

WESTERN FARM MORTGAGES

As Investments—Life Insurance Companies Patronize Them—Must be Careful Selection and Constant Inspection.

When the Western farm mortgage came on the market as a legitimate investment it found no eager public waiting. No one was behind it but the simple Western banker who knew the man who needed the money and knew the land on which such loan should be made. So writes Mr. G. M. J. Badow, discussing the Western farm mortgage and the investor in the *Rand-McNally Bankers' Monthly*. A few life insurance companies, he continues, were the first to grasp the opportunity to secure real securities for their funds and to reap the benefit of their foresight by the favor with which they came to be regarded by the borrower, who eventually became also a purchaser of their insurance. Then the Eastern promoter woke up, and seeing that there was a promising field for him, he engaged in the loan business. To hurry matters he began to guarantee his mortgages and unscrupulous financial publications lent their aid in proclaiming the fact broadcast. He was not mistaken. The investors who could not be reached by the simple but honest Western banker, flocked around the oil-tongued promoter, put up their good money, and never saw it again. The noise that went up after this fiasco had been disclosed, was great enough to force some of the promoters to leave the country, for which we ought to be thankful, but it also had the more serious consequence of partly destroying the confidence in farm mortgages.

Classed all Investments Alike.

The unthinking public charged these failures up to the farm mortgage in general, instead of holding themselves and the slicktongued promoters responsible for their losses. Conservative Life Insurance Companies however continued to invest in farm mortgages, their method of loaning becoming more and more perfected. Men that had been intrusted with the loaning of their funds found that the confidence of these companies carried a sufficient weight with it, to find a few individual clients, and to interest anew the New England Savings Banks, some of whom had been badly hit during the period of wildcat and guaranteed mortgages. The farm mortgage loan business of to-day has reached proportions which were not dreamed of a decade ago, and naturally had to undergo a great number of changes, in order to eliminate the chances of fraud and deception.

Lack of Systematic Valuations.

The greatest disadvantage, under which the individual investor labors is the lack of facilities for ascertaining the value of securities offered to him. He remembers the reasons for the great wave of distrust in corporate interests, that went over this country, and who can vouch for the truth of the conditions surrounding a bond or a corporation stock, the latter oftentimes subject to the manipulations of a small set of men, whom he never has met and never will meet?

When Financial Responsibility Enters.

Here comes the farm mortgage banker, and offers to pay the investor 5½ and 6 per cent. for his money, exchanging for the actual money not a mere promise, or a beautifully engraved certificate, but a first lien on a real income-producing piece of property, which may be inspected by the investor at the banker's expense. A whole year is given him for such inspection, and if he or his representative finds actual conditions in variance with the statements made to him, the mortgage is redeemed at one hundred cents to the dollar, and accrued interest. Here of course comes in one of the most important points, in the selection of the loan banker, and that is his financial responsibility.

To expect a mortgage banker to buy up every mortgage he has written during five or ten years at a moment's notice, would be absurd, but he should have sufficient funds on hand, to take care of mortgages sold, but not yet reinspected by the investor. Such funds are provided for by some loan bankers of to-day, but the fact that they have never been used for the purpose designated proves the presence of another most important requirement in a loan man, and that is his conservatism coupled with exact knowledge of conditions.

Experience as Well as Integrity Needed.

It is not sufficient any more to produce proofs of integrity only, although without them no man deserves the confidence of his fellow-men in any transaction. Experience more than any other qualification has an all important bearing on the conduct of the loan business, but it would be wise, not to accept the age of a concern as a proof of its experience only,

other factors enter under that head, namely its records as to foreclosures, its ability to collect interest so that it will reach the investor on the day it is due, and last but not least the confidence the concern commands, as proven by the type of people whose money it loans.

This latter point is really of greater importance, than a first moment's reflection might indicate. Foreclosures on Western farm lands can easily be avoided with a little caution, since almost any security will enhance in value, during the life of the loan, but the more experienced the investor becomes, the more careful he is, as to the selection of the type of borrower, and the banker that serves him must have a greater power of discrimination than the one that deals only with beginners in the field. It is generally conceded, that the most experienced investors to-day are the life insurance companies, but even among them a difference is observable as to their relative experience by the methods they employ, the valuation they accept, and the type of men they employ as their correspondents.

Requirements of Life Companies Strict.

To be able to satisfy a life insurance company, whose name stands for all that is conservative in the country, is perhaps one of the strongest proofs of all those qualities that make for a reliable loan banker, but nevertheless it would do no harm to the investor to inquire of the insurance company in question.

The road to safety when investing in farm mortgages, has never been more clearly indicated, than in a recent letter of the president of one of the most conservative life insurance companies, who expresses himself as follows:

"We have found this class of investment exceedingly satisfactory, under our system of work, which includes, careful selection of territory, constant inspection by our own men, financially responsible and experienced investment correspondents, and insistence on selection rules as to soil, borrower, market, availability and margins."

To be able to meet the requirements thus laid down, many changes had to be made. To-day the report of the examiner of a reliable loan concern hides nothing, and is complete to such a degree, that the investor perusing the same, is able to judge the desirability of the security offered, before ever having laid his eyes on the same, and can and does make his decision then and there.

Obligation of Loan Banker in Negotiations.

Again, remittance does not constitute a sale of the loan with a loan banker of standing, since the loan remains subject to sight draft if a subsequent inspection is not satisfactory. To be able to say that no sight draft of this kind has ever been drawn against a concern in the loan business is a strong recommendation indeed.

The facilities for the safe placing of the investors' money are therefore as great, when considering a farm mortgage as in a bond issue, and scarcely can be compared at all with what one is generally able to find out regarding a corporation stock.

Expects a Broader Investment Field.

It is only a matter of time, when the Farm Mortgage will occupy the position in the investment field, that it can rightfully and logically claim. The only obstacle in the event of that day, it is curious to note, seems to be the apathy of the average banker, towards this class of security. With a little leniency for the frailty of human nature, however, one can understand why he still prefers to recommend a bond or a stock and harps on their convertibility and flexibility and what not.

As To Convertibility of Mortgages.

This argument as to the vitality and lack of convertibility of the Farm Mortgage, is not always fair for whenever a national stringency in the money market has occurred, this has frequently been disproved. The aforementioned authority in the Life Insurance field said: "During the panic in the latter part of 1907 the only elastic or vital form of asset was the Farm Mortgage, the experience of that year being, that the farmers everywhere availed themselves very generally of their prepayment option to cut down the principal of their loan."

The day is not far distant when the investor, instead of listening to oil-tongued promoters of almost any possible and impossible enterprise will keep a good-sized emergency fund in a conservative savings bank, and quietly ascertaining the facts for himself, will buy a good Farm Mortgage as a part of his investments.

The London stock exchange, according to a cable from London, has just listed £696,000 Grand Trunk Pacific fours. This is evidently a comparatively recent issue and was probably sold privately.