

bankers prefer to deal in long-time paper. This general rule is reversed when the situation is reversed. Bankers aim also to scatter and locate their maturities so that as the seasons roll around they will not have very large amounts maturing at one time and very small amounts at another. They plan also to be "in funds" at those seasons when there is always a large and profitable demand for money. For instance, in the centres of the cotton-manufacturing interest the banks count on a large demand for money between October and January, when the bulk of the purchases to supply the mills are made. Again, among those who operate and deal in wool there is an active demand for money in the wool-clip in the spring months. The wheat and corn crops are autumn consumers of money. Midwinter and midsummer in the north are usually periods of comparative stagnation in the money market. All these things affect rates, and the successful banker is he who from observation and large experience shows the most skill in timing his money supply.

FINANCE, TRADE, AND TRANSPORTATION

V. COLLATERALS AND SECURITIES

TWO DISTINCT CLASSES OF SECURITIES

THERE are two distinct classes of mortgage securities — one class based upon the actual value and the other upon the earning value of the property. When a man lends money upon a dwelling-house he bases his estimate of security upon (1) the cost of the property, (2) its location, (3) the average value of adjoining properties, and (4) the general character of the locality; that is to say, the value of the property is the basis of the security. On the other hand, the lender of money upon railway mortgages, for instance (that is, the buyer of securities known as railway mortgages), considers the general earnings of the road rather than the cost of building and equipping the road as the correct basis upon which to estimate the value of the security. These two classes of securities differ in other particulars. The value of the mortgage upon ordinary real estate is constant and the security itself is not so likely to change ownership, while the value of the railway mortgage may vary with the success or failure of the road, and the security itself is in the market constantly as a speculative property. The whole property of a railroad company, considered simply as real estate and equipment, is usually worth but a small

fraction of the amount for which it is mortgaged. The creditors, as a rule, depend for the security of their money upon the business of the company.

We have already learned that collaterals are mortgages, stocks, bonds, etc., placed temporarily in the hands of lenders as additional security for money borrowed. The student will note, further, that the borrowing value of such securities depends very largely upon the character of the property represented.

MORTGAGES AS SECURITIES

A MORTGAGE is a conveyance of property for the purpose of securing debt, with the condition that if the debt is paid the conveyance is to become void. A mortgage in form is really a deed of the land, with a special clause stating that the grant is not absolute but only for the security of the debt. It is usual for the debtor at the time of executing the mortgage to execute also a bond or promissory note in favour of the creditor for the amount of the debt. This is called a MORTGAGE NOTE. Mortgages are frequently given in cases where there is a debt existing to secure or indemnify the mortgagee against some liability which he may possibly incur on behalf or for the benefit of the mortgagor. For instance, when a man has indorsed another's note for the latter's accommodation or gone on his bond as surety the latter may execute to the former a mortgage of indemnity. The power of a corporation to mortgage its property is usually regulated by its character or by the general law under which it is organised. All mortgages must be recorded in the office of the register of deeds for the county in which the property is located. The object of recording is to give notice of the existence of the mortgage to any one who might wish to purchase the land or

to take a mortgage upon it. There may be several mortgages upon the same property. The first mortgagee is entitled to be paid in full first, then the second, and so on. The mortgagee may use his mortgage as security for loans or he may assign it as he pleases. When the requirements of a mortgage are not met the holder has under certain conditions the right to FORECLOSE—that is, to advertise the property for sale and, within a time fixed by law, to sell it to satisfy the mortgage. It is usual for the mortgagor to insure the property for the benefit of the mortgagee.

Although the terms of corporation mortgages are similar to those on real estate such as is represented by dwelling-houses, the commercial conditions make it inconvenient or impossible to foreclose and sell such properties. To stop all business of a railway or to shut down the work of a manufacturing concern would not only result in injury to the public but would reduce largely the earning value of the property. To overcome this difficulty where an active concern is financially embarrassed, the court appoints a receiver, who is responsible for the proper conduct of the business until a satisfactory reorganisation or sale is accomplished.

