senator JOHNSON. What about other loans outstanding?

Mr. BREINING. Well, our other investments are all made in Government bonds.

Senator JOHNSON. And what interest do they pay?

Mr. BREINING. Well, currently we are making investments at 3½ percent. We have about a half a billion which are drawing 4½ percent. And, of course, from time to time we have made very profitable investments, which have netted us about 5 percent, considering the interest return plus our profits.

Senator JOHNSON. Where do you find Government bonds that pay interest at 3½ percent?

Mr. BREINING. We have been given a special issue.

Senator JOHNSON. You are given a special issue?

Mr. BREINING. Yes.

Senator JOHNSON. You mean a special rate?

Mr. BREINING. Yes.

Senator JOHNSON. On all that you want to invest?

Mr. BREINING. On all of our investments. At the time the National Service Life Insurance Act was passed, it had a guaranteed rate of 3 percent, and, of course, as you couldn't make Government investments at 3 percent, and as it would not have created an immediate deficiency, the Treasury agreed to issue a 3 percent bond to take national service life insurance.

Senator JOHNSON. Well, I understood you to say it is 3½ percent.

Mr. BREINING. If I might explain——

Senator JOHNSON. Is it 3 percent or is it 3½ percent?

Mr. BREINING. 3 percent. I was talking about national service life insurance. We are here talking about United States Government life insurance.

Senator JOHNSON. Yes, that is what I thought we were talking about.

Mr. BREINING. Yes. Now, on the Government life insurance the original act called for 3½ percent, so in fairness to the Government policyholders against the national service life insurance policyholders, the Treasury also agreed to issue to them a special bond at an interest rate coinciding with that guaranteed in the contract. In that instance it was 3½ percent.

Senator JOHNSON. Then that isn't fixed by law, that 3½ percent?

Mr. BREINING. The rate that shall be calculated in fixing the premiums and reserves is fixed by law. The rate that is paid on the bonds is a matter of discretion with the Secretary of the Treasury. These bonds have certain restrictions. We cannot market them. They do not fluctuate in value, and to cash them in, we can only redeem them from the Treasury.

Senator JOHNSON. Is it your point, then, that if the rate of interest is reduced to the policyholding borrowers, that the Governmental rate will be reduced?

Mr. BREINING. No, sir. It is my point that if the rate is reduced to the borrowers it will be at the expense of the other policyholders.

Senator JOHNSON. Let us talk about the other loans for a minute.

Mr. BREINING. I don't think it would any effect on the other loans.

Senator JOHNSON. Do you think that the Federal Government will continue to issue a special 3½ percent bond in whatever amounts are required.

Mr. BREINING. It would be rather incongruous, I would say, to do that. I think that point is a very strong one, that we would guarantee a 3½ percent interest rate to these policyholders, but let them borrow money from the Government fund—when I say Government life insurance fund, it is a mutual fund—at a lesser rate.

Senator JOHNSON. Now, coming back to my question again, if we reduce the rate to the policyholding borrowers, will the rate on regular United States bonds be reduced to 3 percent?

Mr. BREINING. Well, that I couldn't say, Senator, because there is no direct relationship between one and the other. The matter of rate on Government bonds was determined by the Secretary of the Treasury and was predicated upon this guaranty.

Now, what his reaction would be if the money were being loaned out at 3 percent, of course, I couldn't say. It would seem rather paradoxical, though.

Senator JOHNSON. Any other questions, Senator Butler?

Senator BUTLER. No.

Senator JOHNSON. Thank you, Mr. Breining. Will you stay with us for a few moments? We may have some questions later.

Mr. BREINING. Yes, sir.

Senator JOHNSON. Mr. Millard Rice.

STATEMENT OF MILLARD RICE, NATIONAL SERVICE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. RICE. Mr. Chairman and gentlemen of the committee, I appear on behalf of the Disabled American Veterans, which is an organization composed exclusively of America's war disabled, generally in support of the provisions of this bill.

Admitting that all of the statements made by Mr. Breining are true, we do not agree with his conclusions. However, in view of the fact that the reserves on the converted insurance policies are accumulated at the rate of 3½ percent per annum, our organization went on record to the effect that the interest rates should be reduced down to 3½ percent, not lower than the amount by which the reserve is built up.

In other words, we do not agree with the provisions of this bill that it should be reduced down to 3 percent, but rather to 3½ percent, because we will agree also with Mr. Breining that it would be rather paradoxical, even incongruous, as he stated, that it should be reduced lower than the rate of interest at which the reserve is built up.

