

NECESSITY FOR CONSERVATISM IN MORTGAGE INVESTMENTS.

One of the most interesting and practical addresses given at the annual meeting of the Association of Life Insurance Presidents in New York last week, was that by Mr. W. F. Dix, secretary of the Mutual Life of New York, who spoke on the subject of city mortgages as investments of life insurance companies. Mr. Dix referred strongly to the great necessity for conservatism in regard to these investments in view of the fluctuating character of values in many of the cities of this continent. He pointed out that while sudden and unexpected shrinkage in values in certain districts have been met by corresponding rises in others, the balance is not a true one so far as the investor is concerned, for he is disquieted by the thought that, if values have so suddenly dropped in one part of the town, what is to prevent them, at any time in the future, from doing likewise in other parts?

NECESSITY FOR WARINESS.

If, for instance, said Mr. Dix, a company owns \$100,000,000 of mortgages in a certain city upon property conservatively valued five years ago at \$150,000,000 or \$160,000,000, which real estate has now shrunk in value to \$100,000,000 or \$120,000,000, unless it has kept pace with this shrinkage by constantly calling for payments on account, it will find itself confronted with a situation where the equities above its mortgage have almost vanished. Many foreclosures will then follow. The company will be forced to buy in and manage the properties until a more favorable selling market appears, in the meantime taking what interest it can get out of the rentals. In order to avoid this unpleasant situation, the investing company must be alert to every change for better or for worse in the various city districts where its mortgages are, and it must secure reductions from the principal of loans so that, in a falling market, it keeps its proportions of loan value to market value constant. That is why recent history has caused us to be exceedingly wary, and why we are sometimes accused by real estate operators of working against them and against the best interests of the city, by being so parsimonious in the amount we will lend upon properties, and so quick to call for payment on account on the slightest sign of weakness in the real estate market.

DANGER OF OVER-OPTIMISM.

But the too optimistic mortgage lender, continued the speaker, is contributing to an artificial inflation of real estate values which is not of real benefit to any city. Too much optimism on the part of a lender contributes to an artificial inflation of real estate, because the selling value of many properties, especially new ones, is largely based upon the amount of mortgage they can command, for equity begins where mortgage leaves off, and the two combined form a basis for the asking price. Of course, the ultimate basis of real estate values is the rent-paying one. No one willingly owns real estate except for the one purpose of collecting rents from it. I do not, of course, refer to the home-owner; that is sentiment, not business. And as a capitalization of rents based upon the going rate of interest is what, after all, in the long run, forms the actual value of a property, the insurance company that

lends upon improved real estate must take into consideration the appropriateness of the business activities of the rent-payers to their neighborhood, the appropriateness of the building that houses them, the trend of trade taken away from that neighborhood, the depreciation of the building, and the probable depreciation or appreciation of the land. So the company that has a large amount of mortgages in a particular city is vitally interested in every phase of civic life.

BRITISH GOVERNMENT MOBILIZING SECURITIES.

The necessary legislation for the mobilisation in Great Britain of American and Canadian securities was before the House of Commons this week. As previously indicated, under this scheme the British Government will make an arrangement to purchase outright for use as collateral, securities of the countries named from British holders, giving in payment apparently either cash or Treasury Bills. Alternatively it will borrow the securities for a period of two years, paying a commission for their use. The legislation abrogates obligations of trusteeship, and insurance and other companies are authorised to deposit such securities, despite anything in their constitution or contracts to the contrary. The insurance and trust companies are stated fully to approve the scheme. The Government receipts will take the place of the actual securities until the latter are released, and it will be possible to trade in these receipts on the London Stock Exchange.

Mr. McKenna estimated the total of securities available for the purpose at from 1½ billions to four billions. As regards the reference to Canadian securities it is not yet clear to what extent these are to be included in the new arrangement. A very considerable proportion—probably the great bulk—of our high grade bonds sold in Great Britain during recent years were sterling bonds, which would not be good delivery in New York. It may be presumed, however, that New York bankers would probably be willing to accept these bonds under certain circumstances as collateral, or possibly they might be used as collateral for a direct credit given by Canada to Great Britain on the lines which have been already suggested. The working out of the scheme as it affects Canadian securities will be watched with particular interest here.

DEATH OF MR. R. C. WELCH.

Much regret is expressed amongst the insurance fraternity in connection with the death of Mr. R. C. Welch, of the firm of Budden & Welch, Quebec, which sad event occurred suddenly at his home on the 12th instant from an attack of acute indigestion. The deceased gentleman was one of the most popular and well-known fire insurance men in Eastern Canada. The firm represented the following important fire companies, Queen, Phoenix of England and Western, for many years.

Except with industrial companies, the word "system" can hardly be applied to the agency methods of very many life companies or agencies.—Edward A. Woods.