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OMAHA AN IMPORTANT INSURANCE CENTER

Well Organized Local Agencies Handle Immense Business and Control Wide Territory for the Solidest of Companies

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OMAHA is a great distributing center for insurance because of its eligible location. Compared with other cities of about equal population, this city stands high among insurance men as a business center for their line.

The sale of insurance is very much like the sale of anything else in the commercial line. The demand is the thing the sellers seek to connect with; and where the demand is strong, there the sellers are on hand with an eye open for the main chance.

Long ago the large eastern companies took occasion to size up the field hereabout, and concluded it was good. They began to busily cultivate it, with the result that thousands of men and women in Omaha and Nebraska enrolled on the books of the pioneer companies as buyers of insurance, contribute steadily to the income, and also to the profit. So, when the New York expose came, everything developed at the hearings, good and bad, founds its reflections in the homes of Omaha and Nebraska where policies were owned.

In recent years, local men who had become familiar with the business, in either fire or life, interested other men with capital seeking profitable investment. As a result of this awakening to passing possibilities, a good many insurance companies of varying character, were organized. Some were strong and well managed and so stood the test, until today they rank as standard and successful. Some passed out of existence after careers more or less checkered, and others have combined or changed their plans in the interest of safety and solidity.

These local companies have now been sifted to the basis of merit and new ones that have entered the field, or are about to enter, are governing themselves in their campaigns for business by the tested rules which have gained clients for their predecessors in the same field.

There are very few, if any, companies of more than local character existing in the United States that have not general offices or special agencies in Omaha. Some of them, like the Aetna of Hartford, have established a department office in Omaha, through which all business of several states is transacted. The Omaha office of the Aetna, for example, handles the business of twelve states west of the Mississippi, taking in practically everything but Texas and Arkansas. Through this and other companies the name of Omaha is carried far and wide, and the effect is bound to react for the benefit of the city in some way. This is even more true of the companies owned and officered by Omaha people.

In the life, accident and fidenity insurance field Omaha has half a dozen companies founded, financed and managed by local men. The latest to enter the field is the Commonwealth, with a capital of $400,000, and having some six hundred stockholders, not all of whom are residents of Omaha, but the control is here. Of the older companies the Bankers' Reserve is perhaps th most notable. Then there is the German-American, the Guarantee Fund, the National Fidelity—and in the fraternal field the Woodmen of the World looms up like a giant.

Taken by and large, for personnel, financial solidity, spread of business, amount of risks, commercial influence, advertising force, field achievements—the insurance business of the city of Omaha is one of its great institutions and one of its most beneficial activities. The success of the existing local companies in the city and state, and in surrounding states, indicates a growth of home spirit in the insurance line that, while it will not eliminate the competition of the older companies owned elsewhere, will keep them hustling for the new business that is growing up to be written every month.

Operating in Omaha are 104 insurance companies, through seventy-five agencies. The employes in each agency will range from five to thirty or more. Amout of fire insurance carried will run well over $75,000,000, and may be $10,000,000 in excess of that amount. Premiums paid on this insurance will total $850,000 a year. Some companies carry as much as $50,000 on a single risk.

Eight general agents are situated in Omaha, having jurisdiction in from one to ten states. Probably fifty special agents and adjusters live in Omaha, and work out from here through many states.

A special agent and adjuster may have from two to four states for his field. Naturally, for this work men of a high class are employed, and they are continually on the go. Through their work the city is brought before the business men of this field, and every person having a loss in a wide stretch of territory must look for settlement to Omaha men.

Four fire insurance companies in the Omaha field are controlled by local men and financed by local capital. These are Columbia, State, German and Missouri Valley. Their business is growing in most encouraging ratio, and all of them are now regarded as fixtures.

Over forty life insurance agencies are doing business in Omaha, and their policies are scattered all over the west. The life insurance in force in Nebraska alone at this time will approximate between $115,000,000 and $120,000,000, including the industrial companies, but not the fraternals. In the fraternal companies the insurance held by Nebraskans aggregates $307,953,333.

