

1936.
NEW ZEALAND.

STATE ADVANCES CORPORATION.

ANNUAL REPORT AND ACCOUNTS FOR THE PERIOD ENDED 31st MARCH, 1936.

Laid before both Houses of the General Assembly in pursuance of Section 42 of the State Advances Corporation Act, 1936.

CHAIRMAN'S REPORT FOR PERIOD ENDED 31st MARCH, 1936, WITH ADDENDA TO 30th JUNE, 1936.

IN presenting the accounts of the Mortgage Corporation for the period ended 31st March, 1936, and the Auditors' report thereon, it is fitting that I should place on record the developments since the Board of Management was constituted.

The Mortgage Corporation of New Zealand was incorporated on the 1st July, 1935, and the first meeting of the Board of Management was held in Wellington on the 17th July, 1935, all the directors being present.

The Board has appointed the following chief administrative officers:—

Manager	..	..	..	..	Mr. G. E. Miller.
Secretary	..	..	..	..	Mr. F. E. Mitchell.
Chief Accountant	..	..	..	..	Mr. K. J. Caverhill.
Accountant	..	..	..	..	Mr. R. Robertson.
Chief Supervising Valuers	..	..	..	..	Messrs. H. M. Caselberg and B. C. A. McCabe.

The share capital of the Corporation in accordance with the statute is £1,000,000, divided into 1,000,000 shares of £1 each, and of these shares 500,000 were issued to the public and 500,000 were by statute issued to the Minister of Finance on behalf of the Crown. The shares issued to the public were more than three times subscribed, and the application and allotment money amounting to 5s. per share in all was promptly paid. A further call of 5s. per share became due on the 1st April, 1936, and a substantial portion of this call was actually paid before the 31st March, 1936, and is reflected in the balance-sheet. The final call of 10s. per share would in normal circumstances have become due on the 1st June, 1936.

Section 36 of the Mortgage Corporation of New Zealand Act, 1934-35, provided for the transfer of securities of the following classes to the Corporation:—

- (a) Mortgages vested in the State Advances Superintendent in respect of advances to settlers or workers under the State Advances Act, 1913.
- (b) Mortgages vested in the State Advances Superintendent in respect of advances made under the Rural Advances Act, 1926.

Provision was also made for the transfer of discharged soldiers' settlement mortgages and mortgages held by the Lands Department in respect of advances for land-development purposes.

Mortgage assets to the net value of £38,683,794 13s. 10d., as per paragraphs (a) and (b) above, were transferred to the Mortgage Corporation as at the 31st July, 1935. The details showing how the amount is made up are quoted hereunder:—

<i>Assets.</i>				£	s.	d.
(1) Investments, net (not due)	..	..	..	35,596,738	6	6
(2) Principal instalments (overdue)	..	..	..	914,477	19	11
(3) Principal instalments (postponed)	..	..	..	21,796	16	6
(4) Interest receivable—						
		£	s. d.			
(a) Overdue	..	..	..	1,830,990	3	4
(b) Accrued at 31st July, 1935 (not due)				448,016	4	5
				2,279,006	7	9
(5) Interest postponed	..	..	..	44,559	15	7
(6) Advances on current account	..	..	..	14,739	18	2
(7) Expenditure in protection of securities and other miscellaneous assets	..	..	..	106,493	3	5
				38,977,812	7	10
<i>Less Liabilities.</i>						
(8) Credits held in suspense	..	..	..	30,004	0	11
(9) Amounts not allocated	..	..	..	264,013	13	1
				294,017	14	0
Net value of assets transferred to Corporation (per Corporation Transfer Account in State Advances books)				..	£38,683,794	13 10

The Board gave special consideration to the basis upon which these mortgage assets should be taken over—that is, the amount of stock which should be issued to the Minister of Finance as consideration for the mortgages and the amount which should be carried to the Contingent Liability Account of the Corporation to the Crown. Revaluation of individual properties under mortgage was not feasible, but the Board had detailed statements prepared showing the classes of mortgages and an estimate of the value of the securities at date of advance and at the time of taking over. Mortgages were classified into two broad headings—viz., mortgagors in arrears and mortgagors whose instalments were paid up to date, and under each of these main classifications further subdivisions were made in respect to loans that were granted under the State Advances Act according to the statutory margins of the advances.