Mortgages upon improved property, if properly graduated in amount, should be safe and profitable investments. The buyer, however, must exercise great care and good judgment. Should there be collusion between the loaning agent and the land-owner, the money advanced may be largely in excess of the actual property value. Villages with less than a dozen houses are often the sites of investment companies doing business under pretentious names and offering mortgage investments at interest rates which by the local conditions are impossible. One of the devices of these enterprising companies is to offer their own guarantees as to both principal and

interest of all mortgages negotiated by them. The investor should be sure of two things: (1) The safety of the principal, and (2) regularity in the payment of the interest. There is great danger of default from causes not anticipated by the mortgagor and over which he has no control.

STOCKS AS SECURITIES

To make a profitable investment in stocks the buyer must anticipate the future. A mill that may be working day and night this year may be obliged to shut down entirely next year. A business which is open to public competition must take its chances on its future success. The greater the earnings, the more certain the competition. Many corporations owning monopolies by virtue of patent rights have made large fortunes, but there is always the possibility of new discovery. Electricity has succeeded gas; the telephone is competing with the telegraph; the trolley is cutting into the profits of railways. A good thing in stocks to-day does not necessarily mean a good thing next year. Railroad stocks are of such varied character that it is impossible here to make more than general statements. Many of our railroad stocks bring prices far above par and pay liberal interest on investments. Some of them are so profitable that they are really not on the market and cannot easily be bought. Others represent roads loaded down with mortgages and other obligations so heavy as to make the stock really a liability rather than a resource to its owner. The stock quotations represent in a general way the comparative value of these securities. Of recent stock electric-railway stock is the most popular and in many instances the most profitable. The introduction of electric power has reduced the working expense one half and in most instances has doubled the traffic without any reduction in

fares. The buyer should make sure that the road is in a busy community able to sustain it, that its franchise will protect it from dangerous competition, and that the securities have been legally issued.

SUBSTITUTION SECURITIES

There have recently been formed several large companies whose business it is to issue bonds on the security of other bonds. The idea is similar to that of real-estate title insurance. Such companies are supposed to have superior facilities for investigating securities. They purchase those which they consider good and at the best prices possible. These they deposit with some trust company or banking institution. With these bonds which they buy as their original property they issue new bonds of their own, which they sell to the public and which they guarantee. The differences in prices and in interest make up their profits.

LOANS AND INVESTMENTS

With the growth of wealth we find increasing numbers of persons who want to invest their means in good securities. To do this successfully and safely is a very difficult question. It is even more difficult to keep money profitably employed than to make it. Changes and innovations are of continual occurrence. Not only are new securities constantly coming upon the market, but new subjects as a basis of their production are industriously sought after. Every newly discovered force or process in mechanics means the appearance of another detachment of paper securities. The War of the Rebellion popularised the *coupon bond*, in consequence of its adoption by the government, and made it the favourite form of invest-

ment paper. Railroads and other corporations soon availed themselves of the confidence which that species of paper inspired, and States, cities, and counties were soon flooding the country with obligations carrying long coupon attachments. Many persons have purchased and paid good prices for mortgage coupon bonds, giving them no control over their security, who would have rejected share certificates standing for an equal interest in the property pledged and giving them the right to participate in its management, with the possibility of a greater return for their money. Many of the States through careless legislation have permitted corporations to decide for themselves the amounts of obligations they might put out, and the privilege has been very much abused. We now have stocks and bonds upon the market representing nearly all conceivable kinds of property—telegraph and telephone companies, mining companies, cattle ranches, grain farms, waterworks, canals, bridges, oil- and gas-wells, electric lighting, trolley companies, factories and mills, patent rights, steamboat lines, apartment-houses, etc. Not only are properties of many kinds used to issue bonds upon, but many kinds of bonds are often issued upon the same properties. One issue of bonds is sometimes made the basis of other issues. Some one has said that there never was a time in the history of the world when it was so easy to invest money—and to lose it. Of the securities that are offered with first-class recommendations it is probable that about one third are actually good, one third have some value, and one third are practically worthless. In making investments the first and main thing to be studied is safety. Never buy a security of any kind without having read it. Do not buy what are commonly known as *cheap securities*. Do not rely solely upon the advice of a broker; he may have personal interest to serve. By far the greater number of losses to investors have been in securities pur-

