

Your Committee found it inexpedient to give detailed consideration to the intermediate rural credit proposals outlined in the report, nor did it examine the scheme providing "for the licensing and bonding of public warehouses storing agricultural products under conditions intended to establish the integrity of their receipts and make these receipts generally acceptable as security for loans." Consequently, your Committee is of the opinion that these several and very important matters should be fully inquired into by a Select Committee next session, with a view to ascertaining the desirability of legislation in the direction outlined in the report.

It is considered by your Committee that the proposal regarding long-dated loans is the most material and important proposition contained in the report, which states:—

"As regards long-dated loans and their amortization, the extension of the present State Advances system, and the provision of capital by the sale of land-mortgage bonds, or debentures, which would find a ready market locally and abroad, should amply meet all reasonable requirements.

"The formation of long-term mortgage co-operative loan associations is not considered necessary in New Zealand, where producers already possess a sound and efficient system designed to supply borrowers with capital at cost price. The fullest advantage has therefore been taken of the existence of the State Advances Office, which operates at low administrative cost, and, in conjunction with the Treasury, can obtain money on the best possible terms. What is recommended, therefore, is supplementary to the present system—namely, the creation of a special Rural Credit Branch within the State Advances Office, controlled by the same non-political Board, but on which it is proposed that the farming interests should be adequately represented. It is suggested that the new division should be designated the 'Farm Loan Branch,' and the Board administering it the 'Farm Loan Board.'

"At present, capital for the State Advances Office is obtained by the issue of securities charged upon the public revenues, thus inflating the gross public debt by the inclusion of part of the private indebtedness of the Dominion. This duplication appears to have had a limiting effect upon the ability of the office to keep pace with the growing demand for credit, because of a natural disinclination to increase the gross public debt. Amongst other and many greater advantages to be effected by the issue of land-mortgage bonds, interference with the public debt would be avoided."

(*Vide* "Report of Royal Commission on Rural Credits," at page 7.)

The investigations of your Committee were directed to a careful examination of this suggestion put forward by the Commission: as to whether the system of issue of land-bonds, and the increasing of the amount now obtainable from the State Advances Office (namely, £3,500) to a greater amount (*viz.*, £7,000) is to be approved; as to the advisability of having the margin of security at two-thirds, or whether it should remain at the ratio now obtaining under the Advances to Settlers Branch (75 per cent.); and whether it is considered that the State Advances Office has already sufficient machinery to administer the proposed Farm Loan Branch, or whether a new Board—the Farm Loan Board—should be established. Particular attention was given this last matter, as it is realized that additional administrative machinery must of necessity add to the cost of loan-moneys.

After due deliberation on the matters incidental to giving effect to this particular recommendation of the Royal Commission your Committee is of opinion—

That the State Advances Office, without additional machinery, can effectively carry out the proposal of the Commission in respect to long-term mortgages on the amortization principle, and recommend that a new branch be created in the State Advances Office, with a distinctive designation, but under the control of the State Advances Board; the establishment of a Farm Loan Board being considered unnecessary.

That this branch be given power to authorize the issue of mortgage bonds or stock, and thus test out the central idea in the Commission's report; such bonds not to exceed the value of the mortgages held as security therefor, and issued for varying periods. The bonds to be issued and sold by the Treasury, but without State guarantee.

That advances made by this branch shall not exceed the sum of £5,500. The system and method of valuation adopted by the State Advances Office should be followed, but the amount so advanced by this branch should not exceed two-thirds of the valuation of the land and improvements. The rate of interest on bonds or stock should not exceed 5½ per cent., and the rate to the borrowers should be governed by the cost of the money plus the cost of administration.

That all loans should be on the amortization principle. In cases where an owner's interest in the proffered security exceeds 50 per cent. of its value, the term of the loan should be for a substantially shorter period.

Proposals of the Bank of New Zealand.

The Bank of New Zealand proposes to increase its capital for the purpose of adopting an amortization system for farm mortgages by £5,625,000, with power to raise further capital. Of the initial sum, £1,406,250 is to be shareholder capital, and £4,218,750 debenture capital; the lending-rate to borrowers to be 6 per cent., which, though slightly over the State Advances rate, is lower than the average rate at present obtaining for mortgage.

In order to ensure this rate the bank is conceding to this proposed branch of its business such profits as may be needed to assist and assure the shareholders in this capital issue an earning of 7½ per cent. The shareholders' investment without the proposed assistance from the bank's general business would not, it is estimated, realize above £1 10s. 5d. per centum. To bring that earning-rate