Enclosure 1 in No. 7.

The Hon. Sir J. VOGEL to the MANAGER, Bank of New Zealand.

7, Westminster Chambers, Victoria Street, Westminster, S.W.,
16th March, 1875.

SIR,—

The largeness of the amount of the loan lately deposited, together with the fact that a considerable sum will probably be kept with your Bank for more than the usual temporary period, lead me to hope that you will see your way to offering some more favourable terms for the deposit than you have hitherto given.

I shall be glad to hear from you on the subject.

I have, &c.,
JULIUS VOGEL.

The Manager, Bank of New Zealand, Old Broad Street.

Enclosure 2 in No. 7.

The MANAGER, Bank of New Zealand, to the Hon. Sir J. VOGEL.

Bank of New Zealand, London, 30th March, 1875.

SIR,—

I have the honor to acknowledge the receipt of your letter of the 16th instant, expressing the hope that this Bank may see its way clear to offer some more favourable terms for the Government deposit than it has hitherto given, on the ground of the largeness of the amount, and that a considerable sum will probably be left with it for more than the usual temporary period. Your letter has been considered by the London Board of Directors, with an anxious desire to meet your views as nearly as possible; and, in reply, I am instructed to state that, although the inference seems reasonable, that if on short notice of withdrawal the Bank can afford to allow the Government 1 per cent. under Bank rate, it should be able to pay a higher rate on a deposit for longer than the usual temporary period, yet, with the explanation before you as to the means and practice of safely employing large sums of money in this market, which cannot be used in ordinary banking business, and admitting the right of the Bank to a small remuneration to cover risk and trouble in investments, I think you will be satisfied that any material increase in the rate, say of ½ per cent. only, may change a small margin of profit into positive loss, even without taking the risk of loss on investments into consideration. As you are doubtless aware, there are at all times in London two markets open for the employment of money—that of Lombard Street for loans secured by the deposit of Bank and other bills and English Government securities, and that of the Stock Exchange for loans on all kinds of Home and Foreign securities, colonial bonds, railway stocks, &c.; and the relative safety of the security offered in each case rules the rate of interest on the loan.

In Lombard Street, for loans on Bank bills and English Government securities the rate rules from 1 to ½ per cent. under the Bank rate for the time being when money is plentiful, to ½ to ¼ per cent. under Bank rate when money is dear. On the Stock Exchange, for the period between the bi-monthly days of settlement, the rate in easy times on good foreign non-speculative stocks and colonial securities, deducting brokerage is Bank rate; whilst on the speculative stocks ½ per cent. over Bank rate may be secured But upon the Stock Exchange the responsibility of borrowers is not so ascertainable, and it is difficult, consistent with absolute safety, to lend any large sums of money with certainty. In excited times, and when money is very dear, higher prices than these are current both in Lombard Street and on the Stock Exchange, but it then becomes difficult to employ a large sum of money safely. Of the two markets, it need hardly be said that it is the Bank's practice to lend its surplus funds in Lombard Street, on the grounds not only of the nature of the security offered, but of the well-known responsibility of the borrowers. It will therefore be apparent, in order to judge clearly of the position of the Bank in regard to the Government deposits, and the fairness of requiring an increased payment from it, that it will be necessary to compare the rate of interest allowed to the Government with the rate current in Lombard Street; and further to remember that there are times of pressure to lend, as well as times of pressure to borrow. When the former periods occur, the Bank may be (and has in practice been) left with sums on hand which may prove a positive loss, and when the latter periods occur the risk of lending is largely enhanced. It does not therefore appear that the circumstances warrant any concession being made in the rate allowed upon the temporary balances of the Government. But with a view to meet the present exceptional condition of the Government account, and as a course likely to prove satisfactory to both parties, we beg to propose:—1. That the Bank should act as agents for the Government in the loaning of the funds, on such securities as may be agreed upon, and that the Bank should receive a commission of ½ per cent. for such agency; or, 2. That the Bank (on the ground that some increased freedom of action in point of time will be afforded) will allow a fixed rate of 3 per cent.; £1,500,000 to be fixed for twelve months from a date to be agreed upon, the remainder of the Government balance to remain under the present arrangement of 1 per cent. under Bank of England rate, and subject to the present condition of ten days' notice, &c., this rate of 3 per cent. having been fixed in view of the present prospect of cheap money, and by consideration of the fact that the average Bank of England rate for 1874 was £3 13s. 9d. per cent.; or—3. That the Bank will allow the Government ¾ per cent. instead of 1 per cent. below the Bank rate for the time being on the sum of £1,500,000, to be fixed in equal sums for six and twelve months respectively, and that the balance remain subject to the present arrangement of 1 per cent. under Bank rate, rising and falling therewith, subject to withdrawal to meet the financial requirements of the Government, of which reasonable notice is to be given.

The Directors confidently express the hope that the fairness of these propositions will enable you to accept one of them.

I have, &c.,
F. LARKWORTHY,
Managing Director.

The Hon. J. Vogel, C.M.G.