chased exclusively on the recommendation of interested commission men. It is a mistake to give preference to *listed* securities—that is, those reported on the stock-exchange lists. Stocks are too often listed simply for speculative purposes, and the price represents not so much the value of the property as the pitch of the speculation at the time. Securities in the long run must stand upon their merits. As a rule the best time for an experienced investor to buy is when others are unloading.

ning line will be necessary only at the right. The signature should be in your usual style familiar to the paying teller. The plain, freely written signature is the most difficult to forge. Usually cheques are drawn "to order."

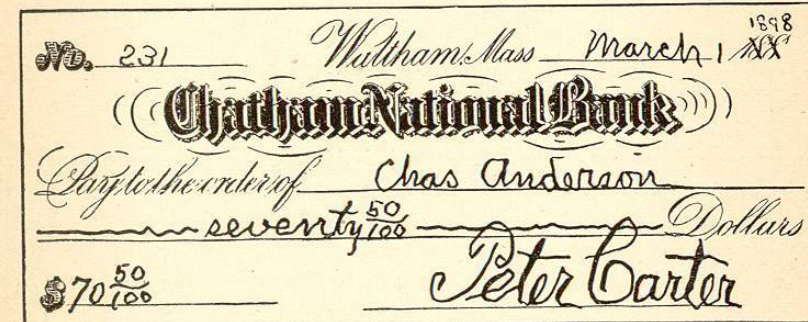
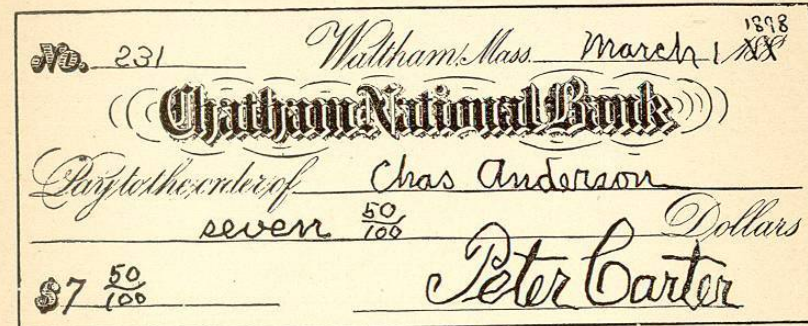
FINANCE, TRADE, AND TRANSPORTATION

VI. CHEQUES, DRAFTS, AND BILLS OF EXCHANGE¹

BANK CHEQUES

A CHEQUE is an order for money, drawn by one who has funds in the bank, payable on demand. Banks provide blank cheques for their customers and it is a very simple matter to fill them out properly. In writing in the amount begin at the extreme left of the line. The illustrations given here show a poorly-written cheque and a copy of the same cheque after it has been "raised." The original cheque was for \$7.50 and shows very careless arrangement. It was a very easy matter for the fraudulent receiver to change the "seven" to "seventy" and to add a cipher to the amount in figures. The running line was written in on the raised cheque to deceive the bank. In this case Mr. Carter and not the bank must suffer the loss. Mr. Carter cannot hold the bank responsible for his carelessness. Drawers of cheques should exercise the greatest care in writing in the amount to prevent changes or additions. Draw a running line, thus: *~~~~Nine~~~~* before and after the amount written in words. If the words are commenced close to the left margin the run-

¹ A part of the matter of this lesson has already appeared in Part I. of this book ("General Business Information"), but it is here repeated to preserve the connection.



