

CHAPTER 213

INVESTMENT OF FUNDS BY LIFE INSURANCE COMPANIES AND ASSOCIATIONS

S. F. 392

AN ACT to repeal section eighty-seven hundred thirty-seven (8737), code, 1935, and enact a substitute therefor relating to investments of funds by life insurance companies and associations.

Be It Enacted by the General Assembly of the State of Iowa:

1 SECTION 1. That section eighty-seven hundred thirty-seven
2 (8737), code, 1935, is hereby repealed and the following enacted in
3 lieu thereof:

4 Investment of funds. The funds required by law to be deposited
5 with the commissioner of insurance by any company or association
6 contemplated in chapters 398 and 400, and the funds or accumulations
7 of any such company or association organized under the laws of this
8 state, held in trust for the purpose of fulfilling any contract in its
9 policies or certificates, shall be invested in the following described
10 securities and no other:

11 1. Federal and Territorial Obligations. Bonds or other evidences
12 of indebtedness issued or guaranteed by the United States or any in-
13 sular or territorial possession of the United States, Federal farm
14 loan bonds, Federal home loan bank bonds, Home Owners' Loan
15 Corporation bonds, bonds, notes or obligations representing loans
16 and advances of credit which are eligible for insurance by the Fed-
17 eral Housing Administrator, and bonds, notes or obligations secured
18 by real property or leasehold which the Federal Housing Adminis-
19 trator has insured or has committed himself to insure or debentures
20 issued by such administrator.

21 2. State and municipal obligations. Bonds or other evidences of in-
22 debtedness issued or guaranteed by the state of Iowa or any other
23 state, or any county, city, town, school, road, drainage, or other
24 district, or any civil subdivision or governmental authority of such
25 state or states, or any instrumentality of any of such authorized by
26 statute to borrow money and issue securities, provided that the ob-
27 ligations are:

28 a. General or full faith and credit obligations of the issuing or
29 guaranteeing unit, or

30 b. Payable from assessments levied for improvement purposes
31 and secured by a lien upon real estate, or

32 c. Payable from especially designated revenues which are specific-
33 ally pledged to the payment of principal and interest on such obliga-
34 tions.

35 3. Canadian governmental and municipal obligations. Bonds or
36 other evidences of indebtedness issued or guaranteed by the Dominion
37 of Canada, or any province thereof, or any municipality or district
38 therein with a population in excess of 10,000 according to the last
39 dominion or provincial census taken prior to the date of such invest-
40 ment, which are general or full faith and credit obligations of the
41 issuing or guaranteeing unit.

42 4. Public utility obligations. Bonds or other evidences of indebt-
43 edness bearing a fixed rate of interest, issued or guaranteed by any

44 corporation incorporated under the laws of the United States or this
45 or any other state or the dominion of Canada, or any province there-
46 of, provided the corporation has been in operation for at least five
47 years, or its predecessor or principal subsidiary has been in operation
48 for at least five years, and is engaged directly or primarily in the sale
49 of electricity, gas, water, or furnishing telephone service, provided
50 that the gross revenues of such corporation shall have been at least
51 \$250,000 for each of the three fiscal years next preceding the date of
52 purchase, and average net annual earnings for the five years next
53 preceding purchase shall have been equal to at least twice the annual
54 interest requirements on the issue from which purchase is made, and
55 on all other funded debt outstanding at the time of purchase, less
56 the requirements on any funded debt for the retirement of which
57 funds have been provided. (Net earnings in this subsection shall
58 be considered to be the sum of (1) net operating income after the
59 deduction of all operating expenses, maintenance charges, and taxes
60 (except federal income taxes) but before the deduction of the allow-
61 ance for depreciation, and (2) such other corporate income as is
62 available to pay fixed charges.)

63 5. Railroad obligations. a. Bonds or other evidences of indebted-
64 ness bearing a fixed rate of interest issued or guaranteed by any rail-
65 road or railway corporation, having substantially all of its trackage
66 in the United States or Canada, and directly or primarily engaged
67 in furnishing transportation service, or obligations for the payment
68 of which such railroad or railway corporation is obligated under the
69 terms of a lease made or assumed, not including street railways, pro-
70 vided

71 (1) The corporation shall have had income available for fixed
72 charges during four of the five fiscal years next preceding the date
73 of investment equal to at least $1\frac{1}{2}$ times the total annual fixed charges
74 to which the company is subject at the time of investment, less the
75 fixed charges on any indebtedness for which payment has been pro-
76 vided, or

77 (2) Such bonds or other evidences of indebtedness are secured
78 by a lien on mileage which, from reports satisfactory to the com-
79 missioner of insurance, is shown to have supplied income available
80 for fixed charges during four out of the five fiscal years next pre-
81 ceding the date of investment, equal to at least two times the total of
82 (1) all fixed charges on such bonds outstanding at the date of pur-
83 chase, and (2) all charges against such mileage having an equal or
84 prior lien, less the charges on any indebtedness for which payment
85 has been provided.