However, if the bill were changed to make it 3½ percent, then there would not be anything that would be inconsistent or incongruous about it. It is true, as Mr. Breining states, that it would reduce the dividends to the policyholders. It wouldn't make any difference to the Government, but it would reduce the dividends to the remaining policyholders.

Our contention there is only that the man who needs to borrow money on his Government life-insurance policy should not be paying a profit for the benefit of other policyholders; that, as a matter of fact, the net cost of Government life insurance, converted insurance, is less than the net cost for which he could procure that insurance from private insurance companies; and that the policyholders generally ought not to be profiting at the expense of those who are so unfortunate as to have to borrow money on the policies.

As to the lapsation of policies by reason of loans made, it can be equally stated that many of the policies lapse because of the high rate of interest that is paid on such loans.

I call attention to the fact that in 1927 veterans who were not considered to be good insurance risks were given the opportunity of taking up their Government insurance policies by payment of all the back premiums that had accrued during the period of time that their policies were not in force, they could either pay it in cash or it could be placed as a lien against the policy, and thousands did take advantage of the opportunity because they realized that it was the only insurance that they could procure from any source, and thousands are still paying 5 percent each year on the basis of those lien contracts back in 1927 or prior thereto.

Mind you, they had to pay back the back premiums or have a lien against the policy which, in effect, reduced the amount of the insurance protection, and the back premiums did not give them any protections over that back period of time. It was, therefore, in effect, paying a higher rate of premium because of the fact that they were considered to be poor insurance risks, and ever since they have been paying 5 percent per annum on the basis of that rate.

In other words, a large number of those who are borrowing money on the policies very likely are disabled veterans—I don't know whether the Veterans' Administration has not segregated that; I asked Mr. Breining about that before the hearing and he didn't have the figures—but I dare say a substantial portion of those who have loans on these policies consist of disabled veterans who needed to borrow the money.

If the interest rate were reduced to $3\frac{1}{2}$ percent, there is less likelihood of lapses. In the meantime, by reason of the accumulation of the 5 percent, if they are not able to pay it, the amount of their protection is gradually being reduced, and that is contrary to the interest of the policyholder.

Likewise, what effect would it have if we reduced it down to $3\frac{1}{2}$ percent? It would reduce the dividends from about $9,000,000 to about $2,000,000, which in turn would reduce the dividends by about 20 percent.

Take myself, for example. I receive a dividend on my insurance policy of about $50. If the dividends were reduced by 20 percent, that would reduce it down to $40. I am willing to have them reduce it for the sake of those who have to borrow money on their insurance policies.

If I borrow $1,000, I would save $10 on interest by a reduction of the interest rate from 5 percent to 4 percent and I would save $15 if it were reduced down to $3\frac{1}{2}$ percent.

Now, if the interest rate were reduced from 5 percent down to 4 percent, then the dividends would be decreased from about $9,000,000 to about $7,770,000, which would therefore necessitate a reduction in the dividends, if they were immediately reflected, in a reduction of dividends of about 15 percent.

Much the same conclusions and recommendations were made by the Veterans' Administration some years ago when the proposal was made that the interest rate should be reduced from 6 percent to 5 percent, and it was reduced. There probably was some reductiou in dividend rates but I didn't notice it on my policy.

I think, considering it from the standpoint of equity, it is equitable to reduce these loan interest rates on Government life insurance policies, and that the more lucky policyholder should not be able to make a profit at the expense of those who find it necessary to borrow money on their Government insurance policy.

Thank you.

Senator JOHNSON. Senator Butler?

Senator BUTLER. No questions.

Senator JOHNSON. Do you have any data on what private insurance companies charge their policyholders?

Mr. RICE. I think Mr. Breining has given it correctly and I know some of them still charge 6 percent. That is so as to discourage people from borrowing money on their insurance policies. But if a man needs to borrow money, why shouldn't he have the privilege of borrowing it against a Government life insurance policy? If I need to borrow money to make a payment on my home, why shouldn't I have the privilege of borrowing it on my life insurance policy at a low rate of interest without other policyholders making a profit on the basis of that?

Of course, I agree we should pay 3½ percent because we are getting the benefit of the 3½ percent.

Senator JOHNSON. You wouldn't object if it were made 4 percent?

Mr. RICE. No. I think that would be an improvement on what we have already done, of course.

Senator BUTLER. You think there should be a difference in there as a factor of safety?

