MUNICIPAL AND CORPORATION BONDS, TERMS, CUSTOMS AND USAGES. A REFERENCE BOOK FOR THE INVESTOR AND BANKER

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649653201

Municipal and Corporation Bonds, Terms, Customs and Usages. A Reference Book for the Investor and Banker by Montgomery Rollins

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

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TERMS, CUSTOMS AND USAGES

A REFERENCE BOOK FOR THE INVESTOR AND BANKER

BY

MONTGOMERY ROLLINS

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BOSTON
THE PAGE COMPANY
Publishers

Eleventh Impression, June, 1915

THE COLONIAL PRESS
C. H. SIMONDS CO., BOSTON, U. S. A.

PREFACE

The continued demand for an earlier work of the author's, entitled "Money and Investments," which treats more exhaustively upon financial matters in general, encouraged the thought that smaller books, separately covering the main branches of finance, might be welcomed both by the banker and the investing public.

Hence, this little volume, relating to Bonds — their purchase and sale, and other matters of interest to all concerned in that vast field of investment — is offered as the first of a set of such books: it being the intention to follow with one treating of Stocks, another of Commercial Paper, and so on.

The contents of each will include more or less material from the former book, "Money and Investments," but abridged or extended, according to the necessities of the subjects and space available.

BONDS

A

A and O. Interest payable semi-annually. April and October.

"A" Bond. Used when securities are divided into classes, such as "A bond," "B bond." (See "Preferred Stock.")

Accountant. See "Auditor."

Accrued Interest. One of the most common expressions in connection with investment dealings, and one very frequently not clearly understood. Let us take, for example, a $1,000 bond bearing 4% interest, or, in other words, paying the holder $40 yearly. The interest is payable January 1st and July 1st, each year; $20 at each time. This interest will not be paid before it is due; that is, in the month of June the interest due July 1st cannot be collected; but, suppose Maria Jones had held the bond in her possession until the first of June, she would, therefore, be entitled to the interest upon her money at the rate of 4% annually from January 1st last, at which time she received the interest then due. Therefore, if Maria Jones wishes to sell this bond to Henry Drake at a price, say, of par and "accrued interest," she would receive from him $1,000 — the principal sum of the bond — and also the interest upon the $1,000 from January 1st to June 1st, or five months, at the rate of 4% per annum. Drake would, therefore, have paid to Maria Jones five months' interest, which he could not collect until the 1st of July, at which time he would collect not only the five months' interest paid Maria Jones, but the additional one month's interest, for the time which he had had his money invested; therefore, the amount of money paid to Maria Jones would not be lost by Drake, but would come back to him, together with his one month's interest, on July 1st.

This is the only method by which it is possible to sell any security upon other than interest dates, without loss of interest to the holder, except an additional price be placed directly upon the security at the time of its sale, equal to the interest which has "accrued" since the last interest payment. Most stocks are sold in this latter way. Bonds are ordinarily sold upon the various Stock Exchanges with "accrued interest," except "defaulted" and "income bonds," which are sold without interest — or "flat," as it is called. "With interest," "and interest," or "interest added" are expressions, either of which is used in the same sense as "accrued interest." If a note is drawn payable "with interest" and no rate is mentioned, the legal rate of interest prevailing in the State where the note is made payable is understood.

Accumulated Interest. See "Accrued Interest."

Active Bonds. Securities which are frequently bought and sold; quoted daily, or nearly so, in the newspapers or reports of the various stock exchange transactions. When trading in a security ceases for any considerable time, it becomes "inactive."

Adjustment Mortgage Bonds. There are very few of these in existence, the most notable example being that of the Atchison, Topeka & Santa Fé Railway Co., which, in the reorganization of 1895, scaled down its original first mortgage to 75%, for which new first mortgage bonds were issued, and the difference, namely, 25% of the principal, and the defaulted interest, adjusted by issuing other bonds. These were accumulative "income bonds" for the first five years and then became a fixed obligation. These are known as "adjustment mortgage bonds."

It must be evident that the name arises from the "adjustment" of the indebtedness to an amount upon which it is anticipated that the earnings of the corporation will be able to meet the interest.

A. J. O. J. April, July, October, and January; interest payable quarterly, beginning with April.

All or Any Part. The next subject explains this in part, to which it is the opposite, as the condition is that any amount, or even all, of the issue may be sold to the successful bidder.

All or None. This can best be understood by first reading "Sealed Bid." "All or none" is a condition imposed by the bidder for an issue of securities, by which it is understood that in the event of his bid being accepted, he is to take the entire issue, but no less amount. Or the seller of the security may stipulate that the successful bidder shall be bound by this same condition.

Amortise (or Amortize). The payment of a debt by means of a sinking fund. (See "Sinking Fund.")

And Interest. See "Accrued Interest."

A. N. F. M. August, November, February, and May; interest payable quarterly beginning with August.

Annual Interest. Interest payable once a year. Very few investments have interest payable at such infrequent intervals, and are not considered