Briefly the position was as follows:—

Number of mortgagors in arrear, 20,736; balance of principal outstanding, £17,932,589.

Number of mortgagors paid up to date, 30,148; balance of principal outstanding, £18,498,801.

With this information before it the Board considered that provision to the extent of £6,419,605 was desirable, having regard to the number of mortgagors in arrear and the amount outstanding by way of principal and interest as compared with the estimated value of the relative securities when the advances were made, discounted in accordance with the general fall in land-values. The amount should be looked upon more as provision for contingencies than as an estimate of probable losses.

The Board then reviewed the position in regard to mortgagors whose accounts were paid up to date, and, after careful examination, it was felt that some provision should be made for possible losses in respect of mortgagors in this class. An allowance to the extent of approximately £1,000,000 was made, and, taking the two items together, the Board considered a total of £7,000,000 should be carried to the Contingent Liability Account of the Corporation to the State in respect of capital.

Arrears of interest to the extent of £1,800,000 were outstanding at the date of the transfer, and this amount also the Board of Management considered should be carried to the Contingent Liability Account, together with a proportion of interest accrued as at date of transfer.

It was finally agreed between the Minister of Finance and the Corporation that this basis should be followed, and stock to the value of £29,800,000 was accordingly issued to the Minister of Finance on behalf of the Crown, the balance of £8,883,794 13s. 10d. being carried to the Contingent Liability Account.

This stock carried interest at $3\frac{3}{8}$ per cent., and the maturity dates and the amounts of the inscriptions were as follows:—

	£
1st August, 1960	4,800,000
1st August, 1963	5,000,000
1st August, 1966	5,000,000
1st August, 1969	5,000,000
1st August, 1972	5,000,000
1st August, 1975	5,000,000

Further mortgages previously authorized by the State Advances Board completed and executed in the name of the State Advances Superintendent, after the Corporation had commenced to function, were later transferred, and additional stock to the value of £140,000 was issued to the Minister of Finance, making a total stock issue under this heading of £29,940,000. The discharged soldiers settlement and other mortgages held by the Lands Department have not as yet been transferred.

The statute provided that the stock issued to the Minister of Finance should carry interest at the same rate as the first issue of stock and debentures to the public, and it was therefore necessary for the Board of Management to place on the market at an early stage of its career an issue of stock and debentures for the purpose primarily of fixing the lending-rate of the Corporation. An issue of £500,000 was accordingly made on the 26th August, 1935. The Board of Management, after careful consideration of the terms and conditions, finally decided to offer for public subscription this issue of £500,000 bearing interest at $3\frac{3}{8}$ per cent. and for a currency to 1st September, 1960, with an option to the Corporation to redeem the securities at any time after 1st September, 1955. The issue was fully subscribed.

Following the first issue of stock and debentures to the public, the next step was for the directors to determine the lending-rate of the Corporation for new loans. The statute provided that the margin between borrowing and lending rates should not exceed 1 per cent., and the Board at a meeting in August, 1935, came to the conclusion that a margin of $\frac{3}{4}$ per cent. should suffice. Accordingly the lending-rate was fixed at $4\frac{1}{8}$ per cent., which was, generally speaking, well below the Dominion average at the time, even after allowing for the contribution of 2 per cent. to the Reserve Fund. By adopting a lending-rate of $4\frac{1}{8}$ per cent. the Corporation fixed a new standard for mortgage finance in this country, and that this has been appreciated by borrowers is evidenced by the very large numbers of applications which the Corporation has received since it commenced its active lending business early in September, 1935. An important factor also is that the lending-rate of other lending institutions has largely been influenced by the rate charged by the Corporation for new loans. Incidentally reference may be made to the fact that the rate charged by the State Advances Office in respect of new loans for two years prior to the Corporation coming into existence was $5\frac{1}{2}$ per cent., reducible to 5 per cent. for prompt payment.