Mr. RICE. Yes, I could be very easily convinced on that. I wouldn't resist at all if you decide to reduce it down to 4 percent. Personally I think it would be a good idea, although our convention went on record for 3½ percent, because it does then combine both features that you are seeking to have incorporated as a part of the policy.

Senator JOHNSON. Thank you, Mr. Rice.

Mr. Ketchum, will you give us your viewpoint, please?

STATEMENT OF OMAR B. KETCHUM, NATIONAL LEGISLATIVE DIRECTOR, VETERANS OF FOREIGN WARS

Mr. KETCHUM. Mr. Chairman and gentlemen of the committee, my name is Omar B. Ketchum, national legislative director, Veterans of Foreign Wars of the United States.

As you know, Mr. Chairman, I represent an organization that is composed both of disabled veterans and men who have established, proven service-connected disabilities.

Approximately 800,000 men who have served on foreign soil or in hostile waters are now members of the Veterans of Foreign Wars, including about 500,000 of this present war.

I am very happy to have an opportunity to appear on the bill S. 447, because national conventions of the Veterans of Foreign Wars in recent years have consistently gone on record asking that rates on Government insurance converted be reduced to 3½ percent. Consequently the Veterans of Foreign Wars is not in accord with the immediate stated purposes of S. 447, which would reduce the rates of interest to 3 percent. We believe that they should not go below 3½ percent because of this guaranteed rate on the reserve of the policy.

As a matter of fact, we have caused other bills to be introduced. I have here in my possession H. R. 1618, which would accomplish the same thing on a 3½-percent rate. I believe the language of the bill is perhaps a little better than S. 447 because it actually picks out the exact section of Public Law 198 of the Seventy-sixth Congress and amends it to change the interest rate to 3½ percent.

I would like to offer for the record the wording of H. R. 1618, which we believe would be more in line with administrative procedure than would the text of S. 447.

Senator JOHNSON. It will be made a part of the record.

(H. R. 1618 is as follows:)

[H. R. 1618, 79th Cong., 1st sess.]

A BILL To change interest rates on loans secured by liens on United States Government life (converted) insurance to 3½ per centum

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7 of Public Law 198, Seventy-sixth Congress, approved July 19, 1939, is hereby amended to read as follows:

"SEC. 7. On and after the date of the enactment of this Act the rate of interest charged on any loan secured by a lien on United States Government life (converted) insurance shall not exceed 3½ per centum."

Mr. KETCHUM. I am not taking issue with the very fine presentation that Mr. Breining made here, because we feel certain that his statements are generally in line with the facts. I would like to call your attention to this that has caused us to insist on a lower interest rate. Right now pressure is being exerted on our organization to seek legislation from the Congress which would permit the holders of these Government insurance policies to assign them to local banks for loans because they can get a better rate of interest now through private lenders than they can from the Government.

So pressure is being applied on our organization to try to get a change in the basic law which would permit these borrowers to assign their policies to private lenders and banks in order to get a more advantageous rate of interest.

We recognize that there might be an element of danger in that if the basic law were changed to permit them to assign to the banks. But on that there is a great resentment among the veterans; they feel that they ought to have the benefit of a lower rate of interest.

If in the wisdom of this committee they feel that a 4-percent rate would be reasonable and equitable and would not jeopardize the interests of the nonborrowing policyholders, certainly we would have no objection to that. Even a reduction of 1 percent would be of tremendous advantage to those who find themselves in a position where they have to borrow against their policies.

I think that is about all I have to say, Mr. Chairman.

Senator JOHNSON. Senator Butler.

Senator BUTLER. No questions.

Senator JOHNSON. I have a communication here from the American Legion signed by John Thomas Taylor, director, national legislative committee. I notice that he submits a copy of the resolution passed by the national convention endorsing the principle of S. 447 at their 1943 national convention.

At the end of the resolution I notice this:

It will be noted that the American Legion does not recommend any specified interest rate to which loans secured by a lien on United States Government life (converted) insurance should be reduced. Therefore, our organization makes no recommendation on such interest rate other than it be not reduced to a point where it would impair the reserve fund back of these policies.

And then another paragraph on the next page:

It will also be noted from our resolution that if no reduction in the interest rate upon loans is recommended by your subcommittee then the legal restrictions should be removed whereby private lending institutions may make loans secured by United States Government life (converted) insurance.

Does this last note mean that the loans would be made through banks?

Mr. KETCHUM. Well, I can't speak for the American Legion, but apparently the same pressure is being exerted upon them that is being exerted upon us. In other words, it is more advantageous now to some of the policyholders to make a loan through a bank or a private lender than it is to get a loan from the Government, because of the fixed rate of interest of 5 percent. What the Legion apparently is asking for there is, if you do not decide to reduce the rate of interest, then you should give the policyholders the right to borrow on their policies from banks and private lending institutions.