Showing cheque raised from \$7.50 to \$70.50.

The words "Pay to the order of John Brown" mean that the money is to be paid to John Brown or to any person he "orders" it paid to. By indorsing the cheque in blank (see indorsements) he makes it payable to bearer. If a cheque is drawn "Pay to bearer" any person—that is, the bearer—can collect it. The paying teller may ask

the person cashing the cheque to write his name on the back, simply to have it for reference. Safety devices to prevent the fraudulent alteration of cheques are of almost endless variety, but there has not been a preventive against forgery and alterations yet invented, which has not been successfully overcome by swindlers. A machine for punching out the figures is in common use, but the swindler has successfully filled in the holes with paper-pulp and punched other figures to suit his purposes. The safest cheques are those carefully written upon what is known as safety paper.

IDENTIFICATION WHEN CHEQUES ARE PAID

The banks of this country make it a rule not to cash a cheque that is drawn payable to order unless the person presenting the cheque is known at the bank — or unless he satisfies the paying teller that he is really the person to whom the money is to be paid. It must be remembered, however, that a cheque drawn to order and then indorsed in blank by the payee is really payable to bearer, and if the paying teller is satisfied that the payee's signature is genuine he probably will not hesitate to cash the cheque. In England all cheques apparently properly indorsed are paid without identification. In drawing a cheque in favour of a person not likely to be well known in banking circles, write his address or his business after his name on the face of the cheque. For instance, if you should send a cheque to John Smith, Boston, it may possibly fall into the hands of the wrong John Smith; but if you write the cheque in favour of "John Smith, 849 Tremont Street, Boston," it is more than likely that the right person will collect it. If you wish to get a cheque cashed where you are unknown, and it is not convenient for a friend who has an account at the bank to go with you for

the purpose of identification, ask him to place his signature on the back of your cheque and it is likely you will not have trouble in getting it cashed. By placing his signature on the back of the cheque he guarantees the bank against loss. A bank is responsible for the signatures of its depositors, but it cannot be supposed to know the signatures of indorsers. The reliable identifier is in reality the person who is responsible.

CHEQUES FOR SPECIAL PURPOSES

If you wish to draw money from your own account the most approved form of cheque is written "Pay to the order of *cash*." This differs from a cheque drawn to "bearer." The paying teller expects to see you yourself or some one well known to him as your representative when you write "*cash*." If you write "Pay to the order of (your own name)" you will be required to indorse your own cheque before you can get it cashed. If you wish to draw a cheque to pay a note write "Pay to the order of *bills payable*." If you wish to write a cheque to draw money for wages write "Pay to the order of *pay-roll*." If you wish to write a cheque to pay for a draft which you are buying write "Pay to the order of *N. Y. draft and exchange*," or whatever the circumstances may call for.

CHEQUE INDORSEMENTS

In indorsing a cheque remember that the left end of the face is the top when you turn it over. Write your name as you are accustomed to write it. If you are depositing the cheque, a blank indorsement — that is, an indorsement with simply your name — will answer; or you can write or stamp "Pay to the order of (the bank in which you deposit)" and follow with your signature. Either

indorsement makes the cheque the absolute property of the bank. If you wish to transfer the cheque by indorsement to some particular person write "Pay to the order of (naming the person)" and follow with your own signature; or you may simply write your name on the back. The latter form would be considered unwise if you were sending the cheque through the mail, for the reason that a blank indorsement makes the cheque payable to bearer. An authorised stamped indorsement is as good as a written one. Whether such indorsements are accepted or not depends upon the regulations of the clearing-house in the particular city in which they are offered for deposit.