When the Corporation was in a position to deal with new loan applications an announcement to this effect was made in the press, and a modest advertising programme was put into operation. Special forms of application for both rural and urban and suburban loans were prepared and were made available to applicants through our Head Office and branches and all post-offices in New Zealand. Explanatory pamphlets dealing with the activities of the Corporation were also issued for the guidance of applicants, and were also distributed through similar channels. I think this service has been appreciated by borrowers.

The following classified statement shows the number of applications and the amount applied for under the various headings from September, 1935, to the 31st March, 1936.

Total loans applied for—

	Number.		Amount.	
			£	£
Residential—				
Refinancing	1,355		1,238,145	
New dwellings	460		341,660	
Other purposes	283		151,820	
		2,098		1,731,625
Farm—				
Refinancing	1,697		4,141,635	
Other purposes	336		440,665	
		2,033		4,582,300
		4,131		£6,313,925

The loans authorized by the Board of Management from the inception of the lending operations up to the 31st March, 1936, are as follows:—

	Number.		Amount.	
			£	£
Residential—				
Erection of dwellings	373		238,585	
Refinancing, &c.	662		520,630	
Farms	824		1,876,065	
Total authorizations	1,859		£2,635,280	

Applications declined by the Board totalled £726,055 in respect of 518 applicants made up as follows:—

	Number.		Amount.	
			£	£
Residential	229		142,060	
Farms	289		583,995	

In addition to the applications declined by the Board after consideration of detailed reports, a large number of applications were obviously unsuitable and did not merit detailed reports. In these cases a perusal of the applications indicated that the securities offered were either quite unsuitable for the purposes of the Corporation, or that, having regard to the liabilities on the properties, the Corporation could not lend any amount which could be of service to the applicants. By adopting this course applicants were saved the expense of a detailed report and valuation, and although a certain amount of disappointment may have been caused by this action it was taken by the Board as being in the best interests of the applicants themselves.

The applications declined as unsuitable are as follows:—

	Number.		Amount.	
			£	£
Residential	515		617,425	
Farms	566		1,280,829	

Applications aggregating approximately £1,034,000 were in course of investigation as at 31st March, 1936, but in view of the volume of business offering it is inevitable that there will be a substantial carry-over at any given date so long as active lending operations are continued.

It should perhaps be mentioned here that in general the Board of Management was precluded by statute from advancing more than two-thirds of the determined value of the proffered security, and in assessing the value of rural land for mortgage purposes the Board of Management was bound by statute to pay due regard to the earning-capacity of the land. An exception was made, however, in subsection (3) of section 24 of the Mortgage Corporation of New Zealand Act, 1934-35, and under that section the Board was authorized to make advances in excess of a two-thirds margin but not exceeding four-fifths of the value of the security on condition that the Minister of Finance guaranteed the Corporation against any loss that might be incurred by it in respect of the loan in so far as such loss is attributable to the excess of the loan over two-thirds of the value. Advances under this section of the Act could only be granted for the purpose of discharging existing mortgages on rural land. This has proved a very useful and helpful provision in practice, and early in its operations the Corporation entered into an arrangement with the then Minister

of Finance whereby applications for loans on the security of rural lands for the purpose of discharging existing mortgages thereon could be dealt with on this basis. By arrangement with the Minister, in cases where an 80-per-cent. loan is granted the Board imposes a condition that all existing liabilities must be repaid out of the advance authorized or from the private resources of the applicant, and either requires collateral security over stock and chattels or a covenant from the applicant that neither the land nor the stock will be further encumbered without the consent of the Corporation. The intention behind subsection (3) of section 24 of the Act was to enable the Corporation to assist in those cases where by so doing it could place the farmer in the position in which he could carry on satisfactorily.

