

CONTENTS.

	PAGE		PAGE
INTRODUCTORY	1	LOANS TO FARMERS WITHOUT THE INTERVENTION OF ASSOCIATIONS	
RURAL INTERMEDIATE CREDIT ACT, 1927 ..	4	Method of Application	22
RURAL INTERMEDIATE CREDIT REGULATIONS ..	5	Business with Dairy Companies	23
ADMINISTRATION OF SYSTEM—		Co-operative Principles	23
Personnel of Board	6	Business transacted	23
Meetings of Board and Local Committee ..	6	Appreciations	23
LOCAL ADMINISTRATION	7	DISCOUNTING	
DISTRICT BOARDS		Method of Discounting	24
Constitution	7	Monthly Deductions from Cream Cheques ..	25
Meetings	8	Companies adopting System	25
Change in Personnel	8	Business transacted	25
Extension of Powers	8	Appreciations	26
ADMINISTRATIVE AND DETAIL WORK	8	LOANS TO CO-OPERATIVE SOCIETIES	26
PUBLICITY WORK --		FINANCE AND ACCOUNTS --	
Visits of Deputy Commissioner to Districts ..	9	General	27
Meetings addressed	10	Accounts to 30th June, 1929	27
Co-operation with Farmers' Union	10	Issue of Debentures	28
Issues of Booklets and Circular Letters ..	11	Collection of Payments due by Borrowers ..	28
Distribution of Annual Report	11	Accounts of Associations	28
Articles published in Newspapers and Journals	11	Increased Business	28
POLICY OF THE BOARD --		DAIRY COMPANIES	29
Nature of System	12	VALUATIONS	30
Securities over Land	13	SUPERVISION OF SECURITIES	31
Handling of Applications	14	INSTRUCTIONS TO OFFICERS	32
Legal Charges	15	INSPECTION OF WORK	32
Repayment of Loans	15	SYSTEMS IN OTHER COUNTRIES—	
Suspension of Payments during Winter Months	16	Ireland	33
Disbursement of Loans	16	Scotland	34
Proposed System for "Limits"	16	England	34
Interest and Discount Rates	17	Other Countries	34
CO-OPERATIVE RURAL INTERMEDIATE CREDIT ASSOCIATIONS --		CONCLUSION	34
Nature of Associations	17	APPENDIX I—	
Capital called up	18	Comparative Statement of Transactions as at 31st August, 1928, and 31st August, 1929 ..	37
Preliminary Expenses of Formation	18	APPENDIX II--	
Payment of Expenses of Administration ..	19	List of Directors and Secretary-Treasurers of Co-operative Rural Intermediate Credit As- sociations	37
Assistance rendered	20		
Suggested Conference of Representatives ..	21		
Formation of	21		
Loans granted	21		
List of Directors and Secretary-Treasurers ..	21		
Relations with	21		

CONTENTS

1	Introduction
2	1. General Information
3	2. Objectives of the Study
4	3. Scope of the Study
5	4. Methodology
6	5. Data Collection
7	6. Data Analysis
8	7. Results
9	8. Discussion
10	9. Conclusion
11	10. References
12	11. Appendix
13	12. Glossary
14	13. Index
15	14. Bibliography
16	15. List of Figures
17	16. List of Tables
18	17. List of Abbreviations
19	18. List of Symbols
20	19. List of Acronyms
21	20. List of Initials
22	21. List of Roman Numerals
23	22. List of Greek Letters
24	23. List of Mathematical Symbols
25	24. List of Statistical Symbols
26	25. List of Chemical Symbols
27	26. List of Biological Symbols
28	27. List of Astronomical Symbols
29	28. List of Musical Symbols
30	29. List of Legal Symbols
31	30. List of Religious Symbols
32	31. List of Political Symbols
33	32. List of Social Symbols
34	33. List of Economic Symbols
35	34. List of Environmental Symbols
36	35. List of Health Symbols
37	36. List of Education Symbols
38	37. List of Science Symbols
39	38. List of Technology Symbols
40	39. List of Industry Symbols
41	40. List of Agriculture Symbols
42	41. List of Transportation Symbols
43	42. List of Communication Symbols
44	43. List of Energy Symbols
45	44. List of Materials Symbols
46	45. List of Construction Symbols
47	46. List of Manufacturing Symbols
48	47. List of Retail Symbols
49	48. List of Wholesale Symbols
50	49. List of Service Symbols
51	50. List of Government Symbols
52	51. List of Non-Profit Symbols
53	52. List of Academic Symbols
54	53. List of Professional Symbols
55	54. List of Religious Symbols
56	55. List of Cultural Symbols
57	56. List of Historical Symbols
58	57. List of Geographical Symbols
59	58. List of Meteorological Symbols
60	59. List of Oceanographic Symbols
61	60. List of Atmospheric Symbols
62	61. List of Geological Symbols
63	62. List of Biological Symbols
64	63. List of Chemical Symbols
65	64. List of Physical Symbols
66	65. List of Mathematical Symbols
67	66. List of Statistical Symbols
68	67. List of Economic Symbols
69	68. List of Environmental Symbols
70	69. List of Health Symbols
71	70. List of Education Symbols
72	71. List of Science Symbols
73	72. List of Technology Symbols
74	73. List of Industry Symbols
75	74. List of Agriculture Symbols
76	75. List of Transportation Symbols
77	76. List of Communication Symbols
78	77. List of Energy Symbols
79	78. List of Materials Symbols
80	79. List of Construction Symbols
81	80. List of Manufacturing Symbols
82	81. List of Retail Symbols
83	82. List of Wholesale Symbols
84	83. List of Service Symbols
85	84. List of Government Symbols
86	85. List of Non-Profit Symbols
87	86. List of Academic Symbols
88	87. List of Professional Symbols
89	88. List of Religious Symbols
90	89. List of Cultural Symbols
91	90. List of Historical Symbols
92	91. List of Geographical Symbols
93	92. List of Meteorological Symbols
94	93. List of Oceanographic Symbols
95	94. List of Atmospheric Symbols
96	95. List of Geological Symbols
97	96. List of Biological Symbols
98	97. List of Chemical Symbols
99	98. List of Physical Symbols
100	99. List of Mathematical Symbols
101	100. List of Statistical Symbols
102	101. List of Economic Symbols
103	102. List of Environmental Symbols
104	103. List of Health Symbols
105	104. List of Education Symbols
106	105. List of Science Symbols
107	106. List of Technology Symbols
108	107. List of Industry Symbols
109	108. List of Agriculture Symbols
110	109. List of Transportation Symbols
111	110. List of Communication Symbols
112	111. List of Energy Symbols
113	112. List of Materials Symbols
114	113. List of Construction Symbols
115	114. List of Manufacturing Symbols
116	115. List of Retail Symbols
117	116. List of Wholesale Symbols
118	117. List of Service Symbols
119	118. List of Government Symbols
120	119. List of Non-Profit Symbols
121	120. List of Academic Symbols
122	121. List of Professional Symbols
123	122. List of Religious Symbols
124	123. List of Cultural Symbols
125	124. List of Historical Symbols
126	125. List of Geographical Symbols
127	126. List of Meteorological Symbols
128	127. List of Oceanographic Symbols
129	128. List of Atmospheric Symbols
130	129. List of Geological Symbols
131	130. List of Biological Symbols
132	131. List of Chemical Symbols
133	132. List of Physical Symbols
134	133. List of Mathematical Symbols
135	134. List of Statistical Symbols
136	135. List of Economic Symbols
137	136. List of Environmental Symbols
138	137. List of Health Symbols
139	138. List of Education Symbols
140	139. List of Science Symbols
141	140. List of Technology Symbols
142	141. List of Industry Symbols
143	142. List of Agriculture Symbols
144	143. List of Transportation Symbols
145	144. List of Communication Symbols
146	145. List of Energy Symbols
147	146. List of Materials Symbols
148	147. List of Construction Symbols
149	148. List of Manufacturing Symbols
150	149. List of Retail Symbols
151	150. List of Wholesale Symbols
152	151. List of Service Symbols
153	152. List of Government Symbols
154	153. List of Non-Profit Symbols
155	154. List of Academic Symbols
156	155. List of Professional Symbols
157	156. List of Religious Symbols
158	157. List of Cultural Symbols
159	158. List of Historical Symbols
160	159. List of Geographical Symbols
161	160. List of Meteorological Symbols
162	161. List of Oceanographic Symbols
163	162. List of Atmospheric Symbols
164	163. List of Geological Symbols
165	164. List of Biological Symbols
166	165. List of Chemical Symbols
167	166. List of Physical Symbols
168	167. List of Mathematical Symbols
169	168. List of Statistical Symbols
170	169. List of Economic Symbols
171	170. List of Environmental Symbols
172	171. List of Health Symbols
173	172. List of Education Symbols
174	173. List of Science Symbols
175	174. List of Technology Symbols
176	175. List of Industry Symbols
177	176. List of Agriculture Symbols
178	177. List of Transportation Symbols
179	178. List of Communication Symbols
180	179. List of Energy Symbols
181	180. List of Materials Symbols
182	181. List of Construction Symbols
183	182. List of Manufacturing Symbols
184	183. List of Retail Symbols
185	184. List of Wholesale Symbols
186	185. List of Service Symbols
187	186. List of Government Symbols
188	187. List of Non-Profit Symbols
189	188. List of Academic Symbols
190	189. List of Professional Symbols
191	190. List of Religious Symbols
192	191. List of Cultural Symbols
193	192. List of Historical Symbols
194	193. List of Geographical Symbols
195	194. List of Meteorological Symbols
196	195. List of Oceanographic Symbols
197	196. List of Atmospheric Symbols
198	197. List of Geological Symbols
199	198. List of Biological Symbols
200	199. List of Chemical Symbols
201	200. List of Physical Symbols
202	201. List of Mathematical Symbols
203	202. List of Statistical Symbols
204	203. List of Economic Symbols
205	204. List of Environmental Symbols
206	205. List of Health Symbols
207	206. List of Education Symbols
208	207. List of Science Symbols
209	208. List of Technology Symbols
210	209. List of Industry Symbols
211	210. List of Agriculture Symbols
212	211. List of Transportation Symbols
213	212. List of Communication Symbols
214	213. List of Energy Symbols
215	214. List of Materials Symbols
216	215. List of Construction Symbols
217	216. List of Manufacturing Symbols
218	217. List of Retail Symbols
219	218. List of Wholesale Symbols
220	219. List of Service Symbols
221	220. List of Government Symbols
222	221. List of Non-Profit Symbols
223	222. List of Academic Symbols
224	223. List of Professional Symbols
225	224. List of Religious Symbols
226	225. List of Cultural Symbols
227	226. List of Historical Symbols
228	227. List of Geographical Symbols
229	228. List of Meteorological Symbols
230	229. List of Oceanographic Symbols
231	230. List of Atmospheric Symbols
232	231. List of Geological Symbols
233	232. List of Biological Symbols
234	233. List of Chemical Symbols
235	234. List of Physical Symbols
236	235. List of Mathematical Symbols
237	236. List of Statistical Symbols
238	237. List of Economic Symbols
239	238. List of Environmental Symbols
240	239. List of Health Symbols
241	240. List of Education Symbols
242	241. List of Science Symbols
243	242. List of Technology Symbols
244	243. List of Industry Symbols
245	244. List of Agriculture Symbols
246	245. List of Transportation Symbols
247	246. List of Communication Symbols
248	247. List of Energy Symbols
249	248. List of Materials Symbols
250	249. List of Construction Symbols
251	250. List of Manufacturing Symbols
252	251. List of Retail Symbols
253	252. List of Wholesale Symbols
254	253. List of Service Symbols
255	254. List of Government Symbols
256	255. List of Non-Profit Symbols
257	256. List of Academic Symbols
258	257. List of Professional Symbols
259	258. List of Religious Symbols
260	259. List of Cultural Symbols
261	260. List of Historical Symbols
262	261. List of Geographical Symbols
263	262. List of Meteorological Symbols
264	263. List of Oceanographic Symbols
265	264. List of Atmospheric Symbols
266	265. List of Geological Symbols
267	266. List of Biological Symbols
268	267. List of Chemical Symbols
269	268. List of Physical Symbols
270	269. List of Mathematical Symbols
271	270. List of Statistical Symbols
272	271. List of Economic Symbols
273	272. List of Environmental Symbols
274	273. List of Health Symbols
275	274. List of Education Symbols
276	275. List of Science Symbols
277	276. List of Technology Symbols
278	277. List of Industry Symbols
279	278. List of Agriculture Symbols
280	279. List of Transportation Symbols
281	280. List of Communication Symbols
282	281. List of Energy Symbols
283	282. List of Materials Symbols
284	283. List of Construction Symbols
285	284. List of Manufacturing Symbols
286	285. List of Retail Symbols
287	286. List of Wholesale Symbols
288	287. List of Service Symbols
289	288. List of Government Symbols
290	289. List of Non-Profit Symbols
291	290. List of Academic Symbols
292	291. List of Professional Symbols
293	292. List of Religious Symbols
294	293. List of Cultural Symbols
295	294. List of Historical Symbols
296	295. List of Geographical Symbols
297	296. List of Meteorological Symbols
298	297. List of Oceanographic Symbols
299	298. List of Atmospheric Symbols
300	299. List of Geological Symbols
301	300. List of Biological Symbols
302	301. List of Chemical Symbols
303	302. List of Physical Symbols
304	303. List of Mathematical Symbols
305	304. List of Statistical Symbols
306	305. List of Economic Symbols
307	306. List of Environmental Symbols
308	307. List of Health Symbols
309	308. List of Education Symbols
310	309. List of Science Symbols
311	310. List of Technology Symbols
312	311. List of Industry Symbols
313	312. List of Agriculture Symbols
314	313. List of Transportation Symbols
315	314. List of Communication Symbols
316	315. List of Energy Symbols
317	316. List of Materials Symbols
318	317. List of Construction Symbols
319	318. List of Manufacturing Symbols
320	319. List of Retail Symbols
321	320. List of Wholesale Symbols
322	321. List of Service Symbols
323	322. List of Government Symbols
324	323. List of Non-Profit Symbols
325	324. List of Academic Symbols
326	325. List of Professional Symbols
327	326. List of Religious Symbols
328	327. List of Cultural Symbols
329	328. List of Historical Symbols
330	329. List of Geographical Symbols
331	330. List of Meteorological Symbols
332	331. List of Oceanographic Symbols
333	332. List of Atmospheric Symbols
334	333. List of Geological Symbols
335	334. List of Biological Symbols
336	335. List of Chemical Symbols
337	336. List of Physical Symbols
338	337. List of Mathematical Symbols
339	338. List of Statistical Symbols
340	339. List of Economic Symbols
341	340. List of Environmental Symbols
342	341. List of Health Symbols
343	342. List of Education Symbols
344	343. List of Science Symbols
345	344. List of Technology Symbols
346	345. List of Industry Symbols
347	346. List of Agriculture Symbols
348	347. List of Transportation Symbols
349	348. List of Communication Symbols
350	349. List of Energy Symbols
351	350. List of Materials Symbols
352	351. List of Construction Symbols
353	352. List of Manufacturing Symbols
354	353. List of Retail Symbols
355	354. List of Wholesale Symbols
356	355. List of Service Symbols
357	356. List of Government Symbols
358	357. List of Non-Profit Symbols
359	358. List of Academic Symbols
360	359. List of Professional Symbols
361	360. List of Religious Symbols
362	361. List of Cultural Symbols
363	362. List of Historical Symbols
364	363. List of Geographical Symbols
365	364. List of Meteorological Symbols
366	365. List of Oceanographic Symbols
367	366. List of Atmospheric Symbols
368	367. List of Geological Symbols
369	368. List of Biological Symbols
370	369. List of Chemical Symbols
371	370. List of Physical Symbols
372	371. List of Mathematical Symbols
373	372. List of Statistical Symbols
374	373. List of Economic Symbols
375	374. List of Environmental Symbols
376	375. List of Health Symbols
377	376. List of Education Symbols
378	377. List of Science Symbols
379	378. List of Technology Symbols
380	379. List of Industry Symbols
381	380. List of Agriculture Symbols
382	381. List of Transportation Symbols
383	382. List of Communication Symbols
384	383. List of Energy Symbols
385	384. List of Materials Symbols
386	385. List of Construction Symbols
387	386. List of Manufacturing Symbols
388	387. List of Retail Symbols
389	388. List of Wholesale Symbols
390	389. List of Service Symbols
391	390. List of Government Symbols
392	391. List of Non-Profit Symbols
393	392. List of Academic Symbols
394	393. List of Professional Symbols
395	394. List of Religious Symbols
396	395. List of Cultural Symbols
397	396. List of Historical Symbols
398	397. List of Geographical Symbols
399	398. List of Meteorological Symbols
400	399. List of Oceanographic Symbols
401	400. List of Atmospheric Symbols
402	401. List of Geological Symbols
403	402. List of Biological Symbols
404	403. List of Chemical Symbols
405	404. List of Physical Symbols
406	405. List of Mathematical Symbols
407	406. List of Statistical Symbols
408	407. List of Economic Symbols
409	408. List of Environmental Symbols
410	409. List of Health Symbols
411	410. List of Education Symbols
412	411. List of Science Symbols
413	412. List of Technology Symbols
414	413. List of Industry Symbols
415	414. List of Agriculture Symbols
416	415. List of Transportation Symbols
417	416. List of Communication Symbols
418	417. List of Energy Symbols
419	418. List of Materials Symbols
420	419. List of Construction Symbols
421	420. List of Manufacturing Symbols
422	421. List of Retail Symbols
423	422. List of Wholesale Symbols
424	423. List of Service Symbols
425	424. List of Government Symbols
426	425. List of Non-Profit Symbols
427	426. List of Academic Symbols
428	427. List of Professional Symbols
429	428. List of Religious Symbols
430	429. List of Cultural Symbols
431	430. List of Historical Symbols
432	431. List of Geographical Symbols
433	432. List of Meteorological Symbols
434	433. List of Oceanographic Symbols
435	434. List of Atmospheric Symbols
436	435. List of Geological Symbols
437	436. List of Biological Symbols
438	437. List of Chemical Symbols
439	438. List of Physical Symbols
440	439. List of Mathematical Symbols
441	440. List of Statistical Symbols
442	441. List of Economic Symbols
443	442. List of Environmental Symbols
444	443. List of Health Symbols
445	444. List of Education Symbols
446	445. List of Science Symbols
447	446. List of Technology Symbols
448	447. List of Industry Symbols
449	448. List of Agriculture Symbols
450	449. List of Transportation Symbols
451	450. List of Communication Symbols
452	451. List of Energy Symbols
453	452. List of Materials Symbols
454	453. List of Construction Symbols
455	454. List of Manufacturing Symbols
456	455. List of Retail Symbols
457	456. List of Wholesale Symbols
458	457. List of Service Symbols
459	458. List of Government Symbols
460	459. List of Non-Profit Symbols
461	460. List of Academic Symbols
462	461. List of Professional Symbols
463	462. List of Religious Symbols
464	463. List of Cultural Symbols

