

POLICY LOANS: A NEW VIEW.

(Hon. Justice Russell at Halifax).

I would be sorry to say a word that would encourage the practice of borrowing on the strength of a life insurance policy for the purpose of indulging in an extravagance that could not otherwise be provided for. The man who borrowed money on his life insurance, for instance, in order to pay for an automobile was, in plain language, a fool; but he was no greater fool than the man who mortgaged his house for the same purpose,—not quite so big a fool in all probability, inasmuch as the interest and conveying charges of the mortgagee and his lawyers would certainly be greater than those of the insurance company. If there had to be a borrowing, in other words, if the occasion and purpose of incurring the debt were legitimate, then he must say that his opinion was the very opposite of that expressed by more than one of the newspaper commentators on the warning of the life insurance presidents. The debt had to be paid in any event, there was no discharge in that warfare. If the amount was not borrowed from the life insurance policy at four or five per cent., it must be procured from the banks at six or seven per cent., if not considerably higher rates through the intervention of the money lender. "Borrowing money on life insurance is or ought to be the last extremity," so ran the comment of one of the many newspapers that had taken up the discussion. On the contrary, for the reasons of economy already mentioned, it seemed to him that borrowing on the strength of his previous accumulation represented in the life insurance policy, was one of the most legitimate, because the most economical, modes of paying a debt.

NOT AT EXPENSE OF CREDITORS.

The man who satisfied his creditors by this method was not "borrowing from posterity" as one commentator declared; "posterity" had no valid claim upon his bounty until his just debts to his contemporaries were honestly discharged. Neither was he "borrowing from his own heirs, by dipping into the principal of the protecting fund for his family." It was a fair question whether in any event a man had a right to provide for the protection of his family at the expense of his creditors. The creditor also presumably had a family to be provided for, and it was good morality that a man should be just before he was generous. The laws of the country, the common law, with its profound and essential equity, aided by the statutes of Elizabeth, and the jurisprudence of the equity courts, had settled the question to what extent and under what circumstances a man should be allowed to make provisions for his family that should prevail over the existing or subsequent claims of his creditors. Within those limits, such preferences were ethically sound, but outside of them, the suggestion that the family should be provided for at the expense of the creditor was essentially dishonest, even if the project could be successfully accomplished.

The question was not really as to the best method of providing for the payment of a debt, but as to the propriety of incurring the debt at all. On that point, there was really no room for different opinions. To borrow from the life insurance fund for the purchase of an extravagant indulgence was, of course, the very extreme of thriftlessness and folly; and he had no doubt that in far too many instances, the

loans which had run into such abnormally large figures, were taken up for wholly illegitimate purposes to make provision for gratifications that could not be afforded, and extravagances that should not be indulged. As already said, the real question was always whether or not the debt should be incurred, and that was always a mere question of common prudence.

FOUNDATIONS FOR BUSINESS.

But that there should be no debtor and creditor relation was an absurdity on its face. Debt, as had been well said by a high authority, was one of the conditions of civilization. There was, he believed, no credit system in Patagonia, and no money borrowed on life insurance policies among the bushmen of Africa. If there were no borrowers there could be no lenders. If there could be no lenders there need be no accumulations and there would be little thrift. One of the strongest incentives to industry and economy would be taken away. The whole monetary system of the world would have to be turned upside down. He need not surely pursue or elaborate the argument; the general truth of the proposition must be self-evident.

Now, take the case of a young person going into business, or qualifying himself for a profession. He has talent, virtue, industry and a reasonably prosperous outlook but he has no capital. Must he spend the best years of his life gathering together by uncongenial toil and slow accumulation the funds that are necessary for his project? Or shall he find, if he can, a capitalist with faith in his ability and his outlook, and secure him against loss by taking out a policy of life insurance in his favor. After he has paid a sufficient amount in premiums to make the policy a valuable asset, shall he not be allowed to recoup himself for his outlays by receiving back a part, a comparatively small part of what he has paid in, and a still smaller amount, if the relation is to be between the amount of the loan and the sum ultimately payable under the policy. The transaction leaves a security for wife or family, substantially, almost as good as it was before. It enables the borrower to escape to the extent of a loan at least, the large interest exacted by the bankers. It spares him the necessity of going to the manager hat in hand, for continuous and repeated renewals. It probably increases his credit with the bankers for the occasion when an emergency will call for an accommodation; it gives him back a part of the money which he has advanced at no inconsiderable inconvenience, to keep his premiums paid. It affords the company an investment with its accumulations which is absolutely secure, because the amount so advanced by the company can by no possibility ever result in a loss. Thus, it was a fair transaction all round, and he saw nothing whatever in such a procedure to present the occasion of reasonable criticism or complaint.

NOT A CRIME AGAINST POSTERITY.

Of course, it was only fair to the companies that they should not be exposed to the inconvenience of sudden and unexpected demands for large advances; should such applications come upon the company in an avalanche like the run on a bank, they must necessitate the realization of securities under circumstances resulting in loss to all concerned. There should, of course, be provision for reasonable and timely notice; but with these pro-