Thus it will be seen that Omaha is the focus point for a great multitude of men and women, who have been brought into the insurance fold by the hustling agents, who represent in the field the companies having their business situs in this city.

It used to be the case that farmers were given little or no consideration as life insurance buyers, and their fire insurance was of little moment in the old days. Today the farmers of Nebraska carry almost as much life insurance, on the average, as the dwellers in the city. Some farmers, indeed, carry very large policies, and their clean, open air life makes them a preferred risk. In a day's travel, one would not meet with a farmer, or a farmer's hired man, who is not a member of one to half a dozen fraternal insurance societies; and the holders of old line policies are growing in number in the rural districts every year.

"This thing of life insurance for farmers is on the endless chain order," said one agent. "Some enterprising man takes out a policy and keeps it alive until it begins to look mighty good to him. He talks about it, and when his neighbor begins to think of insuring the man with the policy can advise with him wisely as to the best kind to take. Discussion of the question leads to investigation, and investigation brings education in the theory of insurance, as well as in its practical application to the particular circumstances of the man, who wants to buy. So today farmers are good customers of the old line insurance companies, as well as the fraternals."

If any person still cherishes the idea that insurance is in the nature of a gamble, a glance at the office literature of any Omaha agency will convince him to the contrary. One blank, which will serve as an illustration, being at the foundation of all fire risks written in this or any other city, is known as the "Survey." It is made up "from the analytic system for the measurement of relative fire hazard." Both sides of this large sheet are covered with lines giving each smallest particular, touching every possible kind of building that can be erected anywhere. Following the blanks dealing with the physical hazards are schedules of occupancy as to number, character, and whether day or night workers. Then we find "credits for protective features," such as standpipes, sprinklers, fire escapes, fire alarm system, watchman, heating system, and other possible elements making for safety from fire.

Every kind of building in every class has its own particular rating, governed by its physical features, location, kind of occupancy and a dozen other factors. When a man applies for a policy he gives the number of his house or other building, and the agent tells him in a minute what rate is on that exact place. No guess work, no approximaion, no haggling. If any company handles the risk at all, it is handled on a definite, exact basis.

Real Estate Mortgages: Their Selection, Protection and Amortization

BY F. W. HERON.

IT is not without diffidence that I attempt an article on mortgages, a topic with which you are so thoroughly familiar, but as an insurance man I deal so much with interest, and interest being an important factor in loans of all kinds, I am, through it, led into a maze of mortgages, their qualities, values, etc.

The general object of mortgage in the manner in which I will use it is to secure a money debt by making it a charge on land, so that, if the debt so created be not paid by the time agreed upon between the parties, the creditor may sell the land and pay himself out of the proceeds. Mortgages have been used for generations and have passed through but three stages. The first beting that the land was deeded outright to the creditor, with the agreement that it would be deeded back in case the mortgage was paid as agreed. If, however, the creditor refused to deed back the land, the borrower had no other recourse than a personal action. In the second stage the custom was that the land did not pass by deed to the creditor, but he was given possession of it until such time as the mortgage was paid. The third and last we find about the process we use today, namely, a mortgage is given and the owner of the land retains possession of it, and if the mortgage is paid when due, no change appears in the title.

Mortgages are invested capital, and capital is that portion of wealth which is set aside for the production of additional wealth. Capital or wealth is invested with a view to revenue, and therefore the interest paid by the mortgagor is in a sense, rent for the use of the money thus obtained. Interest and rent differ, but not essentially; both are agreed and stipulated payments for the use of capital. In rent, however, the same physical asset must be returned upon the completion of the period. If you borrow a dollar, you may return any old dollar, while if you rent a house or horse, you must return the identical one you rented.

Interest is an important factor in investments, and one of the two elements used by actuaries in constructing life insurance premiums, the two elements upon which life insurance calculations are based being interest and mortality. In life insurance, interest gauges the premium rate, and in investments it gauges the quality of the investment. A low rate of interest on an investment means safety, and a high rate designates greater risk. The same statement may properly be applied to mortality tables in life insurance. The assumed interest rate on mortality tables and the entire interest earnings of insurance companies, the largest purchasers of mortgages, has steadily declined since 1875; then the average rate of interest earned by thse companies on their mean assets was 6.83 per cent, while today it is fully 2 per cent less.