86 The amount of income available for fixed charges for the purposes
87 of this subsection shall be the amount obtained by deducting from
88 gross income all items deductible in ascertaining net income other
89 than contingent income interest and items constituting fixed charges.
90 Fixed charges shall be: Rent for leased roads, fixed interest on
91 funded debt, interest on unfunded debt and amortization of dis-
92 count on funded debt. Accounting terms used in this paragraph shall
93 be deemed to refer to those used in the accounting reports prescribed
94 by the accounting regulations for common carriers subject to the
95 provisions of the interstate commerce act. If the interstate com-
96 merce commission shall prescribe accounting regulations wherein

97 shall be defined the term "income available for fixed charges" and the
 98 term "fixed charges", the definitions thereof, as so prescribed, shall
 99 be taken and used in lieu of the definitions set forth in this paragraph.

100 b. Equipment trust obligations, issued in connection with the pur-
 101 chase of new standard gauge equipment of a type in general use on
 102 most railroads in an amount not to exceed 80 per cent of the cost of
 103 such equipment, which mature in substantially equal amounts not
 104 later than 15 years from date of issue and which provide:

105 (1) For vesting of title free from incumbrance in a corporate
 106 trustee, or

107 (2) For creation of a first lien on such equipment.

108 (3) And further provided that the owner, purchaser, or lessee of
 109 such equipment be not in default upon any indebtedness which is a
 110 fixed charge, and shall be obligated either to pay the principal and
 111 interest on such certificates as they mature, or make payments to
 112 the trustee which will be sufficient to pay such principal and interest
 113 at maturity.

114 6. Other fixed obligations. Bonds or other evidences of indebted-
 115 ness bearing a fixed rate of interest issued or guaranteed by any cor-
 116 poration incorporated under the laws of the United States or any
 117 state thereof, or the dominion of Canada or any province thereof,
 118 in addition to those included in subsections 4 and 5, provided such
 119 corporation has had net earnings during each of the five fiscal years,
 120 next preceding the date of investment, equal to at least twice the
 121 fixed charges to which the company is subject at the date of invest-
 122 ment, less the charges on any indebtedness for which payment has
 123 been provided. (Net earnings in this subsection shall be gross earn-
 124 ings less all operating expenses, maintenance charges, taxes (except
 125 federal income taxes), and allowance for depreciation, obsolescence
 126 and depletion.)

127 7. Securities included under subsections 4, 5 and 6 shall not be
 128 eligible for deposit if the issuing, guaranteeing or assuming corpora-
 129 tion shall have been in default on fixed obligations for a period of
 130 more than ninety days during the five years next preceding invest-
 131 ment, nor shall the investments of any company or association in such
 132 securities be eligible for deposit in excess of the following percentage
 133 of the reserve of such company or association:

134 a. 2% of the reserve in the securities of any one corporation.

135 b. 20% of the reserve in the securities described in subsection 4.

136 c. 20% of the reserve in the securities described in subsection 5.

137 d. 10% of the reserve in securities described in subsection 6.

138 No securities except fixed interest mortgage bonds shall be eligible
 139 if the issuing, guaranteeing or assuming corporation has total assets
 140 of less than \$10,000,000 at the date of investment.

141 Securities of corporations with substantially all their assets in-
 142 vested in the securities of other corporations shall not be eligible.

143 In determining whether the requirements of subsections 4, 5 and
 144 6 have been complied with, the earnings of all merged, consolidated
 145 or purchased companies shall be considered.

146 8. Real estate bonds and mortgages. Entire issues of bonds or
 147 notes secured by first mortgages or deeds of trust which are a first
 148 lien upon real estate within this state or any other state in the United
 149 States, provided that the total indebtedness secured by such lien shall

150 not exceed 60% of the value of the property upon which it is a lien,
151 provided, however, that such 60% limitation shall not apply to bonds
152 and notes described in subsection 1 hereof.

153 Improvements shall not be considered in estimating the value of
154 the property unless the owner shall contract to keep the same ade-
155 quately insured in some reliable fire insurance company or companies,
156 association or associations, authorized to do business in the state,
157 during the life of the loan, the insurance to be made payable in case
158 of loss to the mortgagee, trustee, or assigns as its interests may ap-
159 pear at the time of the loss.