INDEX.

A.		PAGE	
ACCOUNTS—			
Associations	28		
Board—system of	27		
Board—to 30th June, 1929 .. .	27		
Collection of payments due by borrowers .. .	28		
ADMINISTRATION OF SYSTEM—			
Central	6		
Local	7		
ADMINISTRATIVE AND DETAIL WORK .. .	8		
APPLICATIONS—			
Associations	17		
Direct method of	22		
For readvances	15		
Handling of	14, 36		
APPRECIATIONS—			
Associations	21		
Direct loans	23		
Discounting system	26		
ARTICLES CONTRIBUTED FOR PUBLICATION—			
Local journals and newspapers	11		
<i>Trust Companies Magazine</i> , New York .. .	3		
ASSOCIATIONS—			
Accounts of	28		
Appreciations	21		
Assistance rendered to	20		
Capital called up	18		
Expenses of administration	19		
Formation by sheep-farmers	35		
Formation of	21		
List of directors and secretary-treasurers of .. .	37-39		
Loans granted	21		
Nature of	17		
Preliminary expenses	18		
Relations with	21		
Services of directors of	36		
Suggested conference of representatives .. .	21		
B.			
BUSINESS—			
Effect of economic conditions on	2		
Future prospects	35		
Increase for year ended 31st August, 1929 .. .	28		
Increased facilities available otherwise .. .	2		
STATISTICS—			
Comparative statement	37		
Direct loans	23		
Discounting	25		
Loans to associations	21		
Total business dealt with	29, 37		
C.			
COMMISSIONER OF RURAL INTERMEDIATE CREDIT,			
Public Trustee acts, <i>ex officio</i> , as]	6		
CONCLUSION	34		
CO-OPERATIVE PRINCIPLES—			
Association loans	17		
Direct loans	4, 23		
CO-OPERATIVE RURAL INTERMEDIATE CREDIT ASSO-			
CATIONS. (See "Associations.")			
CO-OPERATIVE SOCIETIES	26		
CRITICISMS—			
Standard of security required	3		
Handling of applications	14		
D.			
DAIRY COMPANIES—			
Acceptance of guarantees	23		
Acceptance of endorsements	24, 25		
Business transacted by—			
Direct loans	23		
Discounts	25		
Circular letters to	30		
Utilization of system	29		
DAIRY-FARMERS, Majority of loans to		2	
DEBENTURES—			
Issues	28		
Dependence on standard of loan securities .. .	3, 12		
DEPUTY COMMISSIONER OF RURAL INTERMEDIATE			
CREDIT—			
Appointment of	6		
Visits to districts	9		
DIRECT LOANS—			
Appreciations	23		
Business transacted	23		
Co-operative principles	23		
Dairy companies utilizing method	23, 29		
Guarantees	22		
Method of application	22		
Provisions of Act	4, 22		
DISCOUNTING—			
Acceptance of endorsements	24		
Adoption by dairy and other companies .. .	25, 30		
Appreciations	26		
Business transacted	25		
Discount rate	17, 24		
Limits for advances	24		
Method of	24		
Utilization of monthly payments	25		
DISTRICT BOARDS—			
Changes in personnel	8		
Constitution of	7		
Extension of powers	8		
Meetings	8		
Services of	7, 36		
F.			
FARMERS, Increased credit facilities available for .. .		2	
FARMERS' UNION, Co-operation with		10	
FINANCE AND ACCOUNTS		27	
G.			
GRAIN-GROWERS—			
Employment of system restricted	35		
Proposed facilities for	16		
I.			
INSPECTION OF CLERICAL WORK		32	
INSTRUCTIONS TO OFFICERS		32	
INTEREST, Rates of		17, 19, 26	
INTRODUCTORY		1	
INVESTMENTS—			
In Board's business	27, 28, 37		
Rural Intermediate Credit Redemption Fund .. .	27		
Temporary	27		
L.			
LAND, Securities over		13	
LEGAL CHARGES		15	
LIMIT FOR LOANS, Proposal to increase .. .		2, 16, 21, 35	
"LIMITS," Proposed system for		16	
LOANS—			
Co-operative rural intermediate credit associations .. .	17		
Co-operative societies	26		
Direct to farmers	22		
Disbursement of	16		
Proposal to increase limit for	2, 16, 21, 35		
Purposes of	18, 22		
Rates of interest	17, 19, 26		
Repayment of	15		
Securities for	5		
Statistics	21, 23, 25, 29, 37		
LOCAL COMMITTEE OF BOARD—			
Constitution and personnel	6		
Meetings	6		

MEETINGS—		PAGE
Central Board	6	
Local Committee of Board	6	
District boards	8	
M.		
PUBLIC TRUST OFFICE, Use of organization of .. 7, 8		
PUBLIC TRUSTEE, <i>Ex officio</i> Commissioner of Rural		
Intermediate Credit	6	
PUBLICITY WORK—		
Articles for publication	11	
Booklets and circular letters	11, 30	
Co-operation with Farmers' Union	10	
Distribution of annual report	11	
General survey	9	
Meetings addressed	10	
Visits of Deputy Commissioner to districts	9	
R.		
REPAYMENT OF LOANS—		
Reducing basis	15	
Suspension of payments during winter months	16	
ROYAL COMMISSION ON RURAL CREDITS	4, 13, 15, 22	
RURAL INTERMEDIATE CREDIT ACT, 1927	4	
RURAL INTERMEDIATE CREDIT BOARD—		
Constitution	6	
Local Committee	6	
Meetings	6	
Personnel	6	
Policy	12	
Principal executive officers of	8	
S.		
RURAL INTERMEDIATE CREDIT REGULATIONS .. 5		
RURAL INTERMEDIATE CREDIT SYSTEM—		
Indirect benefits resulting from	2, 36	
Nature of system	12	
Value demonstrated	36	
SECURITIES—		
Criticism of standard required	3	
Over land	13	
Securities which may be taken	5	
Supervision of	31	
SHEEP-FARMERS—		
Employment of system restricted	2, 35	
Proposed facilities for	16	
STATISTICS. (See "Loans.")		
SUPERVISION OF SECURITIES	31	
SYSTEMS OF RURAL FINANCE ABROAD—		
England	34	
Ireland	33	
Scotland	34	
Other countries	34	
T.		
"TRUST COMPANIES MAGAZINE," New York, .. 3		
Article published in		
V.		
VALUATIONS.. .. . 30		

1929.

