

MERITS OF TIMBER BONDS.

Recent Canadian Flotation Causes Consideration of Important Points—May be Good Investment.

The flotation in London the other day of £1,500,000 five per cent. first mortgage debenture stock of the Canadian Western Lumber Company, Limited, has revived interest in securities in this class. This particular stock will be repayable at par on April 6, 1945, by means of a cumulative sinking fund, based on a payment by the company to the trustees at the rate of \$1.50 for every 1,000 feet (board measurement) of timber sold, with a minimum of £125,000 in each period of three completed years. This sinking fund will be applied in the purchase of debenture stock at or below 99¢ or in the redemption of the stock at par by drawings. The stock will be secured by a trust deed constituting the stock a specific first mortgage upon about 75,000 acres of freehold property with the growing timber thereon, and the timber licenses, sawmills, railway and other immovable property present and future, and a first floating charge upon all the remainder of the company's undertaking, property and assets, present and future.

The company was formed to acquire certain blocks of freehold land, aggregating approximately 75,000 acres, bearing a valuable body of timber, and also certain valuable timber leases and licenses, extending over about 60,460 acres.

The total cut has been carefully estimated to produce 5,500,000,000 feet (board measurement) of good merchantable timber. The land is heavily timbered; the principal growth being fir, the trees scaling from 3,000 to 15,000 feet of lumber per tree, and these trees run to a good percentage of No. 1 (the highest priced) logs.

May Be Other Flotations.

The Monetary Times learns that this is not the only Canadian timber flotation likely to be introduced in London this year. Many companies prefer to issue timber bonds rather than debenture stock.

Bonds secured by natural resources, such as timber, coal or water power, are among the safest of all securities. Timber bonds have many points to commend them to conservative investors, thinks Financial American. Such bonds generally pay 6 per cent., and the long maturities often slightly more.

Lumber is a commodity that is constantly increasing in value and the probabilities are that it will continue to do so for some time to come. Standing timber is above the ground—a measurable quantity. Experienced timber cruisers can go over a tract of timber and report on it by sections as to the amount of commercial lumber per acre, with a surprising degree of accuracy. The value of stumpage varies from \$2 to \$3 per 1,000 feet and on some very favorably located tracts contracts have been made as high as \$5 per 1,000. The value of a tract as a commercial proposition can thus be closely approximated.

Check Up the Timber.

No good timber man would buy a tract of land without having it gone over by his own cruisers and frequently, where bankers are negotiating for the purchase of an issue of timber bonds, they will have their own cruisers check the reports of the company's men.

Another consideration of importance is whether or not the land is within easy reach of transportation and lies well for economical logging operations. The past record of the company in respect to the sale and the probable ability annually to cut and market the amount of timber necessary to meet the obligations imposed by the bond issue, also is a factor and the policy of the company in respect to cutting over its lands is important. The policy followed by some concerns to "sweep a tract clean and use all but the leaves" amounts practically to deforestation and sometimes is of incalculable damage to agricultural interests. Land so treated must of necessity lie idle for years and would be of no value whatever as security for a bond issue.

Conserving Timber Property.

A recent well-known issue has for its security not only a mortgage on the land, a contract with a large concern for the cutting of a certain amount of timber annually, the payment to the trustee of \$2 per 1,000 feet and the retirement of the bonds serially with the funds so paid, but provision also is made in the contract that no tree shall be cut which is less than eight inches in diameter at a point sixteen feet from the ground. This is practical conservation and by adhering to this policy it is a virtual certainty that that company will always have an adequate supply of timber and, with the retirement of a certain amount of bonds annually, security back of the remaining bonds will be increased, by reason of the fact that the land is not rendered valueless for timber purposes.

The nature of the security is such, however, that by the cutting and marketing of lumber there is an exhaustion of the company's resources and unless provision is made in the mortgage to set aside a fixed sum for amortization of the issue, the land may be cut over and the security destroyed, leaving nothing but barren land. This objection is met in one of two ways: Either by providing for the payment of a certain amount, generally \$2 or \$3 per 1,000 feet of timber cut, to the trustee to be placed in a sinking fund, for which purpose bonds are drawn annually at a stated price, or the bonds are made payable serially. In the latter case an investor can secure any desired maturity.