In common with all other lending institutions the Corporation has on many occasions been expected to provide finance for uncertain projects or on unsuitable securities. A feature of the lending operations of the Corporation is long-term finance, and an essential requirement in long-term finance is the soundness of the security. Hence old dwellings in a doubtful state of preservation cannot be accepted as suitable securities for long-term loans unless the unimproved value of the land is high enough to be taken into account. Properties which have a special value attaching to a particular class of industry may also be unsuitable securities from the point of view of long-term finance. Changing conditions of trade are to a certain extent responsible for this, and, further, regard must be given to the realization factor.

The same remarks apply in regard to certain classes of rural securities—*e.g.*, small holdings which are not in themselves complete farming-units. Experience has shown that this class of security is liable to cause trouble from a mortgagee point of view in time of depression. Farms situated in deteriorated areas are also in general not regarded as suitable from an investment point of view, particularly for long terms.

The Board of Management has paid particular regard to the personal aspect in considering all loan applications, this being looked upon as a vital factor.

Acting on the authority contained in subsection (2) of section 28 of the Mortgage Corporation of New Zealand Act, 1934–35, a condition has been inserted in mortgages taken by the Corporation to provide that the moneys secured by the mortgage may be called up in the event of the sale or other disposition of the mortgaged property. The Board was of the opinion that a provision of this description was necessary in order that the personal equation of the transferee could be considered by the Corporation and also to prevent speculation. It may be mentioned that the Board deals with each case involving the transfer of mortgaged premises on its merits, and, if satisfied that the transfer will not involve the Corporation in additional risk, will require the purchaser's personal covenant before approving of the transfer. In cases where the Board is not prepared to agree to a transfer of the mortgage, it has already affirmed the principle that it will agree to the repayment of the mortgage plus three months' additional interest or upon three months' notice being given.

The Board at an early stage in its operations considered the position in regard to the adjustment in terms of section 39 of the Mortgage Corporation of New Zealand Act, 1934–35, of mortgages taken over from the State; the section provided that mortgagors under any mortgages of land transferred to the Corporation under the Act should have the right at any time within three years after the transfer of the mortgage to require a variation of the provisions and a reduction in the interest-rate to the rate charged by the Corporation. A condition of these adjustments is that the capital secured by the mortgages shall be increased by 2 per cent. thereof, such increase to be credited to the General Reserve Fund.

The Board felt that it would be desirable to expedite the adjustment of the mortgages taken over from the State, and, as apparently some misconception was prevalent regarding the benefits to be derived from the adjustment, a full statement of the position was sent to each mortgagor at as early a date as possible. It will be appreciated that the adjustment of approximately 44,000 mortgage accounts was a work of considerable magnitude, without taking into account the large amount of extra correspondence which has also been a factor to be reckoned with. With

some extra assistance the staff handled this work in a most creditable manner, and I am pleased to be able to report that the offers of adjustment have now been made practically to all mortgagors. Up to the 31st March, 1936, 17,296 mortgagors had signified their acceptance, and their accounts have been adjusted accordingly.

In laying down the principles to be followed in the adjustment of accounts under section 39 the Board gave special consideration to the position of those mortgagors who were in arrears with their instalments, and decided that advantage should be taken of the opportunity of capitalizing arrears and thus giving mortgagors a fresh start. Normally the capitalization of arrears would have resulted in increased half-yearly payments under the mortgage, but this tendency has been offset wherever possible by the extension of the term of the mortgage. The aim has been to place mortgagors in such a position that, notwithstanding the capitalization, half-yearly payments have been reduced rather than increased. The Board is hopeful that as a result of the concessions granted in this way mortgagors will in the future be more able to meet their obligations to the Corporation.

