

WAR CONTRACT BONDS

An interesting exposition of the nature of the sudden rush of war contract bonds is given in the July *Bulletin* of the Fidelity and Casualty Company of New York. Some extracts from the article are as follows:

In many cases the foreign buyers of these American supplies require the American sellers to furnish a bond conditioned for the latter's fulfilment of the contract. As our agents are hearing about these bonds, and in some cases receiving applications for them, a little general information on the subject may be welcome.

SOME WAR BONDS READILY ACCEPTABLE.

One considerable class of bonds present no underwriting difficulties and are written freely by the surety companies in behalf of experienced and well-financed principals. We refer now to bonds not involving any form of financial guarantee, and conditioned only for the furnishing of staple and ordinary supplies like clothing, blankets, boots, etc. These are simple supply bonds of the familiar type, and differ from similar domestic bonds only in the detail that the amount of the contract and the corresponding amount of the bond are vastly greater than usual. That circumstance gives the underwriter no concern if he is dealing with a responsible and successful principal, and if the contract price seems adequate; and on this latter point it may be observed in passing that the prices obtained by the American contractors are in many cases simply sinful!

APPLICATIONS NEED SCRUTINY.

A second large body of bonds guarantee the fulfillment of contracts for the manufacture of comparatively simple forms of ammunition, or the furnishing of similar war supplies, not obtainable from many sources and requiring special and unusual equipment. These bonds are obviously far more hazardous than those considered above, because the contractor must have exceptional experience, skill and capital; also because the manufacturing process is subject to disastrous accidents, and because in the event of default the surety may not be able readily to procure another contractor to discharge its obligations under the bond.

A third class of war bonds, the most important and the most dangerous of all, has to do with munitions, the manufacture of which is very costly and dangerous, highly complex and technical, and prudently conductible only in a few enormous plants completely equipped with the special machinery required and with an organization built up through years of experience. Contractors of this class, however, accepted orders long ago up to the maximum capacity of their plants for months to come, and many of the principals upon the bonds currently required are without experience, without sufficient capital, and with no plant except on paper.

A CASE IN POINT.

The other day, for example, we were asked to issue a large bond in behalf of two gentlemen who had in some way secured an order to manufacture an immense quantity of shrapnel. One of the two contractors was an attorney of high personal and professional standing, and the other was a business

man of good repute; but their combined capital would just about stock up a general store at Cornob Corner, and neither of them could distinguish a piece of shrapnel (unless it happened to hit 'em) from the parapodium of a heteronereid. Their own complete ignorance and inexperience they thought to be nullified by the fact that they had hired as their superintendent the foreman of an old and successful shrapnel plant; and their lack of capital they regarded as offset by the fact that the foreign buyer was to advance to them as soon as the contract was executed one-quarter of the contract price.

How other underwriters may have viewed this particular risk, we know not, but we wish that we could act in all cases as quickly and confidently as we acted here. The foreman may or may not know his business, he may or may not retain his health, he may or may not remain on good terms with his employers. The capital advanced must all be sunk at once in a plant and equipment of slight value for any purpose other than the manufacture of shrapnel. In the event of trouble of any one of the more than fifty-seven possible varieties, it is easy to see how far their country-store capital would go.

MANY BOND GUARANTEES.

This advance of the contract price, in part, by the purchaser to the seller is usually a feature of contracts of the class last considered, is often present in the second class, and is occasionally found even in the simple contracts of the first class. While under some conditions the provision may be deemed favorable to the surety, in most cases it is just the reverse, because the bond thus becomes a straight-out financial guarantee in addition to the other and customary hazards of contract suretyship. In some cases immense amounts are thus advanced to the American contractor—over twenty million dollars, for example, in a recent instance. The contractor must refund such advances, or a proper proportion of them, in the event of failure to perform; and the surety guarantees that he will do so.

THE UNITED STATES LIFE.

The United States Life of New York, after making a careful statistical investigation, has decided to add a disability clause to its policies, providing for the waiver of premiums in the event that the insured becomes totally disabled.

In Canada, the United States Life transacts a select business, and its policyholders will view with satisfaction this practical evidence of the old-established company's soundness and steady progression. A notable fact reported by the Company is that it wrote in July a larger amount of new business than it had written in any month during the past ten years.

I think there are still a number who hardly realize that the country is at war, or what that war means, and that those who cannot actively join the fighting line have also a duty to the State to perform—a duty of self-denial, a duty of minimizing personal expenditure, as far as possible a duty of saving—and this should be brought home to every household in the land. By practicing economy we shall not only render a national service, but a great service to ourselves.—Sir Felix Schuster.