Senator BUTLER. Is there a provision in the law covering that?

Mr. KETCHUM. The basic law prevents the policy from being assigned to a private lender.

Senator JOHNSON. Does this amendment remove that restriction?

Mr. KETCHUM. No, Senator; we were asking for a reduction in the interest rate, but unless a reduction is made, undoubtedly we shall appear before the Congress and ask that a change in the basic law be submitted so that the policyholders may assign, and we admit that there is an element of danger involved in that.

Mr. Breining can explain that better than I can.

Senator BUTLER. I would like to hear from Mr. Breining on the reason they object.

Senator JOHNSON. Let me ask just one question, first, of Mr. Ketchum.

Senator BUTLER. Yes.

Senator JOHNSON. What would your personal reaction be, or the reaction of your group be, to a reduction to 4 percent instead of 3, or perhaps 3½?

Mr. KETCHUM. Well, I will answer that this way: First, that we never did favor the 3-percent rate. We recognize the danger in the 3-percent rate, because that is below the guaranty on the reserve. We asked for a 3½-percent rate. I am sure that our organization, of course, would favor the 4-percent rate.

In other words, we don't want to do anything on these policies that would jeopardize the entire structure and the reserve of the policies.

I notice that the American Legion in their note said there that they were not specifying any particular rate, they didn't want it to go below a rate that would jeopardize the reserve, although they favored the principle of S. 447. Well, S. 447 declares for a 3-percent rate. We ask for 3½. We will be glad to settle for 4 percent. We know that that will be very advantageous to the policyholder.

The CHAIRMAN. Thank you very much, Mr. Ketchum.

Now, Mr. Breining, Senator Butler has a question to ask you.

Senator BUTLER. I wish you would elaborate on whether it will be necessary to change the basic law so that the holders can get loans from private lending agencies.

Mr. BREINING. Under the present law those policies are not assignable and not subject to seizure by any legal or equitable means, so that when the money is paid into the hands of a beneficiary it cannot be seized because of debts or for any other reason.

Now, to permit the loans to be made on the basis of these policies being used as collateral you would have to repeal that provision so that the lender would be protected, else they would not make the loans, of course.

Senator BUTLER. The holder of any ordinary life insurance policy can get a loan anywhere he wants to?

Mr. BREINING. That is right, but they are assignable, and if you have looked over the type of assignment that is required, they practically give the lender authority to do anything, and, of course, the proceeds of the commercial insurance are subject to seizure or levy on account of any debts.

Senator BUTLER. You apparently do not think that a like provision should be made for these policies.

Mr. BREINING. I think generally, to the beneficiaries of veterans, that the provision which does not permit them to be seized for any legal or equitable reasons, is of much more value than the opportunity of going out and borrowing on these policies from a commercial bank.

Now, in borrowing from a commercial bank, of course, the loans are under much different conditions than from the fund or from the insurer, in that banks only encourage those loans when interest rates are low and they have plenty of money. And they are always short-term loans, with the result that when money rates get high they either hike the rate of interest or the loan is called, with the result when the interest the bank charges gets to that which is stated in the policy, why, the lender in effect requires them to go to the insurer for their money.

Senator BUTLER. In order to give the holders of the Government life converted insurance some of the same privilege that holders of commercial policies have, to make them equal, you think it had better be done by lowering the rate of interest rather than by amending the basic law?

Mr. BREINING. Without committing myself to lowering the rate of interest, I think it would be a grave mistake to take away any of the protection that the beneficiaries now have in the way of premium.

Senator JOHNSON. Do you say that because of a knowledge of injury that might be visited upon veterans by that procedure?

Mr. BREINING. Well, in any event, the Government is making a contribution, a considerable contribution, in the form of administrative expenses in carrying of this insurance. I think the Government would wish that the proceeds of that insurance find its way into the hands of those to whom there is some moral obligation than to someone to whom he may be incidentally indebted. Of course, he can change the beneficiary to anyone he wishes, on a Government life insurance policy, I recognize that, but I think it would be a very sad thing if that protection which the beneficiary now has were removed.

Senator JOHNSON. Thank you very much, Mr. Breining.

Are there any other witnesses who desire to be heard on S. 447?

Mr. HALEY. Mr. Chairman, I want to be heard. Military Order of the Purple Heart.