This reduction does not signify that the securities have changed, but that the companies are now buying fewer varieties, and experience has proven that first farm mortgages granted to farmers are not only a stable security, but that the interest on them is maintained and more promptly paid than on any other form of mortgage. This fact of interest being paid promptly is of most importance in judging the quality of an investment. It has been said, and rightly, that the three essentials necessary to make a good investment are, first, security; second, income; third, convertibility. You will note the first and third control the second, and the second gauges them both. This statement was made by a New York banker and financier, and did no doubt express his views, but personally, I would be satisfied with an investment that would embody three elements, as follows: First, income; second, something that will increase in value; third, something that will not keep me awake at night.

Safety cannot be beyond the point of the prompt return of capital and interest. This being true, one may ask why a certain form of investment, such as a bond, earns lower rate of interest than another, when both may have the same prompt payment of interest or face on maturity? This is on account of the convertibility, and, therefore, demand by certain buyers. Banks and trust companies must buy securities of a nature that can be converted quickly if necessary, while life insurance companies seek long time investments, such as mortgages, and only invest a certain percentage of their assets, about 40 per cent, in what would be termed available securities.

It is seldom that safety can be embodied in an investment that will increase in value, but the security of a first farm mortgage is steadily increasing and the rate of interest on the whole, if locations selected are scattered throughout the country and well inspected and conservatively made, is above that of the average. The life insurance companies that have placed a large percentage of their assets in farm mortgages have averaged 1 per cent higher interest earnings than companies that have selected principally bonds for investment. The only losses on farm mortgages can be traceable to those made in new countries where locations have been boomed, where investors and not owners were the borrowers and where climatic conditions were changeable and the land should never have had the rating given it. Mortgages on city property, while earning a good rate, require more conservative and careful selection. Old frame houses, houses cheaply built and not modern, cannot be figured as a security at all, and especially when in a locality where all adjoining buildings are modern and up-to-date. Such a property becomes an eye-sore and never will bring a price near its worth. Then, a large and expensive residence should be given the utmost care in selection as security for a mortgage. The property may or may not be in the fashionable district in a few years, and it may change ownership in the meantime. In my opinion, the best form of security for loans in a city, aside from stores and office buildings, are good flat properties, conveniently located to car lines, commanding a rental value which the man of average income can afford to pay; properties in growing cities, of substantial character, modern and well furnished, the appraised value being from ten to fifteen times greater than the net yearly income. Such security is second to none, and mortgages on this class of property are also readily convertible anywhere. Mortgages on nearly all kind of manufacturing plants, especially in smaller towns, have proven very bad, and in the cities are good only in small amounts as compared with full valuation. Buildings used for places of public amusement, hotels, churches or licensed houses, etc., should not be regarded with favor, and loans, if made at all, should not exceed the value of the ground for building purposes.

While we all agree that a mortgage is a good form of investment either for the corporation or individual seeking investment, I now want to offer a plan for the safety of the borrower, he being the "party of the second part" in the transaction. Many borrowers today, especially in the east, are making arrangements to discharge their loans through the agency of an endowment life insurance policy, making the premium payable at the time of the interest, thus amortizing the loan. To illustrate this, we will suppose a man wished a loan of $10,000 on a flat property bringing an annual rental of $2,200. He will at the time of making application for the loan make application for a twenty-year endowment policy on his life for the same amount. The interest on the loan will be, say 5 per cent, or $500 per year; the premium on the endowment policy $400, making a total of $900 per year. While this would appear a high rate, 9 per cent, the borrower has greater benefits in that in case death should take him away, the insurance policy will pay off the loan and give the property to his beneficiaries clear of incumbrances. On the other hand, the insurance company having this greater security, reducing their risk to a minimum, can make a much larger loan on good property, and in many cases, a loan on property that would otherwise be considered sub-standard. Should the borrower live out the twenty years the endowment policy will mature and pay off the loan, or should he sell the property any time after three years, he could draw the cash surrender value of the policy and would thus have had only a low rate of interest on his loan, but would have had the additional security of life insurance from the date the transaction was made.