NEW ZEALAND.

RURAL INTERMEDIATE CREDIT BOARD

(REPORT OF THE) FOR THE YEAR ENDED 30TH JUNE, 1929.

Presented to both Houses of the General Assembly in accordance with Section 76 of the Rural Intermediate Credit Act, 1927.

SIR;—

Wellington, 26th October, 1929.

In compliance with section 76 of the Rural Intermediate Credit Act, 1927, I have the honour, on behalf of the Rural Intermediate Credit Board, to submit a report on its operations for the year ended 30th June, 1929.

1. In the period covered by the report of the Board presented last year the activities of the Board were mainly directed towards the administrative side of the rural intermediate credit system. The inauguration of the system necessitated the evolution and adoption of a definite policy for the Board on matters covering a wide range of subjects. In addition, the machinery provided by the Act for the administration of the system had to be set up; and this involved the appointment of district boards throughout the Dominion, and the taking of suitable measures to provide for the representation of the Board in every part of New Zealand.

Not less important was the establishment of the special co-operative rural intermediate credit associations which the Act authorized to be incorporated under the Companies Act, 1908, for the purpose of obtaining loans from the Board for their members. It was necessary for the Board to take active steps to facilitate the formation of associations and to instruct the farming community regarding the advantages to be gained thereby.

2. At the opening of the year covered by the present report the Board had at its disposal efficient machinery for carrying on its operations, but though in the period covered by the Board's previous report much work had been done in the direction of bringing the system into full operation, it was still necessary to exploit thoroughly the channels which had been opened, but with the utility of which the farming community was not yet fully conversant.

The steps taken during the past year to consolidate the ground made in the earlier phases of the scheme will be treated in detail in the course of this report. It is sufficient to state for the present that during the year the work of administration was facilitated by the delegation of additional powers to district boards and district intermediate credit supervisors, and by visits of members of the central Board and senior administrative officers to most of the districts in the Dominion.

3. On the lending side of the Board's business encouragement and assistance was given to the formation of new associations by placing at the disposal of the promoters the benefit of the experience of the earlier associations, and by arranging for addresses to farmers explanatory of the benefits of associations. Existing associations were assisted by conferences between their directors and representatives of

the Board on questions of policy and matters of difficulty ; and certain measures, which will be explained in detail later in this report, were taken to put their finances upon a satisfactory basis.

It had also by this time become evident that a large number of loans would be made direct to dairy-farmers on the guarantees of the various companies to which they supplied their milk. In addition, certain dairy companies were prepared to assist their suppliers by discounting their promissory notes with the Board, thus providing them with funds for the purchase of fertilizers and other necessary materials at the season of the year when the dairy-farmer's income is at its lowest.

The Board accordingly seized every opportunity which offered of bringing to the notice of dairy companies the assistance which they might afford to their suppliers, either by establishing co-operative rural intermediate credit associations among them or by entering into arrangements with the Board to guarantee direct loans or to discount promissory notes.

The policy of publicity adopted by the Board in the early stages of its existence has been vigorously followed up during the year. The effectiveness of this policy has been reflected in the number of inquiries which have been received from all sources. It has been observed, however, that the granting of a loan to a farmer is often followed by a number of applications from his near neighbours ; and this would seem to indicate that it is still necessary for the Board to utilize every available means of making known the object of the legislation which it is administering.

4. The year now under review has been a prosperous one for the farming community. This has naturally had a marked effect upon the business of the Board. On the one hand, increased returns have enabled a number of farmers to carry on with less financial assistance than usual ; on the other hand, money for investment has been plentiful. A number of institutions which formerly were reluctant to advance money on the security of live-stock have this year been lending freely on this class of security. There is no doubt that the lending business of the Board has been materially affected by both these factors ; the important aspect, however, is that the farming community, to assist which the Board was constituted, has received the benefit both of increased returns and of cheap finance.

5. It has been found that a preponderating majority of the loans granted by the Board have been to dairy-farmers. The reasons are not far to seek. In the first place, before the Board commenced business loans were not readily obtainable on the security of dairy stock, except from dairy companies and their subsidiary financial companies, which, for the most part, had only limited funds at their disposal. In this connection it should be observed that, as a rule, stock and station agents preferred to lend money on other classes of stock, and accordingly these farmers had no source of finance, with the exception of those just mentioned, before the Board was constituted. Then, it must be realized that the majority of dairy-farmers had behind them their own co-operative companies, which provided at once the necessary machinery either for the formation of co-operative rural intermediate credit associations among their members or for the guarantee required in terms of the Rural Intermediate Credit Act in support of a loan direct to the farmer. Those engaged in other classes of farming have no such organizations behind them. Further, while there are comparatively few dairy-farmers whose financial needs approach the maximum loan of £1,000 authorized by the Act, yet to the great majority of sheep-farmers or those engaged in mixed farming a loan of £1,000 is not sufficient financial accommodation. The proposal to increase the maximum loan to £2,000 has accordingly given an increased impetus to the formation of co-operative rural intermediate credit associations in the grain-growing and sheep-farming districts.

6. It is very gratifying to report that it has been the experience of the Board that its borrowers have, with very few exceptions, met their obligations in a satisfactory manner. The Board has regretfully found itself unable, however, to assist a number of farmers whose capabilities and personal qualifications are undoubted, but who are unable to proffer adequate security for loans. However desirous the Board might feel of assisting such applicants, it recognizes as its first

and paramount duty the protection of the funds which have been entrusted to it by the Government and by its debenture-holders. During the year the policy of the Board in this regard has been criticized and the opinion expressed that the Board should reduce its standard of security and charge a higher rate of interest, on the ground that borrowers whose security is not of a high order have the greatest difficulty in raising money at any price.

Under the method of obtaining funds which the Rural Intermediate Credit Act provides, the ability of the Board to borrow money to carry on its operations will at no distant date be dependent entirely on the good repute of the securities held for loans already granted, and consequently, if it were to depart from the high standard which must be maintained in regard to trustee investments, not only would it fail in its duty to the Government and its present debenture-holders, but it would also lose the confidence of the investing public and thus destroy all prospect of selling future issues of debentures.

7. Reference has already been made to the effect which the exceptionally good farming season just past has had upon the lending business of the Board. Another factor which must be taken into account is that the majority of farmers are conservative and slow to change. Reports from branch officers go to show, however, that those farmers who have already done business with the Board are very well satisfied, particularly as regards the immediate cessation of interest on amounts paid to credit of their accounts. The Board fully recognizes that the testimony of satisfied borrowers is the best publicity it can have, and loses no opportunity of ensuring that any suggestions made by borrowers are met wherever to do so is consistent with the safety of its funds.

It may not be thought out of place to mention here that the lending operations of the Board involve difficulties which are possibly not generally realized. In the first place, almost the whole of the Board's loans are made upon the security of live and dead stock, and thus require skilled and careful handling at every stage. Another factor which must be taken into consideration is that the average amount of loan granted by the Board is about £300. It is thus evident that the expense of administration of the scheme, especially in its early stages, must be heavier than the expense of administering loans of a similar volume on the security of land, as in the latter case the average loan will be considerably higher and the work involved in respect of each application will be less.

8. That the operation of the Act is being watched with close interest in places outside the Dominion is shown by the following editorial comment on an article on the rural intermediate credit scheme, which was contributed by the Commissioner to the *Trust Companies Magazine*, New York :—

“Inasmuch as ‘farm relief’ was the keynote issue in the last Presidential campaign and is the prime subject of the present special session of Congress, the following article is of timely interest. While this problem suggests aspects which are peculiar to economic conditions in the United States, there are valuable lessons to be obtained in studying the experiences of other countries as regards governmental agencies to provide rural credits and encourage either voluntary or Government agencies for co-operative financing as well as marketing. New Zealand has been foremost in developing a Government system of rural credits and in the formation of co-operative associations.”

In communicating with the Commissioner subsequently, the editor of the magazine stated :—

“I have had quite a number of requests for copies of the April issue of *Trust Companies Magazine*, containing your article on ‘Rural Intermediate Credits in New Zealand,’ and also have had occasion to send several copies to members of our Congress who have been active in formulating the Agricultural Relief Bill which has recently become a law.”

RURAL INTERMEDIATE CREDIT ACT, 1927.

9. The passing of the Rural Intermediate Credit Act of 1927 gave effect to the second portion of the recommendations of the Royal Commission of 1925 on Rural Credits, whose report (B.-5) was presented to Parliament in 1926; the first portion of its recommendations having been dealt with in the Rural Advances Act of 1926, providing for a system of loans on long-term mortgages on the security of rural lands, independent of State subsidy. The Royal Commission—composed of the late Mr. P. H. Cox, of Wellington, a retired banker; Colonel J. J. Esson, C.M.G., V.D., J.P., of Wellington, Financial Adviser to the New Zealand Government, and at present Chairman of the Rural Intermediate Credit Board; and Mr. W. J. Polson, of Wanganui, president of the New Zealand Farmers' Union, now representing the Stratford Electorate in Parliament—was appointed by the Government for the purpose of conducting investigations of the systems of rural finance operating in the American and European Continents. After an exhaustive examination of the various rural credit systems in force in those countries, the Commission recommended in regard to intermediate credit the adoption of a system similar in its general outline to that in force in the United States of America, which in turn is largely based on European systems.

The Rural Intermediate Credit Act, 1927, gave effect to the recommendations of the Commission in regard to intermediate credit, with the provision of an alternative method of direct loan application now appearing as Part III of the Act, designed to facilitate applications by farmers in outlying districts who might, in the absence of co-operative rural intermediate credit associations operating in their districts, be prevented from participating in the benefits of the system. The system gives wide scope for the application of the principles of co-operation to farmers' intermediate credit requirements, which is emphasized in the Commission's report as an essential feature of any system of rural finance; and in practice this applies equally to the direct method of application referred to above as to the association method, as the bulk of applications dealt with under the former heading up to the present have been submitted through co-operative dairy companies.

The object of the Act is to provide credit for farmers, for periods ranging from six months to five years, on the security of stock and chattels, at reasonable rates of interest, with liberal terms of repayment, permanency of finance, and the most economical service in every respect. The outstanding features are the financing of the Board's operations by means of debentures secured upon the aggregate of its assets, involving no State liability for the debentures, and the scope which the scheme gives for collective and individual action upon the part of the borrower.

The initial funds for investment are provided by an advance from the Consolidated Fund on loan and free of interest for ten years, with a currency of not less than twenty years. The maximum amount of the advance is £400,000, of which one-third must be placed to the credit of a special redemption fund which is, by statute, to be invested in Government securities only and, with the resulting income, is to be applied exclusively for the purpose of redeeming debentures issued by the Board, and the remaining two-thirds is available for use in the Board's lending business. Provision was also made in the Act for an outright grant to the Board of a sum not exceeding £10,000 to cover expenditure necessitated in the establishment and preliminary administration of the system. This grant has been received by the Board.