Turning now to matters of general administration, I would like to remark that the Board has continued the policy followed by the State Advances Office of extending the utmost consideration to those mortgagors who were in difficulties. The Board has paid particular regard to the possibility of rehabilitating rural mortgagors where inspection has shown that a measure of assistance for the purpose of salvaging the security is necessary, and it was the intention of the Board as soon as the organization of its field staff was complete to carry out an intensive review of securities in this class with a view to formulating a progressive policy. The delays which have occurred in the matter of field staff have handicapped our efforts in this direction.

In regard to urban securities assistance has been made available to deserving mortgagors for painting and repairs to mortgaged premises, and the Board has also assisted deserving mortgagors who are not in a position to provide the money to meet necessary repairs by postponing the principal part of the instalment to enable the mortgagor to finance the cost of necessary work. In other cases straight-out salvage advances have been granted and the amount added to the mortgage debt.

The Board recognized in the early stages of the Corporation that steps should be taken to organize a field staff. The lack of such an organization seriously handicapped the State Advances Office during recent years. The arrangements previously subsisting between the State Advances Office and the Valuation Department were largely continued in regard to reports from District Valuers in respect of existing mortgage accounts and new loans. In view of the large numbers of applications received by the Corporation for new loans, it was inevitable that some delay should occur, and special arrangements were made in other directions to expedite the work. However, until the field staff is properly organized a rapid despatch is not always possible. Our thanks are due to the Valuer-General and his Department for the effective manner in which they have co-operated with the Corporation in spite of heavy demands in other directions.

It was considered by the Board that before any final steps should be taken towards the organization of a field staff a definite decision should be reached in regard to discharged soldiers settlement business of the Lands Department. The mortgage business of the Lands Department includes current-account advances, and it is essential that the Corporation should have a field staff actively operating before the current-account mortgages are handed over for administration. The delay which has occurred, while beyond our control, has proved a considerable handicap.

I desire to refer briefly to the position in regard to interest due and in arrear and to the question of reverted securities before passing to a short commentary on the balance-sheet figures.

Interest due and received.—The interest due in respect of mortgage securities (excluding local-authority securities) for the period from 1st August, 1935, to 31st

March, 1936, as compared with the years ended 31st March, 1934 and 1935, and the cash received for these periods is shown hereunder:—

	Interest due. £	Net Interest. £	Shortage. £	Percentage of Receipts to Interest due.
1933-34	1,966,127	1,562,707	403,420	79·48
1934-35	1,913,611	1,711,446	202,165	89·43
8 months, 1st August, 1935, to 31st March, 1936	1,200,879	1,142,947	57,932	95·16

The position has shown a marked improvement during the past three years.

Arrears of Instalments.—There has been an annual increase in arrears of instalments of principal and interest since 1932, which was the peak year, as is shown by the following figures taken from the report of the Superintendent to the State Advances Office for the year ended 31st March, 1935.

The figures represent the increases in arrears outstanding: 1931-32, £642,184; 1932-33, £559,210; 1933-34, £508,132; 1934-35, £207,671.

A comparison of the position as at 31st March, 1936, is rendered somewhat difficult by reason of the capitalization of arrears in the process of adjustment of mortgages under section 39 of the Mortgage Corporation of New Zealand Act, 1934-35, and also on account of the whole of the securities of the State Advances Office not having been taken over by the Corporation. The position so far as the mortgages taken over are concerned is satisfactory, for, after allowing for the capitalization of arrears to the extent of £256,687, the amount outstanding shows a reduction of £65,340 as compared with the previous year. A comparison with the preceding four years up to 31st March, 1935, shows that whereas the average yearly increase in arrears during those years was £479,049 the period just closed shows an increase of only £191,347, without taking into account adjustments by way of capitalization.

