

BONDS and MUNICIPAL CREDIT

MARKETING OF BONDS.

Public Tender, After Advertising, is Best Way—Some Further Criticisms.

Commenting upon the suggestions of Mayor Evans, Winnipeg, regarding the marketing of municipal bonds, reference to which was made in the Monetary Times last week, Mr. Oliver E. Hurd, of Montreal, writes the Monetary Times as follows:—

"In reply to suggestions made by the mayor of one of the most important, and rapidly growing cities in Canada, as to the marketing of municipal bonds, I beg to state that firstly: He does not cite any instances of his plans having been put into practical use. We will probably agree that there is nothing bran new in any of his suggestions, other than the one regarding the making a new form of security to be known as 'Canadian Municipals.' There is nothing practical or of any use to any city or country in the world in this suggestion. For just as closely as a good bank manager scrutinizes every current account in his bank and treats it separately, so does the municipal bond buyer, whether he is the bond merchant or investor, finally absorbing the bond, examine every detail of a municipality, and just as particularly does he treat each one separately. Commercial credit is largely based upon character and reputation, and so is a municipality considered in figuring on the value of its bonds.

Would Have to Consolidate Debts.

"A consolidation of the debts would be necessary before any such new form of security in the world's markets to be known as 'Canadian Municipals' could be undertaken. It seems incredible that such a thing should be thought of by a Canadian public officer of importance.

"Secondly:—As to municipal securities taking the form of registered stock, or bonds; almost invariably large absorbers of investment bonds prefer a negotiable instrument; coupon bonds of \$1,000 or £200 denomination are most easily marketed. Individual, private investors sometimes prefer registered stock. But their absorbing powers are very small proportionately, probably not 10 per cent.

"Thirdly:—As to life of loans: 30 or 40 years bonds are most popular and best marketed. And as for local improvement loans they should never be made for a term longer than the life of the improvements. Any other course would injure their standing, and also the credit of the municipality. Such loans ought to be treated separately, as short term obligations, sold locally and at a slightly higher rate of interest.

Best Form of Marketing.

"Fourthly:—As to the form, or manner of marketing municipal loans whether large, or small: Experience has taught that the best method is by public tender, after advertising. This is compulsory in New York State. It need not be an expensive matter in the case of small municipalities. General, extensive advertising, beyond our own borders is called for only in case of large issues.

"Tenders accompanied by certified bank cheques for from 1 per cent. to 2½ per cent., according to size of loan, are best for all concerned, buyers and sellers, in the long run. It shuts out irresponsible bidders. Also if it become a matter of generally accepted information that a city of good standing sells at regular intervals of one or more years, it tends to popularize that city's loans with the dealers. Our friend, the mayor, is clear and correct in this latter respect, and also as to what he states regarding London's absorbing powers, and best time of year to sell. My experience is that generally late spring and early summer are best periods for marketing bonds by municipalities.

Canadian and United States Methods.

"Finally as to there being a difference between Canadian and United States 'system' in all matters pertaining to municipal financing, I fail to see much of any. There is more home market in the United States than here. This is due to enormous sums invested by savings banks and insurance companies in municipal bonds. Formerly, many of the larger cities in the United States, St. Louis, and as a

State, Massachusetts, sold large loans in London. A great proportion of them were on a 3 per cent. basis and were afterwards repurchased in the United States.

"Permit me to call attention to the well worn subject of the decreasing purchasing power of the dollar. We must see its effect upon municipal bond values as upon flour, meat, wool, cotton, etc., etc., because bonds are the merchandise of the bond market."

Messrs. J. M. Robinson & Sons, bankers and bond dealers, St. John, N.B., agree with Mayor Evans that municipalities are often forced to sell their securities at inopportune times, but, they add, we do not think they can place their bonds to advantage themselves. Calling for tenders seems to be the best method of procuring the best price. It must be remembered that municipalities are invariably wholesalers of securities and have not the organization necessary to carry on an extensive and successful retail business, nor would it be practicable or advisable for any municipality to acquire such organization for its own occasional issues, as it can obtain the services of a dealer in securities at a very reasonable commission.

"There are many points that could be taken up by the Municipalities Committee to the advantage of all concerned, among which we would suggest:—

- (1) Uniform system of accounting by municipalities.
- (2) Provision of sinking funds for all the bond issues. No municipality should invest its sinking funds in its own bonds but rather in the bonds of other municipalities.
- (3) Bonds should be engraved and lithographed and not printed as in many cases.
- (4) Coupons should be made payable at a financial centre as well as at the treasurer's office of the municipality of issue.
- (5) Bond holders should be allowed the option of converting the bonds into stock or vice versa.
- (6) Arrangements should be made for the registration of principal.
- (7) Provincial legislation should be enacted so that when bonds are once issued by a municipality they should be considered legally issued and a binding obligation on the municipality until paid off.

"We consider that the United States method of allowing municipalities to issue bonds only to a small percentage of their bonded debts is a good one. United States municipal bonds sell higher than Canadian bonds because of their broad market, which includes the savings banks which invest largely in this class of security. How many municipal bonds are held by the Canadian banks in proportion to the large amounts of money on savings bank deposit?

"The market for municipal bonds in Canada is not large enough to take care of all the bond issues and the fact is that England, a large buyer, has been the salvation of the market for them. England does not care to take the bonds of the smaller municipalities, but should the above suggestions be carried out no doubt a better market would be found. We believe that the people of Canada are neglecting municipal bonds for investments in more speculative securities."

FERRY BONDS.

To Be Issued By North Vancouver—September Sales—Montreal Finances.

The sales of municipal bonds in Canada and the United States during September totalled \$17,615,727. Canada's share, according to the records kept by the Monetary Times, was \$1,503,108. The number of municipalities emitting bonds and the number of separate issues made during September, 1909, were 292 and 360, respectively. This contrasts with 249 and 339 for August, 1909, and with 246 and 351 for September, 1908.

The following table, shows the aggregates for September and the nine months for several years:—

	September.	Nine months.
1909	\$16,112,169	\$262,390,621
1908	34,531,814	43,241,117
1907	47,947,077	199,722,964
1906	8,980,418	153,152,345
1905	9,825,200	141,021,727
1904	10,694,671	197,921,657
1903	8,762,079	111,745,993
1902	9,179,654	117,678,855
1901	14,408,056	99,324,001

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