As pointed out in the Royal Commission's report, the increasing modern tendency in rural finance is the disappearance of the individual mortgagee and his replacement by corporate lending concerns which secure the necessary funds by the issue of bonds secured upon an aggregate of mortgages. This is the general principle of finance which the Dominion system reproduces, as the Board's funds will be principally derived from the issue of debentures secured upon the whole of its assets. The Act gives the Board power, with the consent of the Minister of Finance, to issue debentures restricted as to total amount in that they may not exceed the sum total of the advances from the Consolidated Fund and the

amount of the investments of the Board from time to time. In addition to this restriction, the total of the debentures issued is not at any time to exceed £5,000,000 in all. The Act gives the debenture-holders, in effect, priority over the claim of the Crown in respect of the advance of £400,000, as it restricts repayments to the Crown so that they may not exceed the amounts transferred from time to time to the reserve accounts of the Board. Consequently, holders of debentures are assured of a margin of assets equal to that sum, apart altogether from the margins in the values of the stock and other assets forming the securities of the individual advances by the Board.

The funds provided in the above manners may be made available to the farming community in the following ways:—

- (a) By advances to farmers as members of a special class of limited-liability company termed “co-operative rural intermediate credit associations” (Part II of the Act):
- (b) By advances to farmers individually, the loans being additionally secured by the **partial** or entire guarantee of a company or private individual (Part III of the Act):
- (c) By loans to farmers’ co-operative organizations (Part IV of the Act):
- (d) By discounting farmers’ promissory notes or bills of exchange (section 15 of the Act, and paragraph 46 of the Rural Intermediate Credit Regulations of the 21st December, 1927, as amended by paragraph 5 of further regulations issued on the 17th September, 1928).

The maximum amount which an individual farmer may obtain by utilizing one or more than one of the above methods is £1,000, and the purposes for which the loans are to be applied must be approved by the Board. The maximum term of advances is five years in the case of loans to farmers and three years in regard to loans to farmers’ co-operative organizations, while no maximum period is prescribed in the case of discounting transactions.

The main classes of security for loans to farmers are mortgages of live and dead stock, implements, crops, produce, and similar farming assets, supplemented in suitable cases by mortgages over land or other collateral security. Collateral security is provided in the case of loans to members of co-operative rural intermediate credit associations by the collective responsibility of each association, limited to the share capital subscribed by the members and reserves created by the association, for the repayment of funds advanced by the Board to the members through the medium of the association, and, in the case of direct loans under Part III of the Act, by the guarantees of approved persons or companies for not less than 20 per cent. of the original amount advanced or such larger percentage as may be required by the Board in the individual cases.

In the case of loans to farmers’ co-operative organizations under Part IV of the Act, the main security will comprise live-stock or produce belonging to the companies and charged to the Board to secure the repayment of moneys advanced. In discounting transactions the Board will hold a promissory note from the farmer who has obtained accommodation by this method; but its main security will be in the endorsement of the discounting company, and in these cases the sufficiency of the protection afforded by the responsibility of the discounting company to meet the note on maturity is ascertained in advance by an adequate investigation of the company’s financial position by the Board’s accounting officers.

RURAL INTERMEDIATE CREDIT REGULATIONS.

10. The regulations made in terms of the Act on the 21st December, 1927, and published in the *New Zealand Gazette* No. 88, of the 22nd December, 1928, control the administration of the Board’s business in regard to matters of procedure and detail and the accounting procedure, and, in addition, provide for the control and management of the district boards and co-operative rural intermediate credit associations established in accordance with the provisions of Part II of the Act. They also define the scope of the Board’s discounting business, and prescribe various

standard forms applicable to securities taken by the Board and associations in connection with loans, and to debentures and other securities issued by the Board. Amending regulations made on the 17th September, 1928, and published in the *New Zealand Gazette* No. 70, of the 20th September, 1928, provided mainly for the simplification of the proceedings of co-operative rural intermediate credit associations.

ADMINISTRATION OF SYSTEM.

11. *Personnel of Board*.—In terms of section 3 of the Rural Intermediate Credit Act, 1927, the system is administered by a board comprised of seven members. The Public Trustee, *ex officio*, is the principal executive member of the Board, acting under the designation of "Commissioner of Rural Intermediate Credit," and the remaining six members, of whom one at least must have practical experience in farming, are appointed by Governor-General's Warrant. The Board consists of the following members :—

Colonel J. J. Esson, C.M.G., V.D., J.P., Wellington, Financial Adviser to the New Zealand Government, Chairman of the Rural Intermediate Credit Board.

Mr. J. W. Macdonald, C.M.G., Wellington, Public Trustee of the Dominion of New Zealand, Commissioner of Rural Intermediate Credit.

Mr. John Brown, Lowcliffe, Canterbury, farmer.

Mr. T. E. Corkill, Wellington, formerly assistant general manager of the Bank of New Zealand.

Mr. Norton Francis, C.M.G., Christchurch, company-director.

Mr. J. N. Massey, M.P., Puni, Auckland, farmer.

Mr. W. Waddel, Wellington, Superintendent of the State Advances Office.

Adequate provision for the representation of farming interests of both Islands was made by the appointment of Messrs. Massey and Brown.

Throughout the year Mr. Corkill was absent on a trip to England. It is understood that he will be returning to the Dominion in November next. Leave of absence was granted to Mr. Norton Francis for the months of June, July, and August, 1929, during which he was absent from the Dominion.

Under the provisions of the Act, Mr. J. Snell, of Wellington, was appointed Deputy Commissioner of Rural Intermediate Credit as from the 23rd March, 1928, and discharges the duties of that position in conjunction with those of Controller of the Mortgage Division of the Public Trust Office.

12. *Meetings of Board and Local Committee*.—Regular monthly meetings of the Board have been held during the past year, and in the intervals between the meetings the Local Committee of the Board, set up in accordance with the regulations issued under the Act and comprising the Chairman (Colonel J. J. Esson), the Commissioner (Mr. J. W. Macdonald), and Mr. W. Waddel, has met weekly for the purpose of considering loan applications, consenting to the registration of co-operative associations, and approving guarantees under Part III of the Act and endorsements of notes for discounting with the Board.

In the initial stages applications received at Head Office in the days immediately preceding the full meetings of the Board were dealt with at those meetings, this course being at that time of great value, in that it enabled matters of general policy to be fully discussed by all members in relation to concrete cases. It was, however, not always possible to circulate papers relative to applications received in these circumstances among the members prior to the meeting, as can readily be done with members of the Local Committee resident locally, and, moreover, with the crystallization of the lending policy there was not the same need for the references to the full Board. Consequently it was decided to leave the handling of loan applications and the other matters referred to above wholly in the hands of the Local Committee, and so leave the Board more time at its meetings to devote to general matters. Applications or other matters involving special features are, however, referred to the full Board from time to time, and, in addition, members receive copies of all decisions reached at meetings of the Local Committee, in order that

they may be fully apprised of the basis upon which that Committee is dealing with the business entrusted to it.

The meetings of the Board are held monthly on the second Friday of the month, except where special circumstances render a departure from that day necessary. The Local Committee meets weekly or more often as required, and the frequency of these meetings renders it possible to give the promptest consideration to loan applications or matters incidental to the Board's lending business requiring the approval of the central Board. For the year ended 30th June, 1929, twelve meetings of the full Board and thirty-five meetings of the Local Committee were held.

LOCAL ADMINISTRATION.

13. For the local working of the system the Dominion is divided into sixteen districts, for each of which a district board has been established, and one or more representatives of the central Board appointed, under the designation of "District Intermediate Credit Supervisor." The latter officers are in each case the branch officers of the Public Trust Office, the organization of which is being utilized by the Board, and in the conduct of the Board's operations they have the specific powers and duties set out in the Rural Intermediate Credit Act, 1927, and the regulations issued thereunder. In each case the District Supervisor stationed at the headquarters of the district is the Chairman of the district board. In the smaller centres the District Managers of the Public Trust Office act also as representatives of the Board, under the designation of "District Officer."

No important changes were made during the past year in the local organization of the system. The officers of the Public Trust Office hold the position of District Intermediate Credit Supervisor or District Officer by virtue of their being district representatives of the Public Trust Office. A number of changes in the personnel of the local officers of the Board occurred during the year as the result of staff changes made by the Public Trustee. Apart from such changes, the only alteration in the representation of the Board in the districts was the appointment of a District Intermediate Credit Supervisor at Hastings, consequent upon the establishment of a District Public Trustee office in that town.

DISTRICT BOARDS.

14. *Constitution of Boards.*—The district boards, consisting of five members each, set up by the central Board in the months of March and April, 1928, under the provisions of section 14 of the Rural Intermediate Credit Act, 1927, have continued to function with every satisfaction. The personnel of these boards places them in a position to render valuable service in connection with all phases of farming activities, for, apart from the District Intermediate Credit Supervisor at the headquarters of the district, who is *ex officio* chairman of the district board, they include representatives of other Government Departments closely connected with farming matters, such as the Lands and Survey, Valuation, and Agriculture Departments, stock and station representatives nominated by the local stock agents' associations, and generally two farming members. For the most part the district boards have been engaged in the consideration of loan applications originating in their districts, but their advice has been sought by the central Board from time to time upon matters of policy calling for a knowledge of local conditions.

Extremely valuable services have been rendered throughout the year by the district boards, and they have given the most careful consideration at all times to matters coming before them. Applicants for loans have benefited from the attention given to their applications, as in doubtful cases the district boards have carefully considered all the surrounding circumstances to ascertain whether arrangements are possible which will enable the loans to be approved, and, as the result of improvements effected in the applicants' financial arrangements or in other respects made as the result of suggestions offered by the district boards, many applications have been approved which would otherwise not have been successful.

15. *Meetings of Boards.*—The boards have met in the districts as frequently as the volume of business for consideration has justified the expense involved in holding meetings. Where the volume has not been large the views of the district board members have been obtained through circulating among the members copies of the papers relating to the applications or other matters. It is recognized, however, that it is preferable to call the boards together for the purpose of transacting the loan business, and this course is followed wherever the volume of business renders it practicable to do so.

16. *Changes in Personnel.*—During the past year there were the following changes in the personnel of the district boards:—

North Auckland District Board: On the 14th August, 1928, Mr. David O'Donoghue succeeded Mr. Alan Marshall as District Public Trustee at Whangarei and consequently assumed the positions of District Intermediate Credit Supervisor there and Chairman of the North Auckland District Rural Intermediate Credit Board.

Marlborough District Board: Upon the retirement of Mr. John Stevenson as the Commissioner of Crown Lands for the Marlborough Land District his appointment as a member of the Marlborough District Rural Intermediate Credit Board terminated, and his successor, Mr. Percy Russell Wilkinson, was appointed a member of the District Board as from the 12th April, 1929.

17. *Extension of Powers of Boards.*—During the year the powers of the district boards were enlarged so as to enable them to deal finally with all applications for loans up to £250, whether originating from co-operative rural intermediate credit associations or submitted for consideration under the provisions of Part III of the Act, provided these applications comply with the general requirements of the Board in regard to margins of security. Prior to this extension of the district boards' powers their functions were limited, apart from special references by the central Board, to the consideration of applications for direct loans submitted under the provisions of Part III of the Act.

ADMINISTRATIVE AND DETAIL WORK.

18. From the time when the legislation providing for the system was first considered it was clear that the nature of the Board's lending business would call for an extensive organization throughout the Dominion to attend to the practical administration of the scheme, and provision was included in the Act for the Board to employ the services of any Department of State in carrying on its business. In view of the fact that the Public Trust Office has branches or representatives in practically every important centre of population in the Dominion, it was considered by the Board to be the most suitable Department to conduct the administrative side of the business. The Public Trust Office has accordingly acted during the whole of the past year in the capacity of agent for the Board.

Apart from the Public Trustee, who is *ex officio* the principal executive member of the Board, under the style of "Commissioner of Rural Intermediate Credit," and Mr. J. Snell, the Deputy Commissioner, the following senior officers at the Head Office of the Public Trust Office act as the principal executive officers of the Board: Chief Accountant to the Board, Mr. W. M. Barr (Chief Accountant, Public Trust Office); Solicitor to the Board, Mr. C. E. Cole (Assistant Solicitor, Public Trust Office).