Reverted Securities.—The Corporation had some 3,904 urban and suburban securities on its hands on the 31st March, 1936, all but thirty-one vacant premises being occupied. Of these vacant premises fifteen were situated in Auckland, one in Wellington, and the remaining fifteen in the smaller towns throughout the Dominion. The rental collected from the 1st August, 1935 (the date on which the Corporation assumed control), to the 31st March, 1936, amounted to £133,146, being 96·51 per cent. of the rental payable and 86·08 per cent. of the gross instalments of principal and interest payable in respect of the relative mortgages during that period.

The Accounts for Eight Months ended 31st March, 1936.—The statements of account attached hereto cover the period from 1st August, 1935 (the date from which the mortgage assets of the State Advances Office were transferred to the Corporation), to the 31st March, 1936.

Many of our rural mortgagors who have been in difficulties since the depression commenced have now made some definite progress towards recovery. During the period under review prices for primary produce have shown a rising tendency, and returns for meat and wool have on the whole been satisfactory. The position in regard to urban and suburban securities where the Corporation is mortgagee in possession has also improved. The result is reflected in the balance-sheet figures, and the arrears position, as already stated, is more hopeful.

It is pleasing to record that the Corporation has been able to show a return of approximately 2½ per cent. to the Crown on the Contingent Liability Account. The accounts disclose a gross revenue from all sources for the period of eight months of £1,165,261, from which must be deducted £673,383 in respect of interest on stock issued to the Minister of Finance and on stock and debentures issued to the public, which makes the gross profit £491,878. Management expenses and other charges, including additional provision for overdue interest £57,000, as shown in the Profit and Loss Account, amount to £149,992, and the net profit is therefore £341,996.

Provision has been made in the Profit and Loss Appropriation Account for income-tax £105,000, dividends to shareholders £9,000, and for an Investment Fluctuation Reserve of £10,000. The balance which remains is £217,996, and this

amount is payable to the Crown virtually as a dividend on the amount of the Contingent Liability Account. An interim payment of £75,000 on account of profits was paid to the Treasury on 31st March, 1936, in terms of the statute, but this, of course, forms part of the sum of £217,996.

Turning now to the balance-sheet, the liabilities do not call for special comment, except perhaps the Contingent Liability Account. This has been increased by £57,000 referred to above, while ascertained losses totalling £13,284 have been written off against the Fund. A comparatively small amount of £5,000 has been set aside as a reserve for losses of interest on new loans, but the Board does not feel much apprehension on this account, as our new business has been carefully selected. It is prudent, however, to establish some reserve, and as new business grows no doubt this reserve will be further built up.

As regards the assets, the mortgages taken over from the State Advances Office are, of course, fully guaranteed by the Government, and the same applies to salvage advances made in respect of these mortgage accounts by the Corporation. Special reserves for these beyond the Contingent Liability Account are therefore not deemed necessary. It may be thought that the Contingent Liability Account of £8,927,521 represents probably losses, but this does not necessarily follow. With careful nursing and efficient supervision a fair proportion of this account can be made good, particularly in view of the improvement in export prices and the general improvement in economic conditions.

The capital outstanding on mortgage accounts is £37,185,034. The average loan on residential securities is £564, and on rural securities £1,150.

Government and local-body securities stand at £3,014,391, representing principally investments of the Reserve Fund. All these securities are quite satisfactory.

The cash position is also satisfactory, but with the demand which now exists for new loans further capital may be required within the next few months.

The following tabulated statement of profits and percentages may be of interest :—

MORTGAGE CORPORATION OF NEW ZEALAND.
Profits and Percentages.

