

## APPENDICES.

### APPENDIX I.—SUGGESTED FOR LEGISLATION.

#### A.—THE STATE ADVANCES AMENDMENT ACT, 1926.

##### EXPLANATORY MEMORANDUM.

###### PART I.

THE purpose of this Bill is to extend the provisions of the State Advances enactments to provide additional credit to farmers. The Bill proposes that the existing machinery of the State Advances Office be utilized for setting up within the State Advances Office an additional branch to be known as the Farm Loan Branch, with power to provide loans on mortgage against both land and the produce of the land, by means of the issue of mortgage-bonds with amortization provisions such as already exist in regard to advances to settlers and workers.

The new branch will provide a means by which lending facilities to primary producers may be extended without increasing the gross public indebtedness, and without unnecessarily increasing the cost of administration.

It is proposed to constitute a Farm Loan Board, consisting of the present State Advances Board, with three additional members, two representing the borrowers of long-term loans and one representing borrowers of short-term loans. For the purpose of establishing the Farm Loan Branch, £20,000 is set aside for advertising and preliminary expenses, and provision is made for the Farm Loan Board to obtain advances from the Treasury from time to time not exceeding in the aggregate £500,000, without interest for ten years. The Minister of Finance is also authorized to make deposits for the temporary use of the Board.

The Farm Loan Board is empowered to administer three forms of credit: (1) Long-term loans on first mortgage; (2) Intermediate-term loans to co-operative rural intermediate-credit associations; (3) Intermediate-term credit to rural co-operative societies. The necessary machinery for the two latter is provided in Parts II and III.

Part I creates the Farm Loan Board and sets out its powers and duties in regard to long-term loans. The Board may issue loans against first mortgages on farm lands up to £7,000 to each approved applicant, and is authorized to traffic in (*i.e.*, sell, buy on its own account, or retire) bonds at or before maturity. No borrower is to be entitled to receive more than three-fifths of the appraised productive value of his land, the provisions of the State Advances Act otherwise applying.

The redemption of bonds and deposits by the Government is secured by the provision of sinking funds, by the payment of the Farm Loan Board of 50 per cent. of its net earnings and also 5 per cent. of the instalment repayments of principal into a Redemption of Bonds Reserve Fund, which is to be invested and reinvested as occasion requires in first-mortgage security, and by the application of the amortization payments to the repurchase and cancellation of securities. The custodians of the hypothecated securities are also directed to see that the farm-loan bonds hypothecated by the Board do not exceed the collateral security pledged therefor. Bondholders are also given a first charge and priority over all other charges.

Other clauses of the Bill make the Audit Office responsible for the audit of the accounts of the Board and the Treasury responsible for the issue of the bonds.

Clause 12 is designed to facilitate the cutting-up of large estates.

Clause 28 provides for the setting-up, wherever the Board considers it necessary or desirable, of district Advisory Boards to assist in the better administration of the Act.

Special provision is also made under clause 21 for the establishment of Savings-banks Bond Accounts in which the deposits on reaching £10 shall be automatically invested in a farm-loan bond.

###### PARTS II AND III.

Provision is made in Parts II and III of the proposed measure for the institution of a permanent system of intermediate credit, based on personal and collateral security, to handle farm credits for a longer period than ordinarily may be extended by lending institutions, but falling short of the long-term farm loan, with currency of not less than six months nor more than three years, thus bridging the gap between long- and short-term credit. Such advances and loans may only be made to (1) co-operative rural intermediate credit associations, or (2) co-operative societies of persons engaging in producing and marketing staple agricultural products, on the security of a first charge over produce in approved warehouses, chattels, live-stock, growing crops, &c. This will facilitate the discounting by banks of farmers' bills endorsed by the various corporations above named, and thereby afford extended credit.

The Bill broadly defines agricultural paper, and supplements the existing credit machinery, where it is at present inadequate, by enabling the discounting of approved short-term loans by lending institutions, who may rediscount with the Farm Loan Board for the extended term, instead of calling upon the mortgagor.