The remuneration of the Public Trust Office for the work carried out by the Board has been adjusted on a basis satisfactory both to the Public Trustee and to the Board. All expenses and disbursements incurred directly in the conduct of the Board's operations are charged direct to the Board's accounts, and other items for which it is impracticable for the Public Trustee to make a direct charge are taken into account in assessing the payment to be made for the services of the Public Trust Office organization.

Although the Public Trust Office acts as the agent of the Board and its organization is utilized for carrying into practical effect the decisions of the Board and preparing the necessary detail work involved, it has no control over or responsibility for the general policy or operations of the Board. Every care is, therefore, taken to avoid any merger of the identity of the parties to the arrangement.

The advantages of this arrangement to the Board are considerable from the point of view of both economy and the prompt and accurate performance of the detail work. The expense of securing adequate representation in the districts by the setting-up of a separate organization would have been heavy, and in districts where the volume of business has shown but a gradual increase or uneven development would have been disproportionate to the revenue derived immediately or in prospect. Moreover, the adoption of such a course would not have permitted of adequate publicity work being carried out at commensurate cost to render the details of the system known to the farming community, or to enable close personal touch to be kept, as is essential, with movements in the districts in the direction of utilizing the system and assisting in bringing them to finality.

The present system has proved admirably adapted to the Board's needs, in view particularly of the different extents to which the scheme has been availed of in the various districts. In those districts where the business has, despite active measures upon the part of the Board's officers to make the benefits of the scheme known to the farming community, not made rapid progress, local representation is immediately available at moderate expense. Apart from this, however, the Board has the great benefit of having at its disposal the efficient organization of the Public Trust Office, and it has been able to appoint to the position of District Supervisors senior district officers of the Public Trust Office who bring to the position the benefit of their experience in the Office and the intimate contact which they have established with the farming community in the administration of country estates and the various transactions of the Public Trust Office with farmers who have raised loans on mortgage from the Public Trust Office or are mortgagors or lessees of estates administered by the Public Trustee. Twenty-one district officers of the Public Trust Office have up to the time of this report been appointed District Intermediate Credit Supervisors, those at the headquarters of the districts being, *ex officio*, chairmen of the district boards. In addition to their general administrative duties, District Supervisors act, *ex officio*, as directors of co-operative rural intermediate credit associations established in their districts, and, as already twenty-seven of these associations have been formed and the formation of others is being considered, it will be seen that in some districts the position calls for the performance of extensive duties, involving no small degree of responsibility. It is not always possible for the District Intermediate Credit Supervisors to attend meetings of the directors of the associations, but in some cases arrangements are made for the district manager or agent of the Public Trust Office to attend as his deputy.

PUBLICITY WORK.

19. The importance being realized of making the farming community conversant with the principles of the system established for their benefit, the practical means whereby advantage may be taken of the financial assistance made available thereby, and the policy of the Board in regard to its lending business and related matters, every opportunity has been taken during the past year of bringing the details of the system before the notice of farmers generally, and the fullest publicity has been given to developments affecting the Board's business. The Board has at all times met requests for articles containing an exposition of the system for publication in interested papers or journals, and where it has appeared that addresses to meetings of farmers interested in proposals to form co-operative rural intermediate credit associations or of directors of companies considering the utilization of the guaranteeing or discounting provisions would be appreciated every assistance has been given and arrangements have been made for a responsible officer of the Board to attend for the purpose of supplying full information upon the points involved. Particularly in regard to the delivery of addresses much valuable work has been done in the districts by the officers of the Board, which desires to acknowledge here the value of the services which have at all times been freely given in its interests.

20. *Visits of Deputy Commissioner to Districts.*—During the past year it was arranged that the Deputy Commissioner should pay visits to the various districts

for the purpose of meeting the directors of the associations operating throughout the Dominion, discussing any difficulties with which they were faced in the conduct of the associations' affairs, and furnishing first-hand information as to the policy of the Board in regard to loan applications and other matters. The series of visits was carried out during the winter months, to ensure that the fullest assistance might be given to the directors during the period in which farmers were making their financial arrangements, and that the maximum benefit would therefore be derived from the scheme during the forthcoming season. The programme has now been completed, and as a result of the action taken a number of misunderstandings regarding the objects aimed at by the Board and the reasons underlying the policy it has adopted in connection with the various phases of its business have been removed, thus making for the smoother working of the association method of securing accommodation. It is expected also that with the more uniform handling of loan applications by the directors of associations throughout the Dominion, as the result of information supplied or advice tendered in the course of these discussions, borrowers will benefit through the prompter handling of their applications which will be possible when the directors are fully cognizant of the basis upon which the Board deals with such applications, and the nature and extent of the security which it considers necessary in view of its obligations to the debenture-holders.

In the visits to the South Island districts in which associations have been formed Mr. John Brown, a member of the central Board representing the South Island farmers, accompanied the Deputy Commissioner. Arrangements were also made for the District Intermediate Credit Supervisors in the respective districts to attend at all conferences with the directors of associations.

Advantage was also taken of the opportunity to arrange for the delivery of addresses upon the system or, if that was not possible within the available time, to put matters in train for meetings to be addressed by the local representatives of the Board. Addresses were delivered by the Deputy Commissioner to meetings of farmers at Te Puke, in the Bay of Plenty district; New Plymouth, Inglewood, Auroa, Stratford, Mangatoki, and Okaiawa, in the Taranaki district; Wanganui and Waverley, in the Wanganui district; Blenheim and Havelock, in the Marlborough district; and Rangiora, in the Canterbury district. He also delivered an address to a meeting of the New Zealand Society of Accountants held in Wellington.

21. *Meetings addressed.*—Addresses have also been delivered by District Intermediate Credit Supervisors to meetings of farmers, meetings of the local branches of the Farmers' Union, annual meetings of dairy companies, and other gatherings of persons closely associated with the farming industry. Over thirty such addresses were delivered during the past year. These have been of great value for publicity purposes, as is evidenced by the direct results which have in many cases followed such meetings, such as the formation of associations or the decisions of dairy companies to avail themselves of the provisions of the Act for the benefit of their suppliers.

On the 31st May, 1929, the Hon. J. G. Cobbe, who was one of the original directors of the Oroua Association but had been compelled through pressure of official duties to relinquish this position, delivered an address at Feilding to the shareholders of the association dealing with the rural intermediate credit system. As a result of this address interest in the association was considerably stimulated.

22. *Co-operation with Farmers' Union.*—Close touch has been maintained throughout the year with the New Zealand Farmers' Union and its branches throughout the Dominion, and from time to time summaries of the activities of the Board and statements regarding special developments have been furnished for inclusion in publications of the union. The central organization and the branches of the union throughout the Dominion have lent the Board considerable assistance since the inception of the system in the measures which it has taken to bring particulars of the system before the notice of the farming community, and the Board appreciates the assistance which has at all times been given by the union in the launching of the scheme. The larger proportion of the meetings addressed during the past year by the officers of the Board were convened by the local branches of the union and the success which has attended the efforts to establish many of the associations

which are now operating or in the course of formation is directly attributable to the keen interest displayed and energetic steps taken by the local branches of the union. Upon its part the Board is willing at all times to co-operate with the union in making the intermediate credit system of the maximum benefit to the farming community.

23. *Issues of Booklet and Circular Letters.*—The issue of the booklet “New Finance for Farmers” was completed during the year, and a wide distribution made among farmers, farmers’ organizations (including the Farmers’ Union and agricultural and pastoral associations, dairy factories, and similar concerns), stock and station companies, and other persons and concerns likely to be interested in the establishment of the system, or in assisting farmers to take advantage of the means provided for obtaining loans. As a consequence particulars of the system were made widely known among farmers and persons associated with the farming industry. A supply of the booklet has been kept on hand at all offices of the Board and copies are made available to persons desirous of obtaining information regarding the Board’s activities. As no public issue of debentures has been required up to the present, it has not been necessary to proceed with the printing of the booklet dealing with the system from an investor’s point of view; but the booklet has been prepared and is in readiness for immediate use when required.

In view of the keen interest displayed by dairy companies the issue of the above booklet was recently supplemented by the despatch of a circular letter to all dairy companies, cheese-factories, and like concerns operating in the Dominion, setting out the various ways in which they are able to assist suppliers to take advantage of the intermediate credit system. Already this action has been followed by direct results, in that several requests have been received from companies for the acceptance of their guarantees of loans under Part III of the Act, or their endorsement of notes for discounting, and it is probable that further decisions will be made to utilize the system when it has been possible for the circular letter to receive the full consideration of the directors of such companies.

24. *Distribution of Annual Report.*—A large number of copies of the report on the Board’s operations for the year ended 30th June, 1928, were printed, and copies were supplied to the daily newspapers throughout the Dominion, farming journals, and other publications. As the report contained a full statement of the conditions which rendered the introduction of the system imperative, its nature and practical working, the establishment of the scheme throughout the Dominion, the policy of the Board in regard to loan applications and other matters affecting its business, and the use which had been made of the system during the short period for which the Board had then been operating, wide publicity was given by the newspapers and other journals to the contents of the report. Copies were also widely distributed among all persons and concerns likely to be interested in the operations of the Board.

25. *Articles published in Journals and Newspapers.*—There has been constant inquiry upon the part of publications devoted to farming interests for articles explaining the system or dealing with aspects which are of special interest to the readers of the particular journals, or setting out the more notable developments which have occurred from time to time. The desired information has freely been made available. In a number of instances arrangements have been made for furnishing journals of this description with regular articles dealing with the system and the operations of the Board.

Statements of the proceedings at the monthly meetings of the central Board have been released to the press during the year and have been published extensively throughout the Dominion, thus keeping all classes of the community conversant with developments in connection with the system, and the measures taken by the Board to give the fullest possible service to the farming community and to meet changing conditions existing from time to time. Reports of matters of local interest have also been supplied to the newspapers published in the various districts.

The Board desires to record its indebtedness both to the press throughout the Dominion and to the farming journals for the wide publicity which, in recognition of the national importance of this system of rural finance, the object of which is to assist the welfare of the primary producer, they have given to the operations of the Board and developments regarding the system.

26. It will be seen that the most energetic steps have been taken to ensure that the merits of the intermediate credit system are brought before all classes of the farming community and other persons and organizations likely to be interested in the lending operations of the Board. The success of the measures taken during the past year and the initial period of the Board's operations is reflected in the marked increase in business recorded during the year, and it is confidently anticipated that equally satisfactory progress will, as a further result, be recorded during the coming year.

POLICY OF THE BOARD.

27. *Nature of System.*—Despite the full measures taken to explain the system set up by the Rural Intermediate Credit Act of 1927, it has been brought to the knowledge of the Board at different times that misapprehension exists as to the classes of security which the Board is able to accept and the standard of security which, in view of its responsibility to debenture-holders, the Board finds it necessary to maintain. The true nature of the system was explained in the first report of the Board in the following terms:—

“The main purpose of the rural intermediate credit system is to improve the existing credit machinery by organization and supervision and to create a greater degree of confidence in rural securities—mainly chattels and the like—than has existed in recent years, and so to secure a flow of funds for investment upon those securities at reasonable rates. In accordance with developments abroad, the individual lender, from one point of view, or borrower, from the other, will be replaced by a corporate concern, the Rural Intermediate Credit Board, which, by reason of the extent of its operations and the wider spread of risk, will, it is anticipated, be able to secure the necessary funds on more advantageous terms than would be possible in the case of individual borrowers. The success of the Board's operations must depend to a large extent upon its ability to secure a flow of funds through debenture issues, and confidence upon the part of the investing public cannot be expected if the Board does not maintain a prudent standard of investment. The Board is also a trustee in respect of the advances received by it from the Consolidated Fund, which are by way of loan only, and it is equally under an obligation to safeguard those funds. In view of the fact that by the Act debentures are constituted trustee securities it is evident that it was the intention of Parliament that advances should be made only against adequate security. To adopt any other lending policy would be inconsistent with the Board's responsibility to the Government and the debenture-holders, and would be opposed to and almost certainly defeat the accomplishment of the objects aimed at by the introduction of this system.