Disposition and Appropriation of Profits to 31st March, 1936.	Percentage per Annum of Stock Issue plus Capital.	Percentage of Gross Earnings.	Percentage of Gross Profits.
£			
Gross earnings (eight months) .. 1,165,261	1. 5·696 (£5 13s. 11d.)	(100·00)	..
Less capital charges—Interest 673,343	2. 3·291 (£3 5s. 10d.)	(57·785)	..
Gross profits 491,918	3. 2·404 (£2 8s. 1d.)	(42·215)	..
		100·00	
Less management expenses and depreciation of fixed assets 72,922	4. 0·356 (7s. 2d.) ..	(6·258)	14·824
418,996			
Reserves for losses (<i>ex</i> State and Corporation) 72,000	5. 0·352 (7s. 1d.) ..	(6·179)	14·637
346,996			
Superannuation contribution .. 15,000	6. 0·073 (1s. 5d.) ..	(1·287)	3·049
331,996			
Less income-tax 105,000	7. 0·513 (10s. 3d.) ..	(9·011)	21·345
226,996			
Dividends 9,000	8. 0·044 (11d.) ..	(0·772)	1·830
217,996			
Surplus profits 217,996	9. 1·065 (£1 1s. 3d.) ..	(18·708)	44·315
		42·215	100·00

CONCLUSION.

I wish to take this opportunity of placing on record my appreciation of the services rendered by the members of the Board of Management in the difficult period during the establishment of the Corporation. The wide experience and knowledge of the directors has been of inestimable value, and it has been a pleasure to me to have been associated with them. In this connection I would like particularly to refer to the services of the two Managing Directors. Mr. Park's unrivalled knowledge of the public finances of this Dominion and Mr. Smallwood's wide experience of lending on mortgage securities have been of the utmost value.

In the matter of staff the Corporation was fortunate in being able to make arrangements with the Government and the Public Service Commissioner whereby officers of the State Advances Office were seconded for duty with the Corporation. I should like to pay a tribute to the Manager (Mr. G. E. Miller), to the administrative officers, and to the staff for the efficient manner in which they have carried into effect the policy of the Board of Management. Our thanks are due to them for the splendid way in which they have met the heavy demands upon them during a difficult period.

W. D. HUNT,
Chairman of Directors.

ADDENDUM TO CHAIRMAN'S REPORT.

In the attached report particulars have been supplied as to the number of applications and the amount applied for up to the 31st March, 1936. In view of the fact that the members of the Board of Management shall be deemed to have vacated their offices on the 1st July, 1936, I think it desirable to give a short statement of the business dealt with by the Board up to the 30th instant.

The following classified statement shows the numbers of applications and the amount applied for from September, 1935, to the 30th June, 1936.

Total loans applied for:—				Number.	Amount.	
Residential—					£	£
Refinancing	..	..	..	1,823	1,571,435	
New dwellings	..	..	..	715	532,145	
Other purposes	..	..	..	435	244,915	
				2,973	2,348,495	
Farm—						
Refinancing	..	..	..	2,205	5,189,250	
Other purposes	..	..	..	481	609,200	
				2,686	5,798,450	
Total applications received	..			5,659	£8,146,945	

The following summary sets out the manner in which the above applications have been disposed of.

(A) Loans authorized by the Board of Management:—

Residential—				Number.	Amount.	
					£	£
Erection of dwellings	..	..	..	580	357,025	
Refinancing	..	..	..	1,087	778,330	
Farm—						
Refinancing	..	..	..	1,226	2,782,000	
Total authorizations..	..	..	..	2,893	3,917,355	

(B) Applications declined by the Board:—

Residential..	..	..	..	279	169,605	
Farms	..	..	..	398	838,705	
Total declined	..	..	..	677	1,008,310	

(C) Applications declined as unsuitable—principally on account of inadequate security. (As explained in my report above, a large number of applications are received by the Corporation which are obviously unsuitable, and in these cases the expense of a detailed report and valuation is avoided, applicants being notified that the securities offered are not considered suitable):—

Residential..	..	..	..	695	675,965	
Farms	..	..	..	870	1,549,589	
				1,565	2,225,554	

(D) Applications in course of investigation as at 30th June, 1936, which will require to be dealt with by the new Board (approximately)

..	..	..	..	..	995,726	
Total	..	..	..	..	£8,146,945	

MORTGAGE CORPORATION OF NEW ZEALAND.
REVENUE ACCOUNTS FOR THE EIGHT MONTHS ENDED 31ST MARCH, 1936.