THE NUMBERING OF CHEQUES

Cheques should be numbered, so that each can be accounted for. The numbers are for your convenience and

EQUITABLE BUILDING.	\$500 ⁰⁰ \$500	IS GOOD WHEN PROPERLY ENDORSED. PAY THROUGH THE Boston Clearing House. DEC 15 1897 The Lincoln National Bank Cashier	Boston, <u>Dec 15</u> 1897	
	LINCOLN NATIONAL BANK,			
	Pay to the order of		<u>Five hundred</u>	<u>William Adams</u>
	No. <u>409</u>			<u>William Adams</u> Dollars.

A certified cheque.

not for the convenience of the bank. It is important that your cheque-book be correctly kept, so that you can tell at any time how much money you have in the bank.

At the end of each month your small bank-book should be left at the bank, so that the bookkeeper may balance it. It may happen that your bank-book will show a larger balance than your cheque-book. You will understand by this, if both have been correctly kept, that there are cheques outstanding which have not yet been presented at your bank for payment. You can find out which these are by checking over the paid cheques that have been returned to you with your bank-book. The unpaid cheques may be presented at any time, so that your actual balance is that shown by your cheque-book. Cheques should be presented for payment as soon after date as possible.

CERTIFIED CHEQUES

If you wish to use your cheque to pay a note due at some other bank than your own, or in buying real estate

<i>First National Bank</i> No. 3733	
Pay to the order of	<u>\$3000</u> <u>Plymouth, N. H.</u> <u>March 12</u> 1898
	<u>James Peterson Williams</u> <u>\$3000⁰⁰</u>
<u>Three thousand</u>	<u>Dollars</u>
To the <u>Chase National Bank</u>	<u>W. M. Adams</u> Cashier
<u>New York</u>	

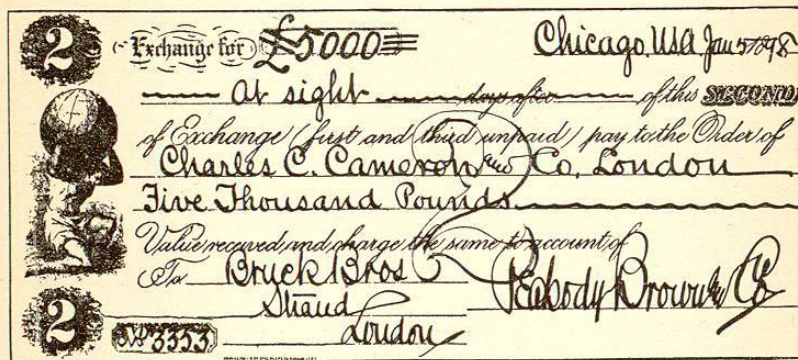
A bank draft.

or stocks or bonds you may find it necessary to get your cheque certified. This is done by an officer of the bank,

who writes or stamps across the face of the cheque the words "Certified" or "Good when properly indorsed" and signs his name. (See illustration, p. 244.) The amount will immediately be deducted from your account, and the bank by guaranteeing your cheque becomes responsible for its payment. If you should get a cheque certified and then not use it deposit it in your bank, otherwise your account will be short the amount for which it is drawn.

BANK DRAFTS

Nearly all banks keep money on deposit in other banks in large commercial centres — for instance, in New York or Chicago. They call these banks their New York or Chicago correspondents. A bank draft is simply the bank's cheque drawing upon its deposit with some other



A bill of exchange.

bank. (See illustration, p. 245.) Banks sell these cheques to their customers, and merchants make large use of them in making remittances from one part of the country to another. These drafts or cashiers' cheques, as they are

sometimes called, pass as cash anywhere within a reasonable distance of the money centre upon which they are drawn.

BILLS OF EXCHANGE

A draft on a foreign bank is commonly called a bill of exchange. Bills of exchange are usually drawn in duplicate and sometimes in triplicate. (See illustration, p. 246.) Only one bill is collected, the others simply serving in the meantime as receipts. These bills are used to pay accounts in foreign countries, just as drafts on New York or Chicago are used to pay indebtedness at home.