“The producer will benefit from the policy followed by the Board not only by reason of the more favourable rates of interest at which accommodation is procurable, but also because of the security of finance provided where arrangements are made with the Board for accommodation.”

It is clear, however, that the system is regarded by some applicants as a measure designed to provide loans for farmers who have not an adequate amount of security to support applications for the amounts which they require for stocking up or developing their farms, or discharging pressing liabilities. While the Board is prepared to take into account all factors having a bearing upon the applications submitted to it, including the worth of the personal element, which is an important factor in this class of finance, or the value of collateral securities offered in the form of second mortgages of land, charges over other classes of assets or independent personal security such as guarantees, there have been a number of applications which the Board has felt it would not be justified in granting. These cases are not confined to applications where the security offered is inadequate. In some cases it has been apparent that the farming proposition is, in view of liabilities attaching to it, economically so unsound that the applicants will not be in a position to continue for long with their operations. Where this is the position it is felt that no real relief

would be afforded by the granting of a loan out of the Board's funds, while there would be a grave risk of loss of the Board's funds which it would be improper for the Board to incur in view of its responsibility to debenture-holders.

In cases where there is doubt as to the sufficiency of the security proffered, sympathetic attention is given by the Board and the district boards to all relevant considerations, and, especially where the personal risk is shown to be a particularly good one, every circumstance in favour of granting the loan is gone into fully. In this regard the Board freely acknowledges the valuable services given by the district boards. Composed to a large extent of practical farmers familiar with local conditions, they are able to judge accurately the prospects of the ultimate success of the farming venture and the protection which, if a loan were granted, would in the meantime be afforded to the Board. In many instances suggestions have been made by the district boards for better financial arrangements in regard to leases, mortgages, or other liabilities, or improved methods of farming, the adoption of which has made it possible to approve loans immediately which, under the pre-existing circumstances, would not have been approved, or has later placed the applicants in a position to obtain advances. It is evident, also, from the conditions under which loans have been recommended by directors of associations that the like careful consideration has been given to applications put forward by them.

28. *Securities over Land*.—One matter which has given rise to difficulty in dealing with loan applications is the question of the acceptance by the Board of collateral securities over land. It is clear that the purpose of the intermediate credit system is to provide loans mainly on the security of farming chattels, including live-stock, machinery and implements, and farm-produce, and that a borrower's requirements in respect of land should be met by the system of long-term mortgages of land set up by the Rural Advances Act of 1926. Applications have, however, been submitted for loans which, upon the margins adopted by the Board, would be secured partly on the farm chattels owned by the applicant and partly by collateral mortgages over the farm properties, subject to one or more existing mortgages. Generally, where the stock is of such value that the bulk of the loan required could, upon the Board's margins, be approved upon the stock, and a good equity has been shown to exist in the farm property, the Board has been able to grant the desired loan. It is, however, averse, as a matter of principle, to granting loans which, in view of the inadequacy of the stock offered, would in effect be mainly secured by a mortgage of land following upon prior encumbrances, the total of which is heavy in relation to the value of the land, or to approving advances upon the security of second or subsequent mortgages of land only. In the latter regard it is to be remembered that the rural advances system makes provision for loans on the security of land up to the maximum proportion which is considered prudent from the point of view of a lending institution securing its funds for investment by debenture issues, and if the borrower is not able to obtain a loan of the amount he requires under that system, it would not be within the true purposes for which the Board is constituted to approve a loan which would bring the total indebtedness on the property beyond the amount obtainable from the Rural Advances Board.

It has also at different times been suggested to the Board that loans should be approved in certain cases where the purpose of the loans is to discharge second or later mortgages over the farm properties and a substantial portion of the securities would be in collateral mortgages over the properties, and that in these cases provision should be made for repayment of the Board's loans over longer periods than the normal five-year periods. The term for which loans may be granted is, however, restricted by the Act to five years, which is the term within which the information obtained by the Royal Commission on Rural Credits showed that intermediate credit loans should normally be cleared; but, apart from this, the effect of adopting the course recommended would be to provide facilities for long-term second mortgages of land at low rates of interest, and the Board does not consider that this would properly be within its functions.

While these are the general principles followed by the Board in regard to applications of this nature, each individual case is treated upon its merits and the best possible treatment given to applicants, consistent with the obligations imposed upon the Board.

29. *Handling of Applications.*—It is recognized that if the system is to be of the fullest value to farmers applications for loans must be handled and a decision given with promptitude. It was inevitable that during the initial stages of the Board's operations, when directors of associations, members of the district boards, and the local representatives of the Board, were not fully familiar with the Board's requirements, a final decision could not always be arrived at as quickly as could be desired, it being frequently necessary to defer a decision until additional information was forthcoming. The measures taken during the past year to render all persons handling loan matters conversant with the practical requirements of the Board and its policy in regard to its lending business, and to provide them with publications containing an outline of the procedure to be followed and of the policy adopted by the Board, may be expected to result in a more uniform handling of the applications and reduce to a minimum the necessity of holding over a decision until requisite information is submitted.

Upon the Board's part all necessary steps are taken in the central office and local offices of the Board to dispose of applications promptly. Standard forms of application, valuation, and statement of financial position have been printed which, if adhered to, furnish the full information required for the consideration of the applications. Meetings of district boards are held as frequently as the volume of business renders it practicable to do so, and in the intervals between the meetings the views of the individual members are ascertained by circulating copies of board papers summarizing all the relevant information, so that the decision of the district boards may be given with despatch. Certain powers of approving loans have been given to the district boards which, in cases covered by this delegation, render a reference to the central Board unnecessary, and the powers so conferred on the district boards were extended during the past year.

In the central office the Local Committee of the Board, which now deals with all loan applications and with other matters affecting the lending business, meets weekly or more frequently if necessary, to dispose of such of these matters as require the approval of the central Board. By the use of a special form of reference upon which the decisions of the Local Committee are endorsed in a concise form, it is possible to advise local officers of the Board promptly of the decisions reached.

Measures have also been approved by the Board to meet the case of borrowers who change their flocks and herds according to seasonal requirements and desire the re-advances of sums received by the Board representing the proceeds of the partial realization of their stock in order to purchase further stock to replace the stock sold. In such cases applications for re-advances will be dealt with promptly by the District Intermediate Credit Supervisors, acting in conjunction with the district boards.

During July the Board met with the criticism on the part of a director of a co-operative rural intermediate credit association that undue delays had occurred on the part of the central office of the Board in dealing with applications referred by the association for the Board's approval, and this criticism was given prominence by press reports which appeared. An examination of the records of the Board relative to loan applications received from this association showed, however, that the majority of the applications submitted by it had been granted by the Local Committee within one, two, or three days after their arrival at the Head Office of the Board, and that as regards five-sixths of the applications received from the association the average time taken in reaching a decision was four days. The remaining applications presented features which, in the opinion of the Committee, rendered it necessary that further information should be placed before it. These applications were therefore referred back to the directors of the association to enable the doubtful points to be investigated. As a result two of the applications were withdrawn by the applicants and the remainder were granted by the Local Committee in the light of additional satisfactory information supplied by the association. In two of these cases the Local Committee's decision was given on the day on which the papers arrived at the Head Office, and the decisions in the other cases were given within three days.

These circumstances were fully traversed in a statement issued by the Commissioner to the press which also received wide publicity. In the statement

the need for the Board, in view of its responsibility to debenture-holders and in the ultimate interests of the scheme, to be fully satisfied as to the adequacy of the security offered in every case was fully emphasized.

The preparation of the securities, once the loans are granted, is facilitated by the use of standard forms used by the Board in regard to direct loans or furnished to associations at cost price for the taking of securities for loans granted by them and approved by the Board.

30. *Legal Charges*.—The expense involved in obtaining loans is kept at a minimum, and the scale of legal charges prescribed by the Rural Intermediate Credit Regulations in relation to the legal work involved is on the lowest basis. During the year it was brought to the notice of the Board that in cases where collateral security was required over land the legal expenses were increased to a marked extent through the necessity of incurring agency charges for searching, stamping, registration, and other incidental work, and where it has been possible, in view of the security in the stock and chattels or produce, to dispense with the taking of such security the Board has in consequence agreed to do so.

31. *Repayment of Loans*.—The Royal Commission of 1925 recommended that intermediate credit loans should be granted on a reducing basis, with repayments sufficient to clear the indebtedness of borrowers within a five-year period. The Board has followed the principle so laid down, and in granting loans has, as a general rule, fixed terms of repayment which will result in the indebtedness being cleared within that period, the repayments, together with interest, being secured in the case of dairy-farmers by an order on the cream cheques. It has, of course, been necessary to provide in the documents securing the loans for the loans to be on a demand basis, which is the basis on which loans are granted by all institutions making advances on the security of farming stock and chattels; but borrowers are assured, so long as their securities are maintained and their conduct continues to be satisfactory, that the Board will not arbitrarily call up the loans. The practice in regard to repayments is varied slightly in the case of loans on sheep securities, as there are more extensive changes from time to time in the stock, and the principle adopted is to fix the first annual repayment at the time when the loan is approved and review the position of the account annually thereafter to determine the further repayments to be called for.

During the past few months a considerable number of applications were received from borrowers who had reduced their loans during the first year upon the basis laid down at the time of granting the loans for re-advances of sums which would increase the accounts substantially to the amounts of the original loans, or, in some cases, bring the total indebtedness up to an amount in excess of the original loan. In the majority of cases the further loan was required to purchase additional stock which could be carried as the result of improvements effected with the original loan-moneys, or to bring into a higher state of productivity portions of the farm property which, through lack of capital, could not previously be employed to the best advantage. In such cases the Board had no difficulty in meeting the requirements of the borrowers where adequate security was available, and it is apparent that where the borrowers are gradually bringing in their properties or building up their herds as their finances permit, and so making steady headway, it will not be possible, nor would it be desirable upon broad grounds, to insist upon a rigid basis of repayment to clear the loan within the five-year period. The position is, of course, different where the farming venture has been fully developed and the borrower has no calls for expenditure which should prevent him from regularly reducing his indebtedness to the Board.

The practice of requiring regular repayments is undoubtedly in the interests of the borrowers themselves, and the repayments asked for should not press unduly upon the borrowers, as the purposes for which the loans are granted should serve to improve their position, either by placing their finances upon a more favourable basis than previously existed by relieving them of heavy interest charges, or of the anxiety associated with a number of small liabilities any of which may be called up at inconvenient times, or by assisting them to increase production through the building-up of their herds or flocks, or the improved working of the farm properties. In many cases, too, the granting of the loans has enabled the borrowers

to obtain concessions in return for cash payments for their requirements, and so they have represented a definite cash value to the borrowers. Many cases have come to the knowledge of the Board where considerable benefits have accrued to farmers in this manner.

32. *Suspension of Payments during Winter Months.*—The payments received by dairy-farmers in respect of their cream-supplies during the winter months are small, and they generally require the full cheques to meet current expenditure. It is therefore to their advantage that the interest on their loans and the annual repayments of principal should be collected over the flush months of the year, and the practice is now adopted by the Board, in the case of direct loans, of taking an order from the borrower for a percentage estimated to be sufficient to produce the total payments required during this portion of the year, and once the required payments have been met to suspend the operation of the order until the commencement of the next milking season. In the case of association loans the matter is left to the decision of the individual associations, but in several instances the practice adopted by the Board has been followed by the associations.

33. *Disbursement of Loans.*—Suitable measures are taken by the Board to ensure that loans are applied for the purposes for which they were granted. In many cases the Board in approving loans has taken into consideration the fact that it is proposed to purchase additional stock or chattels out of the loan-moneys, and where the additional stock or chattels are necessary to provide the requisite margin of security for the moneys advanced special measures are taken to ensure that the purchases are made and the stock and chattels brought within the ambit of the security taken. The discharge of encumbrances on the stock and chattels, or prior encumbrances of land where collateral security is taken over the farm property, is left in the hands of the solicitors entrusted with the preparation of the securities. In other respects, also, close oversight is exercised over the expenditure of loan-moneys. During the year a special system was adopted in regard to the application of moneys advanced through associations to ensure that the requisite margin of security is provided for the loans by the purchase of additional stock and implements, and so forth, and to place the disbursement of other loan-moneys directly under the control of the directors of the association.