This course generally is practicable only where the obligor company has been operating for some time and its ability to market the product is a known and fairly constant factor. If a sinking fund is provided, no option should be given the trustee, but to purchase bonds of the particular issue secured, as in case this important function is left optional, bonds or other securities might be purchased which would deteriorate in value, or market conditions at the maturity of the issue might be such that the bonds in the fund would have to be sold at a discount, thus leaving the company without sufficient funds to retire the bonds.

Safeguards Against Fire.

The possibility of destructive forest fires is one that always has to be reckoned with, but most of the larger companies now maintain an efficient force of rangers, telephone communication, etc., so that a fire rarely gets beyond control. This danger has, therefore, been minimized by the application of scientific measures.

During a business depression timber interests naturally suffer along with other lines, owing to a falling off in the demand for lumber, but the margin of profit above fixed charges is sufficient, as a rule, to enable payment, even with a greatly reduced volume of business. The only sufferers, in this event, are the stockholders, whose dividends are of course merely a contingent liability. Payments into the sinking fund vary according to the amount of timber cut, so there can be no embarrassment in this direction. During 1908 one company whose bonds are retireable serially found itself unable to pay off the bonds for that year in cash, owing to the small cut. This company had accumulated a large surplus during the preceding prosperous years but it was not considered desirable to use this for paying off the bonds as to do so would seriously impair working capital. As the security remained intact, however, the holders of the maturing bonds were unanimous in accepting a plan for extension.

After a study of timber bonds from all points of view one must be convinced that, where a banker has taken proper precautions to safeguard the interests of his clients, such securities should make a satisfactory investment.

FRENCH BANKING SYSTEM

Explained—Good Work of the Bank of France—Governor Pallain Gave Information to the Monetary Commission.

An interesting story of how the Bank of France has helped joint stock banks, thus preventing financial crises is told by Monsieur Pallain, governor of the bank to the National Monetary Commission, a sub-committee of which visited Canada last year. The Bank of France holds the unique position of never having been involved in any political controversy. It was at a conference of the heads of note issuing and joint stock banks held in Europe that the story was told. The French bank was founded in the year 1800, while in 1897 its charter was renewed, this expiring in 1920. With regard to the question of the bank being attacked in the debates between political parties, Monsieur Pallain stated that

How Officers are Appointed.

"No charge had ever been made that the bank favored or aided any political party. There is never any claim that politics enters in any degree into the management of the bank. Except for the renewal of the charter in 1897, no legislation affecting the bank has been enacted since 1857. There is no sentiment for any change in banking methods nor for any new legislation. Neither the governor nor deputy governor is permitted to be a member of either body of Parliament."

The Government does not own a share of the capital of 182,500,000 francs (\$35,225,000), but exercises decisive influence through the appointment of the governor and deputy governors and one of the boards of the bank. The governor and the two deputy governors are appointed by decree of the President of the Republic upon the proposal of the Minister of Finance. Their terms of service are not fixed, but usually extend over many years.

Bank has Many Branches.

Some light is thrown upon the absence of political hostility to the bank by the number of its branches, the manner in which it aids small commerce, and the strength which it affords to the banking system of the country. There are about 500 banking offices scattered over France, the more important, to the number of 127, being known as branches, and the others as auxiliaries and agencies. The managers are remunerated by fixed salaries. This does not prevent the bank from letting all the staff participate in the results of particularly productive years by exceptional allowances. There is a pension system for employees, which guarantees to each agent entitled thereto at least one-half the annual salary after thirty years' service.

The bank is not limited to rediscounts, but has a line of clients of its own. About 70 per cent. of the paper held bears the signature of some bank as one of the indorsers, but the number of merchants and manufacturers asking for direct discounts has been increasing.