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Letter From Francis Mairs Huntington-Wilson to William Hoster, June 24, 1911

Francis Mairs Huntington-Wilson

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June 24, 1911.

PERSONAL.

My dear Mr. Hoster,

Yesterday when I had the pleasure of discussing with you the broad policies involved in the Nicaragua and Honduras Conventions and of giving you some information on the subject, you were good enough to point out certain objections which had been made to the Honduras Convention, or to speak more accurately, to the Bankers Contract which is expected to receive the protection of that Convention. You also gave me to understand that you would be glad to have me elucidate these points and I shall now make an effort to do so.

In this letter I shall try to stick to the details and the actual questions you raised. The material I gave you the other day will, I think, be found to cover the broader phases. I must say to my mind it is unthinkable that a newspaper which believes in safeguarding the Panama Canal and in a strong policy in Central America and the zone of the Caribbean, to say nothing of the many other important phases of the principles of these conventions, could fail to give them really earnest support.
I remember you raised the question whether there was not too much "rake off" for the bankers (that is the group composed of J. P. Morgan and Company, The National City Bank, the First National Bank, and Kuhn, Loeb and Company). I gathered this question was suggested to you by the fact that the bankers are to pay 88 for the bonds, whereas the Santo Domingo ones were taken at 98-1/2. Some considerations that account for this difference would be the following:

In the case of Santo Domingo there were nearly four million dollars gold placed on deposit in New York, and 98-1/2 was the value fixed at which the bonds were to be given the creditors of Santo Domingo, 80 per cent of whose claims were paid in this way, only the remainder being in cash. The Dominican Loan was not underwritten by any banker or syndicate, the bonds having passed from the hands of the government to its creditors direct. Originally it was contemplated that the Dominican bonds would be sold to bankers and the funds realized therefrom paid to the creditors. This plan having fallen through, the creditors were offered for their claims as adjusted 20 per cent in cash and 80 per cent in bonds of the Republic, to be taken at 98-1/2. The creditors reluctantly accepted the bonds at this price, preferring to receive all cash. By this procedure all bankers' profits were eliminated. Also it should be borne in mind
mind that to secure the Dominican bonds the revenues of that Republic are administered by a United States official, while it is proposed that the amounts necessary for the service of the Honduran Loan shall be collected by an agent of the bankers. The administration exercised by the United States in the case of the Dominican customs undoubtedly lends to the bonds of that Republic an additional attractiveness to investors.

As a fair basis of comparison, it should be noted that the recent $50,000,000 loan of China was sold to the bankers at 95, while these bonds have been in turn placed with investors at par or better. Also that the first $35,000,000 5 per cent loan of the Republic of Cuba was sold to the bankers at 90-1/2, while the second $16,500,000 4-1/2 per cent loan of that Republic was placed with bankers at 88-1/8. Taking into consideration the standing and wealth of these countries as compared with Honduras, it seems that the price fixed for the bonds of the latter country is a fair one.

The customs of Santo Domingo had been collected for some months previous to the negotiation of the loan by an American official and the customs receipts had shown such an increase that the success of the arrangement was an absolute surety. With Honduras it is far otherwise. Honduras has defaulted its foreign debt for 40 years and has politically, financially and
and economically about as bad a record for stability as could be found on the face of the earth. It seems natural therefore that in taking the risk of this loan, which involves the putting up in actual cash of over $5,000,000, the bankers would be unwilling to give Honduras a high price for bonds whose market value is problematical and naturally affected by the private investor's knowledge of Honduras's previous defaults and very shaky condition.

It may be interesting to compare the prices offered by the bankers for the new 5 per cent Honduras bonds, viz., 88 per cent, with the price obtained by other Central American countries for their securities. Salvador, the only country of the five Central American Republics not a defaulter on its public debt, has its 6 per cent bonds quoted on the market at about 99. Guatemalan 4 per cent securities bring in the neighborhood of 45, and Costa Rican 5% bonds are listed at an average of about 50, and the last Nicaraguan 6 per cent loan (taken at 76) has been quoted as high as 98. It would thus appear that Honduras pays $1 for the use of $17.60 per annum, and the Republic which gets the next best value for its money is Salvador, which pays $1 for the use of $16.50. Guatemala pays $1 for the use of $11, and Costa Rica pays $1 for the use of $10.