In no other manner being able to secure a large enough loan, this form of mortgage with endowment insurance is frequently used by Catholic churches throughout the United States, the life insurance policy being written on the life of the priest, and the premiums paid by the ladies' societies of the church. Each year the loan is thus practically reduced, and this gradual reduction of the mortgage could, or I might say, would not be accomplished in any other manner.

The same rule would apply to the farmer. He could get a larger loan, acquire more ground or make better improvements on what he had, and his crops would easily allow the small extra cost of endowment insurance, and he would therefore never need to worry about the mortgage hanging over him, as year by year it decreases, and if there came a year when crops were poor, or if sickness should overtake him, he has the cash values of the endowment policy available to meet the contingency.

To the business man owning a $20,000 flat property, and wishing to use all of his money, I would suggest term insurance. His gross annual rental income from his property is, say, $2,200. His interest on his $10,000, five-year 5 per cent mortgage is $500; annual premium of the five-year term insurance policy on his life is $125. Thus you will see that by the payment of less than 1½ per cent interest more he can keep his property clear, in case of his death, and the protection thus afforded is well worth the small extra cost.

I earnestly believe that if an agent lending money in Omaha, or one of the building and loan companies, would advertise that they had money to loan on homes, and that in case of the death of the borrower, the mortgage would be cancelled, that this concern would get the bulk of the business both from the borrower and from the large corporation furnishing the money, as both mortgagor and mortgagee are safer than under any other plan. Life insurance, as you will see, can enter many forms of investments or philanthrophy. It can either protect or prevent mortgages.

The Young Men's Christian association building in this city is mortgaged for about $50,000. Here is Mr. John Doe, a retired and well-to-do citizen, who has more than $50,000 available cash, but does not feel like giving this amount to the Young Men's Christian association for the reason that he would be taking it from his children. Now what should be done is this: Have John Doe take out a life insurance policy on his life for $50,000, payable to his children, he to then give the Young Men's Christian association $50,000 in cash, and thus wipe out their mortgage, with the proviso that they in turn agree to pay the premium on th's life insurance policy so that at his death the insurance company would pay to his children $50,000 in cash. John Doe has thus benefited the Young Men's Christian association by giving them $50,000 when they needed it, made safe the $50,000 for his children, and at the same time did not take away anything from his estate.

The Young Men's Christian association would not only pay off their mortgage, but would be freed from paying 6 per cent interest indefinitely, by paying a lower rate (the life insurance premium would be between 4 and 5 per cent), for possibly one year, possibly five years, but not for many years at most as the period of the insured's expectancy would show.

As you are aware large institutions like railroads, and I might include counties and states, are rapidly adopting the amortization of their indebtedness and on the other hand the large lenders of money, such as the insurance and trust companies, are striving more and more to get as large a percentage as is possible of their long time investments on the amortization basis.

It is the only true system, sinking funds do not for various reasons accomplish the same purpose, and I think the day is not far distant when laws will be enacted in all of the states or the custom will be adopted the same as in Europe to amortize any and all investments or loans of any size. When I speak here of investments and loans, I include, of course, bond issues by the county and state and upon investigation I think that you will agree it is the best and safest practice for both the borrower and the lender.

Amortization of all large real estate mortgages would to a large degree prevent real estate panics. I venture to state that had an amortization plan been in use in this city prior to 1893 and that if all loans of any size had been made on that basis, that few mortgagors would have lost their property through foreclosure and few mortgagees have had reason to complain, with the result that what now appears as a bad blot on the mortgage history of Omaha would have been to a large extent eliminated.

The office of every member of this exchange that makes or brokers mortgages or bonds should be equipped with a set of schedules of amortization, bond tables and logarithms for the study of this principle that gives safety to your patrons, the mortgagee and mortgagor, the buyer and the seller of bonds. A system that I believe will eventually be thrust upon you. This practice has been popular in Europe for generations, and while few tables are to be had in the English language, the schedules and principles are easily obtainable.

When bonds are purchased, even in reasonable amounts for investment by either

(Continued on Page Two.)