Senator JOHNSON. Give your name to the clerk, please.

STATEMENT OF FRANK HALEY, NATIONAL SERVICE DIRECTOR, MILITARY ORDER OF THE PURPLE HEART

Mr. HALEY. My name is Frank Haley, national service director of the Military Order of the Purple Heart, an organization which is composed of men having been wounded in action by an instrumentality of war in the hands of the enemy.

Our organization, at its convention 2 years ago in Duluth, Minn., passed a resolution advocating a reduction in percentage of loans against insurance policies, United States Government life insurance. A similar resolution was passed last year in our convention at Lancaster, Pa.

Both of these resolutions clearly stated in effect that we recommend to Congress and the President of the United States a reduction in the rates of interest charged against our life insurance policies, the interest not to exceed 4 percent.

They did not give a definite amount that they advocated, only that it should not be in excess of 4 percent.

Now, I, of course, personally have not had an opportunity, from a technical standpoint, legal or otherwise, as to schedules and what not, to study this insurance feature. I am perfectly willing to take the word of Mr. Breining as to that part of it. Although we may not eventually agree with Mr. Breining, of the Veterans' Administration, that there should be no reduction in the interest, we do feel that the 5 percent which at present is being charged as interest is in excess of what actually should be charged, and while we are not as an organization supporting, definitely supporting S. 447, as that establishes a 3-percent per annum rate, we do concur in and support the principle contained in this bill, and I can only say to this committee, Mr. Chairman, that our organization has gone on record in favor of having the insurance percentage on loans reduced to at least 4 percent. Anything below that I presume will be gratefully accepted by the members of the Military Order of the Purple Heart.

Thank you.

Senator JOHNSON. Thank you, very much, Mr. Haley.

I have a communication here from Warren E. Miller, national legislative officer of the Army and Navy Union, in which they endorse S. 447.

Without objection, I will place in the record the communications from the American Legion and the Army and Navy Union.

(The communications referred to are as follows:)

ARMY AND NAVY UNION, U. S. A.,
Washington, D. C., April 4, 1945.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

In re: S. 447.

MY DEAR SENATOR GEORGE: This is to advise you that this organization is heartily in accord with the provisions of S. 447, a bill to reduce the rate of interest on loans secured by United States Government life insurance to 3 percent per annum.

A resolution was passed at the last national convention of this roganization advocating the reduction of interest on loans on United States Government life (converted) insurance policies, and it is our hope that this bill will pass.

Very truly yours,

WARREN E. MILLER,
National Legislative Officer.

STATEMENT OF JOHN THOMAS TAYLOR, DIRECTOR, NATIONAL LEGISLATIVE COMMITTEE, THE AMERICAN LEGION, FILED WITH THE SENATE FINANCE COMMITTEE, APRIL 4, 1945, CONCERNING S. 447, SEVENTY-NINTH CONGRESS

The American Legion, by reason of a resolution adopted at the 1943 national convention, as well as mandates from other national conventions, endorses the principle of S. 447 introduced by Senator C. Wayland Brooks, Illinois. A copy of the resolution follows:

"Whereas interest rates upon money when well secured is very low, and has been low for many years; and

"Whereas banks and other private financial institutions have made a practice of loaning money at very reasonable rates of interest secured solely by insurance policies with cash surrender value issued by insurance companies and fraternal associations, but because of regulations such loans have not been and cannot be made upon war risk insurance policies; and

"Whereas the Federal Government has been charging 6 percent, and later 5 percent compound interest on all loans against war-risk insurance policies and all the time maintaining regulations making it impossible to obtain the more desirable loans from private institutions at the lesser interest rate and upon such policies: Therefore be it

"*Resolved,* That the Congress of the United States be requested to pass such act as to reduce the interest rate upon loans against wark risk insurance policies so as to be in line with loans of private institutions against other insurance policies; or else that restrictions be removed whereby private institutions may make loans, secured by war rsk insurance polices."

It will be noted that the American Legion does not recommend any specified interest rate to which loans secured by a lien on United States Government life (converted) insurance should be reduced. Therefore, our organization makes no recommendation on such interest rate other than that it be not reduced to a point where it would impair the reserve fund back of these policies.

It will also be noted from our resolution that if no reduction in the interest rate upon loans is recommended by your subcommittee, then the legal restrictions should be removed whereby private lending institutions may make loans secured by United States Government life (converted) insurance.

Senator JOHNSON. Is there anybody else that wants to be heard?

(No response.)

Senator JOHNSON. If not, we will declare the hearing closed on S. 447.

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