

1926.
NEW ZEALAND.

RURAL CREDITS COMMISSION'S REPORT COMMITTEE

(REPORT OF THE).

(MR. D. JONES, CHAIRMAN.)

Presented to the House of Representatives, and ordered to be printed.

ORDER OF REFERENCE.

Extract from the Journals of the House of Representatives.

TUESDAY, THE 17TH DAY OF AUGUST, 1926.

Ordered, "That a Select Committee be appointed, consisting of ten members, to consider and report on the proposals contained in the Rural Credits Commission's Report, and proposals incidental thereto; the Committee to have power to call for persons, papers, and records; three to be a quorum; and to consist of the following members: Mr. Elliott, Mr. Forbes, Mr. A. Hamilton, Mr. H. E. Holland, Mr. Savage, Mr. D. Jones, Mr. Reid, Hon. Mr. Downie Stewart, Mr. Walter, and the Right Hon. Sir Joseph Ward."—(Right Hon. Mr. COATES.)

REPORTS.

RURAL CREDITS COMMISSION'S REPORT.

YOUR Committee, which was set up to consider and report on the proposals contained in the report of the Royal Commission on Rural Credits, and on the proposals incidental thereto, has the honour to report that it has heard evidence on and considered the recommendations of the Royal Commission, as outlined in its report, and also the rural-credits proposal of the Bank of New Zealand. In the circumstances, your Committee considers it advisable to report on these schemes seriatim.

Proposals of the Royal Commission on Rural Credits.

Your Committee desires to record its appreciation of the manner in which the thorough and detailed information obtained has been set out by the Commission in its report. Every branch of finance affecting rural producers has been dealt with; and while in certain countries there are more systemized methods operating, your Committee particularly notes the Commission's finding that in the important essentials of long-term mortgage and short-term credits no country is better served than the Dominion by the State Advances Office and by the banks.

The proposals of the Royal Commission may be succinctly stated in the following three propositions:—

- (1.) That long-term mortgage credit should continue to be administered by the State Advances Office, in which a special Farm Loan Branch should be constituted, under the control of a Farm Loan Board, consisting of the present State Advances Board supplemented by representatives of the primary industries. Capital to be provided by the issue of securities charged directly against the mortgages, instead of the public revenues as at present: the limit of advances to be £7,000, based on ascertained productivity up to two-thirds of the value of the land.
- (2.) That intermediate credit should be provided which will enable the producer to make extended use of existing institutions with the assistance of the Farm Loan Board.
- (3.) That the facilities for credit should be further improved by adopting a method whereby warehouse receipts can be accepted with confidence as security for moneys advanced against stored produce.

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

to approximately 5 per cent., and maintain a lending-rate not exceeding 6 per cent., your Committee, after due consideration, recommends for favourable consideration—(1) An adjusted assessment of taxation on this branch of the bank's business; or (2) the acceptance by the Government of its one-third holding in the new issue of preference shares at 6 per cent.

In conclusion, your Committee desires also to express the opinion that there is a need for private lending institutions and banks assisting in the farm-mortgage business on the amortization principle, as it would be of material assistance to producers, especially to those producers whose needs are beyond the limits prescribed by the Government. Your Committee recommends that provision be made, when convenient, for giving such facilities as will encourage the formation of such institutions or banks and the adoption of such amortization schemes.

The minutes of evidence taken by your Committee are attached hereto [not printed].
27th August, 1926.

SPECIAL REPORT.

I HAVE the honour to report that the members of the Rural Credits Commission's Report Committee desire to record their high appreciation of the efficient manner in which the Clerk to the Committee, Mr. George C. Black, carried out his duties; and the members of the Committee further desire that this resolution be recorded in the minutes of the Committee, and also that it be reported to the House.
7th September, 1926.

SPECIAL REPORT.

I HAVE the honour to report that the members of the Rural Credits Commission's Report Committee desire to place on record their sincere appreciation of the decorous and diligent manner in which the Chairman, Mr. David Jones, presided over the deliberations of the Committee, and to extend to him their hearty thanks for the consideration and ability which he displayed in the performance of his office, which was the more onerous because of the limited period within which the Committee had to make its report; and the members of the Committee further desire that this resolution be recorded in the minutes of the Committee, and also that it be reported to the House.

7th September, 1926.

E. WALTER,
Member of the Committee.

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to understand the present situation and maintain a leading role in the future. Your Committee
 after the publication of recommendations for favorable consideration—(1) an adjusted assessment of
 the situation of the bank's business; or (2) the acceptance by the Government of the
 bank's plan. The new issue of preference shares of 8 per cent.
 In connection with your Committee's report also to express the opinion that there is a need for private
 banks and banks existing in the form of trusts or trusts in the same manner as the existing principle,
 as it would be of mutual assistance to producers, especially to those producers whose needs are
 covered by the plan provided by the Government. Your Committee recommends that provision be
 made for the construction of such facilities as will encourage the formation of such institutions
 or banks and the adoption of such institutions.
 The number of votes taken by your Committee are attached hereto (see page 10).

Special Report

I have the honor to report that the members of the Joint Finance Commission's Report Committee
 have approved their report in the manner in which the Clerk to the Committee
 has reported. The report was adopted by the Committee and the members of the Committee further desire that
 the resolution be reported in the minutes of the Committee, and also that it be reported to the House.
 The September 1930.

Special Report

I have the honor to report that the members of the Joint Finance Commission's Report Committee
 have approved their report in the manner in which the Clerk to the Committee
 has reported. The report was adopted by the Committee and the members of the Committee further desire that
 the resolution be reported in the minutes of the Committee, and also that it be reported to the House.
 The September 1930.

J. W. WALKER

Member of the Committee