We all admit that the original British loans to Honduras were a good deal of a swindle, there having been graft on both sides, but it is a fact that if one should take today the railways and highways actually built with the old loans
loans and estimate their probable cost at the time and take
that sum and figure its defaulted interest for 40 years, we
should find that the sum owed the present innocent holders
of Honduras bonds would amount to more than double the fiv-
teen cents on the dollar it is proposed to give them.

You spoke of the fact that it is provided that the Re-
ceiver of Customs shall be appointed by the Government of
Honduras, but from a list submitted by the Fiscal Agency
of the loan and approved by the President. Of course
you see that it is more agreeable to Honduras to appoint the
Receiver than to have him appointed by the President of the
United States as in Santo Domingo, but you will see also
that the President's power to approve or disapprove gives
him absolutely the right to select the man. As for the
provision that the Fiscal Agency shall recommend candidates,
which I believe is the one you thought might be criticised,
it seems to me quite unobjectionable and indeed natural
since the lenders would have the most direct interest in the
honesty and efficiency of the collections. I should not be-
lieve in this provision however, were it not safeguarded by
the provision giving the real power all to the President of
the United States.

The view of the Department is that in the case of the Ni-
caraguan Convention it should now be ratified by both coun-
tries. Meanwhile the Nicaraguan Government and its Financial
Advisor are finding out how much money will be needed, how
much
much of the customs will be hypothecated, what are the receipts from the customs, what the resources of the country, etc., and are receiving tentative propositions from various bankers, not only in New York, but in the West and in Philadelphia, and I have heard that there have been inquiries on behalf of bankers in California and in the South. With all these data Nicaragua would the scheme of its contract, - the price to be paid by the bankers and the rate of interest being flexible, - and the contract would then be given to the bankers offering the most favorable terms.

As I told you, for years it was the hope that some American banker would be willing to furnish money to enable this Government to straighten out Honduras and the matter was discussed with bankers whenever an opportunity offered. Finally Morgan and Company became interested and they went ahead and had their London house get options for a short time on some of the British bonds. I should mention here that this Government had had to oppose a British plan for settling this foreign debt because that plan was regardless of certain vested American interests and was unduly onerous. When this situation arose Honduras taking the initiative (as was also true later in the case of Nicaragua), sounded the United States as to a loan in this country. These events generally synchronized. It was found to be agreeable to the British Government that Americans try to straighten out this situation and so when the Morgans had taken these options and would be willing
willing to negotiate it sent to New York two emissaries who spent about a year working over the contract.

The whole theory of these conventions has been and is that when they are ratified and proclaimed they are merely potential to protect such contracts as may be finally approved by the two governments concerned and admitted under their protection. This will be the course with the Nicaraguan loan, which will be wide open and free for all as the Department always desires should be the case. The reason the Honduran contract advanced pari passu with the Convention was simply because the needs of the country were known and because the British negotiations could not be unduly held up. The Morgans had got the options and were therefore the people in position to make the contract. The options could not be indefinitely continued and these were the key to the situation because in the case of Honduras at least the European debt was the main feature.

Generally speaking the reason the Morgan group got this business was that they were the first bankers it was possible to inveigle into taking seriously hold of it, although a number of bankers had been spoken to whenever opportunity arose.

Because of the urgency of this matter the Department studied the contracts very fully, but not content with this got Connant as a financial expert and William Church Osborne as a lawyer without affiliations with any of the interested bankers and who as a Democrat could have no favorable political bias to examine the contract. These experts were re-
quested to examine the contract from the point of view of having Honduras for a client and to advise the Department whether or not they thought it was just and equitable and probably the best that could be done for Honduras. Both the financial and the legal experts replied in the affirmative. All the data together with an elaborate statement by the representative of Morgan and Company are now before the Senate Committee.

I suppose the most complete answer to the question why the Morgans have this business and why the bonds are taken at 88 and why the terms are not still more favorable, would be to say that if any bankers in the country would give a better price or more favorable terms, they were very welcome to the business. I would not attempt to do more than guess, but I feel personally very confident that the group which has the Honduras contract would be only too glad to turn the business over to anyone who would give better terms.

For your information I enclose copy of a note which the Secretary of State has sent Mr. Graves today.

With kind regards I remain, my dear Mr. Hoster,

Very sincerely yours,

HUNTINGTON WILSON.

William Hoster, Esquire,
Hotel Gordon,
Washington, D. C.