34. *Proposed System for "Limits."*—It was recently announced by the Right Hon. the Prime Minister that legislation would be introduced during the present session raising the limit of advances to farmers to £2,000 in each case. As this extension would make the rural intermediate credit system more applicable to the needs of the sheep-farmer and grain-grower than has been the case under the present limit, the Board has given consideration to the best means of providing for the credit requirements of these classes of farmers. Mainly the lending business of the Board has been confined to the granting of loans for immediate requirements, such as the discharge of encumbrances on farming assets, the purchase of additional stock, fertilizer, or farming accessories, though where the loan has been required for the payment of amounts due at future dates the Board has agreed to make the loan or such portion as is required payable at the future date without requiring the payment of any interest in the meantime. This has been sufficient to meet the needs of the dairy-farmer. The position of the sheep-farmer or grain-grower is, however, materially different, as these farmers receive the whole of their income within one or two months, leaving a large portion of the year in which no income is forthcoming, and during which considerable expenditure has to be incurred for living-expenses, purchase of stock, and planting of crops for the succeeding season. The indebtedness of these farmers thus shows considerable variation through the year. After the season's produce has been disposed of their accounts may be in credit, but these soon come into debit as expenditure becomes necessary for the various purposes, and there is a steady increase in the indebtedness throughout the year until the proceeds of the new season are received.

The present practice of such farmers is to have an overdraft limit fixed by the bank or stock and station agents with which they transact their business, and this limit is drawn against as required. It has been clear to the Board that if these classes of farmers are to be encouraged to use the facilities provided by the Board it will be necessary for the Board to make provision for the fixing of limits up to

which such farmers may borrow, so as to enable them to finance their operations during the "dead" season of the year, only the moneys actually required being made available from time to time.

The Board has considered the adoption of this practice, and it is intended to make credit facilities of this description available immediately any increase is authorized in the limit for loans granted by the Board or by associations. Reservations of the nature set out below will probably be made in regard to loans of this description :—

- (a) The limits fixed will not exceed the amounts to which the Board would be prepared to lend on the usual margins on the proffered security.
- (b) All existing encumbrances on the security will require to be discharged from the amount made available by the Board.
- (c) The charge on stock, crops, and/or land will be registered against the security to cover present and future advances.
- (d) Reasonable notice is to be given by the borrower of additional advances required from time to time, up to the limit fixed by the Board.
- (e) The Board will not be able to adopt a system of cheques or orders similar to those used in the case of stock and station agents. A maximum of one withdrawal a month, or, in the case of more frequent payments being required a minimum of £50 per withdrawal, has been fixed as regards the amounts to be received at any one time to meet living and current expenses. The amounts paid over by the Board can be lodged by the borrowers to the credit of their banking accounts and cheques drawn in the usual way until the amounts are exhausted, when further amounts can be made available within the limit authorized.
- (f) Interest will be charged only on the amount owing by the borrower from time to time.
- (g) The position of each borrower will be reviewed annually by the Board, which will then decide whether the limit should be varied.

Prior to considering the adoption of this practice the members of all district boards and associations operating throughout the Dominion were approached for an expression of their views as to the desirability of adopting the practice, and for any suggestions which they might desire to offer with the object of making the proposed system of the fullest use to the classes of farmers affected. All views expressed and suggestions made will be carefully considered by the Board prior to its final decision being reached.

35. *Interest and Discount Rates.*—The Board's rate of interest and discount rate has been maintained at $6\frac{1}{2}$ per cent. per annum during the past year, with the exception, which previously existed, that loans are made at 6 per cent. to co-operative rural intermediate credit associations which readvance the amounts at $6\frac{1}{2}$ per cent. to their members. Subject to certain conditions, associations are authorized to utilize the margin of $\frac{1}{2}$ per cent. so made available for the purpose of meeting the expenses of management and other expenditure involved in the conduct of their lending business.

CO-OPERATIVE RURAL INTERMEDIATE CREDIT ASSOCIATIONS.

36. *Nature of Associations.*—Part II of the Rural Intermediate Credit Act, 1927, provided the means whereby practical effect might be given to the desire previously expressed upon the part of a large section of the farming community for means for co-operative action regarding their financial requirements in respect of stock and similar purposes. In order to obtain stock loans from the Board under this portion of the Act a group of farmers of not less than twenty in number may form a co-operative rural intermediate credit association, a special form of limited-liability company, to which the Board is authorized to advance moneys to be re-lent by the association to its members on securities approved by the Board.

Members of such associations are required to subscribe for share capital of amounts varying in proportion to the amount of the loans taken up by them. The minimum share capital for a member is twenty-five £1 shares, which will enable the shareholder to take up a loan up to £250, and for a larger loan he must take up shares to the nominal value of one-tenth of the amount of the loan. There is no joint and several liability for loans, and members of associations are not liable for the loans obtained by other members beyond the amount of the share capital which they have taken up. Provision is made for a member who has repaid his loan surrendering his shares and receiving their value, provided his retirement will not reduce the number of members below twenty. New members may also be admitted from time to time.

In practical effect the functions of associations are limited to obtaining advances from the Board to be re-lent to their members upon approved securities—mainly farming-stock and chattels—and to the administration of such loan accounts. Standard forms of memorandum and articles of association are prescribed for use by the associations. Their operations are also subject to special control in many respects by the Board, which, it is almost certain, will be the only creditor of the associations as regards the advancing of funds; but, on the other hand, in view of their special character it has been possible to relax many of the requirements which apply to other limited-liability companies.

With a view to keeping the working-expenses of associations at a minimum, express provision was included in the Act to the effect that there should be only one paid official of each association. In addition, directors are not entitled to receive any remuneration for their services, apart from any remuneration which a director may receive in the capacity of secretary-treasurer, except that they may be paid travelling-expenses and out-of-pocket expenses incurred in carrying out their duties as directors.

The purposes for which loans may be obtained by members of associations are the following:—

- (a) The clearing, fencing, draining, and general improvement of land in the occupation of the applicant:
- (b) The erection of buildings on any such land:
- (c) The purchase of implements, stock, seeds, plants, trees, and other things required in respect of the occupation and use of any land:
- (d) The payment of any mortgage, debt, or other liability of the applicant incurred in relation to farming operations:
- (e) Any other purpose in relation to farming operations that may be approved by the Board.

The maximum term for which advances may be granted under the Act is five years, and the rate of interest chargeable to borrowers must not exceed 7 per cent.

37. *Capital of Associations called up.*—Section 40 (2) of the Act provides that every subscriber to the memorandum of association of a co-operative rural intermediate credit association shall, as and when required by the Board to do so (being not later than one year after the incorporation of the association and before the granting of a loan to the subscriber), pay in cash not less than 5 per cent. of the value of the shares subscribed for by him. The Board has adopted the practice of requiring associations on formation to call up immediately 1s. per share in respect of the share capital, but so far it has not been necessary for associations to call up a larger amount of share capital.

38. *Preliminary Expenses of Formation.*—By section 18 of the Rural Intermediate Credit Act, 1927, the Minister of Finance is empowered to make advances up to £5,000 to the Board, to be applied by the Board in making loans to associations, in sums not exceeding £25 in each case, to assist the associations to pay preliminary expenses. Amounts so lent are free of payment of interest for the period agreed upon between the Board and the association, being not longer than ten years after the registration of the association, and no interest is payable by the Board in respect of moneys advanced to it under this section.

During the period up to the 30th June, 1929, loans totalling £365 2s. 3d. had been made to associations for the purpose of enabling them to meet the preliminary

expenses associated with their establishment, such as the legal costs and other expenses incurred in forming them; the charges for accounting-books and records, and expenditure of a like nature. Applications by associations for advances of this description are dealt with by the District Intermediate Credit Supervisors.

39. *Payment of Expenses of Administration.*—With the object of enabling associations to meet the expenses of management and lend funds to their members at the same rate as that charged by the Board in respect of direct loans under the provisions of Part III of the Act, the Board at the outset fixed the rate of interest payable by associations at 6 per cent., being $\frac{1}{2}$ per cent. less than its general lending rate, subject to the requirement that $\frac{1}{4}$ per cent. of the $\frac{1}{2}$ per cent. margin of interest so provided should be used for the purpose of setting up a reserve fund to meet contingencies.

Representations were made by some of the associations that the margin of interest available was not sufficient in the earlier stages of an association's working to enable the expenses of management to be met and an adequate remuneration provided for the secretary-treasurer, with the result that difficulty was being experienced in some cases in obtaining the services of or retaining suitable secretary-treasurers. In the opinion of the Board, these difficulties are mainly of a temporary nature, attributable to the fact that the working-expenses of associations are proportionately higher and the revenue considerably less in the initial periods of operation, and that with the growth of business it will be possible for individual associations to operate successfully upon the margin of interest provided by the Board. As it appeared, however, that for the time being a real difficulty existed, the Board decided to permit associations to make a small charge to applicants to cover the cost of the work involved in the consideration of their applications. This was intended to enable associations to provide additional funds for meeting working-expenses without imposing any material burden upon the applicants, and to ensure incidentally that unsuccessful applicants contributed in some measure towards the cost of the work involved in considering their applications.

At a later date further representations were made to the effect that additional revenue was required to enable the associations to operate successfully. After fully considering the position the Board decided to make additional temporary assistance available to associations in the following manner, to enable them to meet the expenses associated with the conduct of their affairs:—

- (a) Associations will be permitted to make a levy upon applicants towards the costs of management upon the following basis: (1) Applications for loans below £500, 10s. 6d.; (2) applications for loans of £500 and over, £1 1s.
- (b) Where an association levies the above charges it will also be permitted to utilize the full $\frac{1}{2}$ per cent. margin to meet the costs of management, including provision for the remuneration of the secretary-treasurers.

Having regard to the period of years for which the average loans will be outstanding, the additional charges authorized will add only slightly to the cost of obtaining loans through associations, and this additional cost will, in any case, be compensated for by arrangements which had, prior to the above decision, been made for reducing the legal expenses incurred in connection with taking securities from borrowers from associations.

The later arrangement referred to above is a temporary one only, and the Board specifically retained the right to restore the provision for setting aside a portion of the interest margin to reserves as soon as associations generally or any particular associations are in a position to operate successfully under the conditions originally fixed.

The majority of the associations have decided to avail themselves of the additional funds made available by the Board in the above manner, but several associations decided to continue operating under the conditions originally fixed by the Board, and to hold over a decision regarding the adoption of the amended conditions until, with experience over a lengthier period, they were in a position to judge whether in the case of their particular associations additional revenue was essential.

The amending Rural Intermediate Credit Regulations made on the 17th September, 1928 (*New Zealand Gazette* No. 70, 20th September, 1928), included a provision authorizing the directors of associations, with the approval of the Board, to impose charges for the consideration of applications for loans, to be payable by the applicants whether loans are granted or not.

The Board upon its part has, within its powers, done everything possible to assist associations to keep the expenses of administration at the lowest figure. All legal forms and accountancy and other records which are required for the use of associations in any number have been printed by the Board, and supplies made available to associations at cost price. Advice upon matters associated with their business operations is at all times freely given by the officers of the Board, and any suggestions which have been put forward by associations with the object of making for the more economical or expeditious conduct of their affairs or otherwise have been given careful and sympathetic consideration.

It has been found to be a considerable advantage to combine the positions of secretary-treasurer and solicitor to the association, as the remuneration for the secretarial work is then supplemented by the professional charges levied in connection with the preparation of securities. In the case of eleven of the associations formed up to the present, arrangements have been made for the performance of the duties of secretary-treasurer by the solicitors for the associations.

40. *Assistance rendered to Associations.*—The importance, in the interests of efficiency and smooth working, of rendering directors and other officers of associations fully cognizant of the lines upon which the Board is working in considering loan applications, the extent of security called for, and the requirements of the Board in other respects has been fully recognized. The District Intermediate Credit Supervisors are, *ex officio*, directors of associations operating in their districts, and as far as possible arrangements are made for their attendance or representation at directors' meetings when loan applications are being submitted for consideration so that the principal requirements of the Board may be fully provided for.