Interest Account.

	£	s.	d.		£	s.	d.
Interest on stock and debentures	673,382	11	9	Interest on mortgages	1,155,297	13	10
Gross income carried forward to Profit and Loss Account	491,878	11	2	Interest on Government and local-body securities	83,656	10	6
				Less transferred to General Reserve Fund	82,909	16	7
				746	13	11	
				Interest on current accounts, temporary investments, and sundries	9,216	15	2
				£1,165,261	2	11	
	£1,165,261	2	11	£1,165,261	2	11	

Profit and Loss Account.

	£	s.	d.		£	s.	d.
Management expenses	72,921	14	7	Gross income brought forward from Interest Account	491,878	11	2
Contribution to Staff Superannuation Fund	15,000	0	0	Discount on redemption of stock	39	10	4
Reserve for losses	5,000	0	0				
Contingent Liability Account—Amount transferred under section 3, Mortgage Corporation of New Zealand Amendment Act, 1935	57,000	0	0				
Net income carried forward to Appropriation Account	341,996	6	11				
	£491,918	1	6		£491,918	1	6

Appropriation Account.

	£	s.	d.		£	s.	d.
Income-tax Reserve	105,000	0	0	Net income	341,996	6	11
Dividends Reserve	9,000	0	0				
Investment Fluctuation Reserve	10,000	0	0				
Balance payable to the Crown	217,996	6	11				
	£341,996	6	11		£341,996	6	11

BALANCE-SHEET AS AT 31ST MARCH, 1936.

<i>Liabilities.</i>				<i>Assets.</i>			
	£	s.	d.		£	s.	d.
Share capital—				Mortgages and accrued interest	39,062,498	5	10
Authorized capital	1,000,000	0	0	Advances on Current Account and accrued interest	12,742	5	10
Less uncalled	750,000	0	0	Government and local-body securities and accrued interest	3,038,227	5	4
Capital paid up	250,000	0	0	Fixed assets, at cost, less provision for depreciation—Office furniture and motor-vehicles	10,351	17	8
Calls paid in advance	171,644	12	6	Current assets—			
Stock and debentures and accrued interest				Sundry debtors	5,182	18	4
Contingent liability to the Crown				Fixed deposits with trading banks and accrued interest	954,187	17	0
Reserves—				Lodgments in transit and cash in bank and on hand	75,102	4	6
General Reserve	2,956,472	16	5	1,034,472	19	10	
Reserves for losses on investments	5,000	0	0	Realization Suspense Account—Losses chargeable to Contingent Liability Account when defined	59,697	13	8
Investment Fluctuation Reserve	10,000	0	0				
Staff Superannuation Fund							
Sundry creditors							
Liability to the Crown—							
Balance of net income	217,996	6	11				
Less interim payment	75,000	0	0				
	142,996	6	11				
Balance of interest on contribution to General Reserve	6,821	2	0				
	£43,217,990	8	2		£43,217,990	8	2

A. D. PARK, F.R.A.N.Z., F.I.A.N.Z. } Joint
T. N. SMALLWOOD, } Managing
Directors.

K. CAVERHILL, A.R.A.N.Z., Chief Accountant.

In accordance with the provisions of the Mortgage Corporation Act, 1934–35, we report that we have obtained all the information and explanations we have required in respect of the accounts of the Corporation examined by us, and in respect of the above Balance-sheet, and that in our opinion such Balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the Corporation's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

Wellington, 9th June, 1936.

L. H. HESLOP, Public Accountant, Government Auditor.
R. C. BURGESS, Public Accountant, Shareholders' Auditor.

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