PROBLEM 4.

In the late nineties, a western city advanced nearly half the amount to the credit of its sinking fund on first mortgage on a skyscraper then in course of construction, for five years. The building, owing to lack of funds, was never completed. The bonds, for which the original sinking fund was created, matured and were paid out of sinking funds on account of other subsequent city borrowings. Discuss this matter, and suggest means whereby the sinking fund can be recouped.

ANSWER. Evidently, according to the question, the city has not foreclosed its mortgage. This should be done, and the property sold for what it will realize.

Apparently, the city has not even been paid interest on the mortgage, so that the sinking fund, in addition to owning a slow or inactive asset, will also be in arrears for accumulation purposes.

Let us take a concrete case.

Suppose the mortgage was $100,000 and that it was placed in 1898.

This $100,000 should have accumulated to $265,329.77 in 20 years at 5%, which we will assume to have been the amount it was required to be in order to redeem bonds maturing at that time.

Let us further suppose that in 1918 the building was sold to the highest bidder for $100,000, which would leave the sinking fund short of its requirements at that time, assuming there were no surplus earnings.

For further demonstration let us suppose that the fund had on hand $30,000 of surplus earnings in 1918, which would bring the deficit down to $135,329.77.

Legislation in at least three provinces in the Dominion exists to the effect that where it is found that a deficiency in the sinking fund is ascertained, only one method is provided for its extinction, and that is to issue debentures to cover it. It is not, in the three provinces referred to, even