160 Provided further that for the purposes of this subsection a first
161 mortgage or deed of trust shall not be deemed to be other than a first
162 lien upon property within the meaning of this subsection by reason of
163 the existence of taxes or assessments that are not delinquent, instru-
164 ments creating or reserving mineral, oil or timber rights, rights of
165 way, joint driveways, sewer rights, rights in walls, nor by reason of
166 building restrictions or other like restrictive covenants, nor when
167 such real estate is subject to lease in whole or in part whereby rents
168 or profits are reserved to the owner.

169 9. Real estate. Any such real estate in this state as is necessary
170 for its accommodation as a home office; and in the erection of any
171 buildings for such purposes, it may add thereto rooms for rent. Be-
172 fore the company or association shall invest any of its funds in ac-
173 cordance with the provisions of this paragraph it shall first obtain the
174 consent of the executive council.

175 10. Policy loans. Loans upon the security of its own policies and
176 constituting a lien thereon in an amount not exceeding the reserve
177 thereon.

178 11. Collateral loans. Loans secured by collateral security consist-
179 ing of any securities enumerated in this section, provided there is
180 a margin of ten per cent between the amount of the loan and the value
181 of the securities.

182 Provided further that subsection 7 shall apply to the collateral se-
183 curities pledged to the payment of loans authorized in this subsection.

184 12. Substitution of certificates of sale and satisfactory evidences
185 of ownership of real estate. Companies or associations may substi-
186 tute for securities deposited, certificates of sale owned by them and
187 obtained by foreclosure of liens on real estate, but such certificates
188 shall be accepted for deposit for an amount not in excess of the
189 amount of the original securities and shall be withdrawn at the end
190 of the period of redemption or within thirty days if redemption is
191 made.

192 Companies or associations may also substitute for securities de-
193 deposited evidences of ownership satisfactory to the commissioner
194 of insurance of any real estate acquired in settlement of such se-
195 curities; but such evidences of ownership shall be accepted for de-
196 posit for an amount not in excess of the amount of the original se-
197 curities and shall be withdrawn within thirty days of termination of
198 ownership, (and in any event must be withdrawn within ten years
199 from date of deposit.)

200 The total amount for which certificates of sale and evidences of
201 ownership may be deposited shall not exceed at any one time thirty

202 per cent of the amount required by law to be deposited with the insur-
 203 ance department.
 204 13. Substitution of contracts of sale and purchase money mort-
 205 gages or purchase money deeds of trust. Companies or associations
 206 may substitute for securities deposited contracts of sale, purchase
 207 money mortgages or purchase money deeds of trust obtained through
 208 foreclosure, settlement or satisfaction of other securities but only
 209 for an amount approved by the commissioner of insurance.

Senate File 392. Approved April 2, 1937.

CHAPTER 214
 MUTUAL INSURANCE

H. F. 501

AN ACT to amend section eight thousand nine hundred six (8906) of the code, 1935, to provide additional financial requirements to be complied with by mutual insurance companies prior to the issuance of a certificate of authority.

Be It Enacted by the General Assembly of the State of Iowa:

1 SECTION 1. Section eight thousand nine hundred six (8906) code,
 2 1935, is amended by adding as an additional paragraph to be numbered
 3 paragraph five (5), the following:

4 "5. It shall have in cash or in securities in which insurance com-
 5 panies are authorized to invest, surplus in an amount of not less than
 6 five thousand dollars (\$5,000.00); provided that the commissioner of
 7 insurance, if in his judgment it appears necessary, may require sur-
 8 plus in excess of said amount, but not more than twenty-five thousand
 9 dollars (\$25,000.00). The surplus so required may be advanced in
 10 accordance with the provisions of section eight thousand nine hun-
 11 dred twelve (8912), code, 1935.

12 Provided, however, that such surplus requirements shall not apply
 13 to a company which establishes and maintains a guaranty fund as
 14 provided by section eight thousand nine hundred twelve-f one (8912-
 15 f1), Code, 1935."

1 SEC. 2. None of the provisions of this act shall apply to any com-
 2 pany heretofore organized and approved by the commissioner of
 3 insurance, but which had not completed its organization at the time
 4 of the taking effect of this act, nor shall this act apply to any com-
 5 pany already licensed to issue policies.

1 SEC. 3. That all acts or parts of acts in conflict with the provisions
 2 of this act are hereby repealed.

1 SEC. 4. This act being deemed of immediate importance shall
 2 be in full force and effect after its passage and publication in "The
 3 Evening Sentinel," a newspaper published at Shenandoah, Iowa, and
 4 in "The Afton Star Enterprise," a newspaper published at Afton, Iowa.

House File 501. Approved May 1, 1937.

I hereby certify that the foregoing act was published in the Afton Star Enterprise, May 27, 1937, and the Evening Sentinel, Shenandoah, May 26, 1937.

ROBERT E. O'BRIAN, *Secretary of State.*