

NATION'S EXTERNAL DEBTS MUST BE PAID

Mr. J. P. Morgan's View of the Extension of Half Billion of Credit to Great Britain and France

Speaking in New York last week to 700 bankers and bond salesmen in the \$500,000,000 Anglo-French loan syndicate, Mr. J. P. Morgan said as to the safety of the bond: "The taxation revenues of Great Britain and France are roughly \$2,000,000,000 and \$1,000,000,000, respectively. This issue constitutes the only external obligation of these countries. It is the first charge on those nations. A country's external debt must be paid even if it is necessary to sacrifice internal obligations. These countries can't fail to pay their external debt because they may need to come to us again. * * * No government bond since the civil war has paid such a return. Before many months the investing public is going to wake up to the attractiveness of this offering. One of the best features about this bond has not received much attention. That is the conversion privilege. In five years this war will be over. However it ends, the borrowers' credit will be good. And if interest rates for government loans are back to 3½ per cent. when these notes mature it is not unlikely that the two countries will be willing to pay a handsome premium to retire them."

Loan is Pro-American.

Mr. Morgan declared that the issue is neither pro-Ally nor anti-German, but pro-American. He stated that the United States is ready for a foreign loan. "We have a large amount of cash in the banks, business is picking up, and there are everywhere signs of greater activity. People should now be ready to add to the variety of their investments by mixing some foreign bonds with their corporation and municipal issues. These bonds run for five years. By that time this war should be over, and well over, and a 4½ per cent. investment will sell at a premium."

The first transaction in the bonds on the New York Stock Exchange was for the amount of \$10,000 at 98. The bonds, "when issued," were listed on the stock exchange for the first time on October 8th.

May Be Another Loan.

Sir Edward Holden, one of the Anglo-French commissioners, is reported in New York as having stated that the success of the loan proved the sympathy of the United States in the struggle, and he suggested the possibility of British and French bringing out a similar loan in January or February.

Among those who are believed to have subscribed for large blocks of the loan are following:—Du Pont family, \$35,000,000; Charles M. Schwab, \$25,000,000; John D. Rockefeller, \$10,000,000; Sir Ernest Cassel, \$5,000,000; Otto H. Kahn, \$5,000,000; James Stillman, \$5,000,000; William Rockefeller, \$5,000,000; E. C. Converse, \$1,000,000; John N. Willys, \$1,000,000; James J. Hill, \$1,000,000; William B. Thompson, \$1,000,000; Cleveland H. Dodge, \$1,000,000; Harry Payne Whitney, \$1,000,000; Mortimer L. Schiff, \$1,000,000.

The underwriters of the Anglo-French loan of \$500,000,000 in New York are to-day paying their first instalment.

No Bonds Under 98.

Messrs. J. P. Morgan and Company, when interviewed some few days ago regarding the statement that the bonds were being offered to the public at 96½, stated that there was evidently a misunderstanding. They said that no bonds have been offered to the public as yet at any price. As soon as the preliminaries can be arranged the bonds will be offered to the public at 98 and at no lower price. The terms of the syndicate agreement provide that members of the underwriting syndicate underwrite the bonds at 96 and those who elect may withdraw part or all of their bonds at 98, such bonds, however, not to be released for sale until the syndicate is dissolved, at which time the underwriter will receive a commission upon his underwriting, this being the usual practice in syndicate operations.

The number of underwriters is large, the bankers having permitted individual investors to participate in the syndicate on the same basis as the largest banks and bond houses. This procedure is declared to be very unusual. Many of the underwriters have come in for amounts as small as \$100, while there are a large number of \$500 and \$1,000 subscribers to the syndicate.

Under the rules of the syndicate an underwriter may withdraw his bonds by paying 98, with the understanding that he will not resell them until after the expiration of the syndicate, the life of which has been fixed at sixty days.

Underwriters making withdrawals will receive a rebate of 1¼ after the syndicate is closed. Underwriters may elect not to withdraw the bonds, and in that event they will be held accountable for their proportionate share of the total underwriting for the unsold bonds. Should all the bonds be sold to the public at 98 and none left for the syndicate members, then the underwriters will receive the profits of the syndicate represented by the difference between the syndicate price and the price paid by the public, which, after making deductions for expenses, will amount to \$7,500,000.

Payment of Instalments.

Underwriters, like everybody else, may purchase bonds from the syndicate at 98 if they choose to do so. Bonds bought at 98 directly from the syndicate may be resold, while the bonds withdrawn by underwriters must not be resold prior to the expiration of the sixty days.

Underwriters will have to pay their first instalment of 25 per cent. on October 15th. The second instalment of 25 per cent. is due on November 15th, and the third and last instalment of 50 per cent. is payable on December 15th. Participants in the underwriting syndicate who withdraw their full participation are relieved from any further syndicate liability.

WANTED BILLION DOLLAR LOAN

Anglo-French Commission Could Get Now Only Half the Amount Their Governments Desired

The British and French governments in negotiating for a loan in the United States, desired to obtain £200,000,000. Such a sum could not be raised and an endeavor was then made to get £160,000,000, then £140,000,000, but not more than £100,000,000 could be obtained. This statement was made by chancellor of the exchequer McKenna in the British house of commons on Tuesday.

Referring to the \$500,000,000 which was recently negotiated in the United States, Mr. McKenna said: "The loan is for the purpose of paying our trade debt and maintaining our exchange in the United States. Our imports from North America have largely increased since the beginning of the war, and our exports have diminished. The increase in imports for the first six months of 1915, excluding government supplies not included in the customs returns, amounted to £58,500,000 (\$292,500,000) and the reduction in exports during the same period was £12,000,000, thus making the adverse balance £70,000,000.

Sell Securities to United States.

"Some relief for this balance against us may be obtained by the sale in the United States of securities held in this country. Every effort has been made to obtain relief from this source, but of itself this will be insufficient."

Mr. McKenna pointed out that when the fact was considered that higher interest was generally paid in the United States, the terms of the loan were not more onerous than could reasonably have been expected. When the country was at war it could not hope to borrow in a neutral country on as easy terms as at home.

He thought that the argument that the freedom of the loan from the income tax was equivalent to paying an additional 1 per cent. was fallacious. Putting the sum that Great Britain owes the United States to-day for trade engagements at £50,000,000 sterling, he said the amount could be paid only by the export of capital, presumably United States securities.

Six Per Cent. Rate.

"But," he added, "we said to our United States creditors: allow us to defer payment, upon such terms as can be arranged. They agreed, and we were thereby enabled to retain £50,000,000 of capital which we must otherwise have exported, and when we retain that capital we get the income tax on the dividends from it."