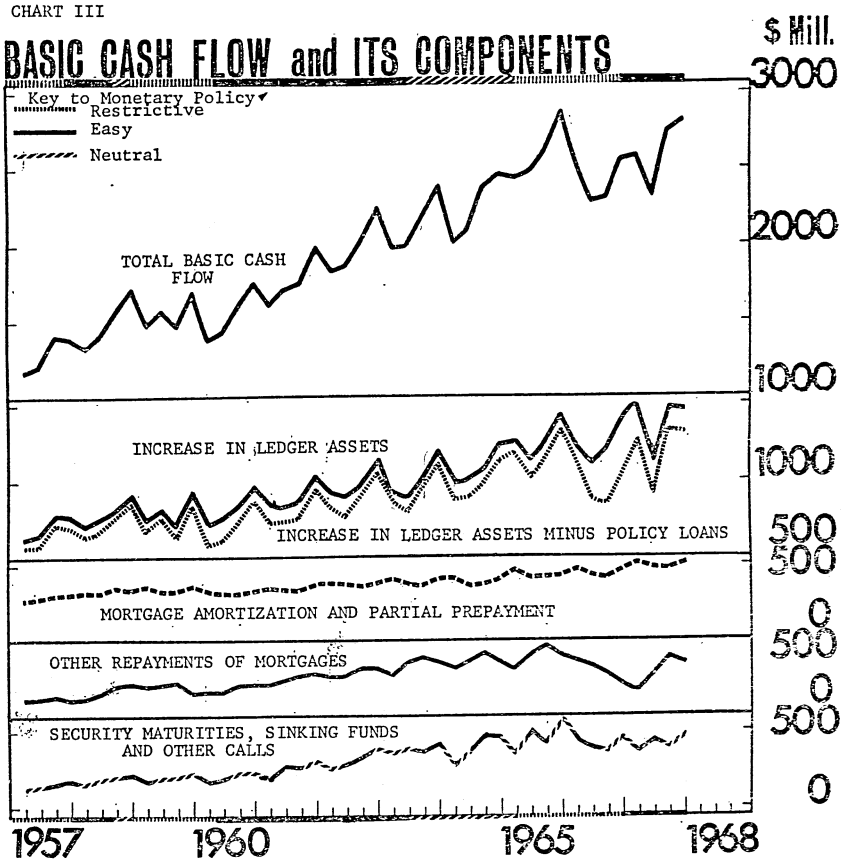
CHART III



As you can see, the rise in ledger assets (reflecting reserve accruals) is steady and persistent, apparently not much affected by changes in monetary policy even in 1966. The amortization and partial prepayment of mortgages also seems to be pretty impervious to capital market conditions. But security repayments and other repayments on mortgages, only moderately affected by the credit tightness of 1959–60, apparently lose their relative immunity when credit changes are substantial, as they were 2 years ago.

Note also that when ledger assets are adjusted for the net increase in policy loans, the impact of credit tightness was apparent in 1959–60 and significant in 1966.

There is an obvious explanation for this growing response of policy loans to monetary conditions. Although interest rates today are much higher than they were 10 years ago, the right of most policyholders to borrow from the companies is pegged by contract at not more than 5 percent. This of course is a valuable right available from no other financial institution, and its value rises the higher interest rates go. The result is that when funds become sufficiently tight in normal channels, a natural consequence of monetary restraint, policyholders resort