

LOAN AND SAVINGS COMPANIES

Methods of Valuing Properties—How to Select the Company

Over £50,000,000 has been invested in Canada by land mortgage companies and reports of 14 loan companies show that in 1913 £11,000,000 was received from Great Britain, writes Mr. Hume Cronyn, manager of the Huron and Erie Loan and Savings Company in the Scottish Bankers' Magazine.

The average conservative loan company confines its lending to advances upon the security of first mortgages over freehold property, although a proportion of its assets may be invested in municipal debentures or carefully selected bonds so as to provide a fund which by sale or pledge may be available in times of stress. Drawing the line still tighter, many companies will lend only on productive real estate; and others, more careful still, restrict their operations to the more settled parts of the country, and by refusing to consider advances on manufacturing establishments, hotels, or apartment houses, confine their operations to farm lands and moderately-priced properties within the larger cities of Canada.

The ideal mortgage loans are, first, those to a bona-fide farmer resident in a good district, whose cultivation, buildings and fences testify to his character; and second, those on substantially-built residences of not too high a cost situate in an established and growing city.

Practically all the larger mortgage companies employ throughout the districts in which they lend local agents who are paid by commission. These men know from experience what class of loan will be favorably considered, and such they forward to the company upon an application form which, if properly filled up, gives complete information regarding the proposal. Frequently a report and valuation by the local appraiser accompany the application, and with these before it the company determines whether the loan shall be further considered or declined on the spot. This may be termed the first test, and as a rule it excludes only those loans of a nature which the company does not favor.

Chief Test is Inspector's Visit.

The second test, and perhaps the most important of the series, is now applied. That member of the company's staff employed solely by the company and known as its inspector, proceeds to visit the proposed security subject and to make thereon his own exhaustive report in writing. No careful company is without one or more inspectors, whose sole occupation is to cover the territory in which it does business, and to report daily upon proposals for new advances and upon loans already in existence.

While in many of the cities may be found reliable valuers whose ability and knowledge of local conditions enable them to estimate correctly the worth of real estate in their neighborhood, yet even here the opinion of the company's inspector is to be preferred. He sees not only the condition and progress of that particular city or county but those of a score of others besides, and is able by comparison to check the too optimistic views of purely local judges. As a tribute to the conservative judgment displayed by loan company inspectors, the protest is often heard that they unfairly discriminate against certain localities, and that they refuse to raise their figures in the face of an excited and rapidly-advancing market.

With the application and inspector's report in hand the third and final test is applied; after review by the manager or other official charged with that duty, the proposal comes before the company's directors and at a full meeting is passed upon by them. This is no slipshod or matter-of-course examination. Each member of the board has before him the essential figures relating to the loan; the inspector's report and recommendation are produced and read, and in all but the choicest of loans a full discussion ensues. When it is remembered that the majority of the board have seen years of experience in this particular line of work, and that each week they pass in review numbers of loans, it will be conceded the final test should be fairly conclusive.

Granted that a proper valuation has been made and a reasonable advance agreed upon, the mortgage executed and the title searched and certified to by the company's solicitor, the loan is then recorded upon the company's register and enters into the charge of quite another department. It is a

truism that the best of loans may be ruined by lack of attention, and the company's mortgage department therefore throughout the year keeps close watch upon all mortgage accounts. This supervision is necessary, no matter how small a percentage the original loan may bear to the estimated value of the security subject. Some lenders pride themselves on never advancing more than 40 per cent. of that value, but experience shows such a rule to be not so absolute a safeguard as might on the surface appear. Loan companies usually restrict their maximum advance to 60 per cent. of their inspector's valuation, while in newer localities they seldom lend more than one-half of that value.

In the earlier history of lending in Canada, the aim of the management was to make the principal of mortgages repayable at the end of a comparatively long term (15 or 20 years), and thus avoid the expense incident to constant renewal, and secure a high interest return over a considerable period. When interest rates began to fall, the borrowing public found themselves inconvenienced by these long-term mortgages, and some 30 years ago the legislature—always, then as now more than willing to placate this important section of the electorate—decreed that, despite any agreement to the contrary, a mortgage drawn for a longer term might be paid off at the end of five years from its date, with a bonus of three months' extra interest.

This law, at first passed by the Dominion parliament, and later copied into the acts of many of the provinces, resulted in fixing the mortgage term, in the great majority of cases, at five years. It is submitted that this law was, in addition, largely responsible in establishing the same term as the normal life of debentures issued by mortgage companies.

Must Repay Instalment of Principal.

Later on, guided partly by experience and partly perhaps by the example set by the best banking practice, progressive loan companies made it a rule that, in addition to the interest, the borrower must repay by half-yearly or yearly instalments a substantial portion of the principal. These repayments are not fixed on any definite scale, and vary from 2 to 10 per cent. of the original loan. There is no one fact which has strengthened the position of loan companies more than this salutary practice, and while at times it is doubtless highly inconvenient to the borrower, he is usually quite as much benefited as is the lender—his load of debt being sensibly reduced instead of remaining a millstone about his neck. It must not be supposed that every instalment of principal is repaid as set out in the mortgage; cases may and do arise when such a payment may with safety be waived, but the mere fact that a request to this effect is made brings before the lender the condition of the particular account, and gives him the opportunity, always accepted in doubtful cases, of securing a fresh report from his inspection staff with a more or less comprehensive investigation into the borrower's financial position.

In making a selection among the companies offering their debentures for sale it is difficult to indicate all the items which should be kept in view so as to make the choice ideal. Keeping in mind the information readily available, the following may be laid down as tests which should be applied:—(1) Age; (2) paid-up capital; (3) reserve fund; (4) subscribed but uncalled capital; (5) directorate; (6) dividend record; (7) price of stock. As to the last item, the stocks of most of the Canadian companies are listed on the Toronto Stock Exchange, and it is not an unfair inference that absence in this respect implies either a small capitalization or a price which it is considered disadvantageous to make public.

How to Analyse Position.

To those who desire to make a more exhaustive analysis of a company's position may be suggested:—(1) A comparison of its annual investments over a term of years. (2) Enquiry into the nature of its investments. (a) What percentage is in first mortgage? (b) In what locality are mortgage loans made? (c) Are these restricted to productive farms and city loans, or do they include unoccupied property or those situate in towns and villages? (d) What is the exact nature of all other investments? (3) What amount of interest has been in arrear for the past five years? (4) What amount of real estate other than office premises has been on hand for a similar term? (5) What system of inspection or valuation is adopted? (6) Are the company's auditors free from control by the management and directors? (7) What is the percentage of profits earned as compared to dividends paid?