In many cases, however, the associations' offices are situated at some considerable distance from the District Supervisors' offices, and their attendance in person or by deputy is not practicable. It was on this account considered advisable to compile a booklet supplying directors and secretary-treasurers with information regarding the practical handling of loan applications and the associations' business generally, a general statement as to the principles followed by the Board in granting loan applications, and a guide to the various obligations imposed upon the directors and secretary-treasurers. Copies of the booklet were furnished to all directors and secretary-treasurers of associations throughout the Dominion, as well as to members of the District Rural Intermediate Credit Boards. This action should not only result in the more efficient handling of applications for advances to members of the associations, but also save disappointment to borrowers whose applications may be entertained by the directors but subsequently declined by the Board upon the ground that the security proffered is insufficient or that the application does not fulfil requirements other than those relating to the extent of security.

Many expressions of appreciation have been received from directors and secretary treasurers as to the action taken, and assurances given that the booklet will prove of material assistance in the conduct of the lending business of associations. Provision was made in printing the booklet for additions and alterations as the policy of the Board is developed and extended from time to time.

At the time of the formation of associations, also, the secretary-treasurers are supplied with detailed instructions for the keeping of the accounting records of the associations.

As a further measure of assistance to directors in their work, it was arranged, as stated elsewhere, for the Deputy Commissioner to visit every district in the Dominion and confer with the directors of every association. This programme has now been completed, except that a special visit to the Northern Wairoa Association was not considered necessary, as the Deputy Commissioner was visiting the district at the time when the association was formed and was then able

to discuss matters of policy and management with the promoters of the association. The conferences with the directors of associations and the full and personal discussion of all problems with which they have been faced have been of benefit in promoting the smooth working of the association method of providing intermediate credit for farmers.

41. *Suggested Conference of Representatives of Co-operative Rural Intermediate Credit Associations.*—At a meeting of the Dominion executive of the New Zealand Farmers' Union held on the 15th May, 1929, a resolution was passed asking the Board to convene a conference of representatives of co-operative rural intermediate credit associations and members of the district rural intermediate credit boards, with the object of arriving at a uniform method of dealing with applications. A reply was sent to the Dominion secretary of the Farmers' Union advising that a similar request had previously been received from the directors of an association, but it was considered that, in view of the fact that the greater number of associations had only recently been formed and had had comparatively little practical experience of the working of the system, and that special arrangements had been made for discussions by an officer of the Board with the directors of individual associations, it would be better to defer the question of summoning a conference until further and more extensive experience had been obtained.

42. *Formation of Associations.*—The thirteen associations referred to in the report of the Board for the period ended the 30th June, 1928, are still in active operation, and the volume of business transacted by several of the associations has reached a substantial total. In addition, the following eight associations were formed during the past year: Helensville, Te Aroha, Kaimata (Inglewood), Horowhenua (Levin), Wairarapa (Masterton), Tapanui, Central Southland (Wright's Bush), and Mataura. Since the close of the year under review the Board's consent has been given to the registration of the following six additional associations: Bay of Islands (Kaikohe), Rangitaiki (Whakatane), Mid-Canterbury (Ashburton), Stratford, Katikati, and Te Puke. In addition, it is probable that associations will be formed at Whangarei, Rotorua, Rangiora, and Balclutha.

The total number of associations formed to date is twenty-seven, of which twenty-three are operating in the North Island and four in the South Island; and, as noted in the previous report, the associations have been formed mainly in dairy-farming districts. In view of the Right Hon. the Prime Minister's announcement of the intended introduction of legislation providing for the increase of the existing limit of advances to £2,000, it may be expected that, if the increase is given effect to, greater interest in the system will be shown in sheep-farming and cropping districts, and movements initiated there for the formation of associations.

43. *Loans granted.*—As at the 30th June, 1928, no loans had actually been paid over to members of co-operative rural intermediate credit associations, although prior to that date loans had been approved in several instances and the preparation of the documents of security was receiving attention. By the 30th June, 1929, loans totalling £68,828 were outstanding to members of these associations, after crediting instalments received throughout the year in reduction of loans. Comparing the figures for the 31st August, 1928 and 1929 respectively, a substantial increase in the business transacted with associations is shown by the fact that on the former date the total of loans outstanding was £13,655 and on the latter date £89,530.

44. *Directors and Secretary-Treasurers of Associations.*—A list of the directors and the secretary-treasurers of the associations formed throughout the Dominion is printed in the Second Appendix to this report.

45. *Relations with Associations.*—The relations between the Board and the officials of the various associations have been uniformly satisfactory, and this has been testified at different times by acknowledgments on behalf of the associations of the value of the system to their members and of the treatment which they have received at the hands of the Board and its officers. As an example, the following statement, taken from the annual report of the Otorohanga Association, which has

served the needs of a considerable number of farmers in the district covered by its operations, may be quoted :—

“The directors feel certain that the figures afford clear proof of the advantages of the rural intermediate credit scheme, and show that the system will, if properly administered, grow to such an extent that it will provide practically all the facilities for rural finance which may be obtained from an agricultural bank.

“The directors desire to express their appreciation of the manner in which the scheme is handled by the District Supervisor and his staff, and by the Rural Intermediate Credit Board in Wellington, and the District Board, Hamilton. The experience of the directors is that all applications are dealt with promptly and the recommendations of the local association receive very sympathetic consideration.

It is also pleasing to place on record the contents of the following letter addressed by the secretary of the Te Awamutu Association to the District Intermediate Credit Supervisor at Hamilton :—

“At the annual meeting of my association, the chairman referred to the valuable help and assistance that had been given towards the establishment of rural credit associations and to the furtherance of the movement generally, and a resolution was passed by the meeting expressing its appreciation of the assistance given by the officers of the Public Trust Office.”

LOANS TO FARMERS WITHOUT THE INTERVENTION OF ASSOCIATIONS.

46. *Particulars of Direct Method of Application.*—Under the legislation originally submitted to Parliament in connection with the intermediate credit system, which followed the recommendations of the Royal Commission of 1925 on Rural Credits, loans were obtainable by farmers only through co-operative rural intermediate credit associations or through discounted promissory notes or bills of exchange; but it was considered that this restriction would prevent settlers in outlying districts, where it would be difficult or impossible to form associations, from obtaining assistance under the Act. Part III of the Act was accordingly introduced by the parliamentary Committee which considered the Rural Intermediate Credit Bill, and on which farming interests were extensively represented, enabling a farmer to apply direct to the Board for an advance, provided he is able to arrange for a guarantee satisfactory to the Board for such amount as might be required by it, being not less in any case than 20 per cent. of the original amount of the loan. This addition provided for the development and extension with adequate safeguards of the existing facilities under which loans on chattel securities can be obtained under the State Advances system. The collateral security afforded by the necessary guarantee replaces the collective responsibility of an association for advances made by the Board to the association to enable loans to be granted to its members. Section 64 (2) of the Act authorizes companies incorporated in New Zealand to guarantee loans under Part III of the Act, notwithstanding any provisions to the contrary contained in their memoranda and articles of association.

Loans may be granted under this Part of the Act for any of the purposes for which loans may be approved to members of associations, the relative sections in Parts II and III of the Act defining the purposes of loans being identical in their provisions. Similar conditions also apply to the rate of interest payable and the maximum amount of the loans. In practice the securities relating to both classes of loan are drawn so as to make the loans repayable on demand, but borrowers have the assurance that so long as their obligations are met and the securities maintained in a satisfactory condition the best possible treatment will be accorded to them and their loans will not be called up arbitrarily. The practice of requiring loans to be repaid by instalments suited to the individual cases is also made to apply to direct loans.

47. *Business transacted with Dairy Companies.*—The provisions regarding direct loans have continued to make a very substantial appeal to dairy companies, both co-operative and proprietary, and the larger proportion of direct-loan business transacted during the past year was put through upon the guarantees of such companies. The procedure is for a company desirous of assisting suppliers to secure loans from the Board to submit evidence of its financial position, mainly in the form of copies of the company's audited balance-sheets and profit and loss accounts for the last three complete financial years of the company. The information submitted is investigated by the Board, which decides to what extent it will accept the guarantees of the company, this limit being subject to review from time to time in sympathy with any alterations in the company's financial position. The information is treated as strictly confidential, and, if the companies prefer it, they may submit the information direct to the Board's Accountant at the Head Office. Once the limit is fixed for a particular company, it is free within the scope of this limit to submit applications from approved suppliers, which are then considered by the central Board or the district board upon their merits.

At the close of the year under review forty-six companies had concluded arrangements with the Board for the acceptance of their guarantees of loans. During the year a number of companies which had previously arranged for limits with the Board applied for increases of these limits to enable them to make still further use of the method for the purpose of providing financial assistance for their suppliers, and in practically every case it was possible to accede to these requests, in view of the improved financial positions of the companies concerned.

48. *Co-operative Principles apply.*—The provisions which appear in Part III of the Act have at different times been criticized upon the grounds that their existence is likely to prove an obstacle to the development of the co-operative method of financing provided by Part II of the Act, and that this is undesirable, as the best interests of the farming community in respect of their financial requirements regarding stock, as well as otherwise, would be served by the development of the principles of co-operation. It will be observed from this report that the existence of the direct method of application has not by any means prevented the formation of associations, as no fewer than twenty-seven of these concerns are in operation throughout the Dominion, and are serving the financial requirements of a considerable number of farmers. Apart altogether from this aspect, it is to be borne in mind that the major portion of the loans granted under the direct provisions of the legislation have been submitted through co-operative dairy companies with the guarantees of such companies, and their employment of the provisions of Part III of the Act has the same practical effect as the establishment by them of associations among their suppliers.

49. *Business transacted.*—The total of the loans granted under the provisions of Part III of the Act and outstanding at the close of the Board's financial year on the 30th June, 1929, was £92,334, which figure allows for substantial repayments received during the year, and compares with the sum of £2,034, representing loans of this description outstanding on the 30th June, 1928, up to which time the repayments received had, in view of the recent commencement of the Board's operations, been negligible in total. The figures as at the 31st August, 1928, and 31st August, 1929, respectively were £15,979 and £117,987, showing a satisfactory increase in the business recorded under this heading.

50. *Appreciations.*—As an expression of appreciation of the intermediate credit system having particular reference to the provisions of Part III of the Act, the following extract from an address delivered by the chairman of the New Zealand Co-operative Dairy Co., Ltd., at the annual general meeting of the company is of particular interest, as the company has transacted extensive business under these provisions of the Act with the Board :—

“The rural intermediate credit scheme has proved a valuable measure, having been placed on the statute-book over a year ago, and is, in our opinion, the best financial arrangement yet made to assist the producers, and we congratulate the Rural Intermediate Credit Board for their prompt attention and successful working.”

The remarks quoted hereunder are taken from the annual report for 1929 of the Farmers' Dairy Federation, Ltd., Invercargill, which is utilizing both the guaranteeing and discounting methods for assisting its suppliers to obtain financial accommodation :—

“Under the rural credits scheme the federation has throughout the season assisted quite a number of suppliers with finance. Suppliers are recommended to study the advantages of the scheme, as, in co-operation with the federation, it presents a means of easing the financial strain which many suppliers may be subject to and generally opens a way to more independence of action in dealing with their stock and produce.”

DISCOUNTING.

51. *Method of Discounting.*—Under the provisions of paragraph 46 of the Rural Intermediate Credit Regulations of the 21st December, 1927, as amended by further regulations issued on the 17th September, 1928, the Board is authorized to discount promissory notes and bills of exchange in the following circumstances :—

- (a) The Board may determine the rate of discount chargeable :
- (b) The holder of the promissory note or bill of exchange is to be a bank, financial institution, company, firm, or person approved by the Board :
- (c) The maker of the promissory note or the acceptor of the bill of exchange is to be a farmer engaged in farming operations on his own account :
- (d) The note or bill is to be endorsed to the satisfaction of the Board :
- (e) The maximum amount of accommodation which a farmer or firm of farmers may obtain through applications under the Act and by means of discounted notes or bills is fixed at £1,000.

At the commencement of its lending business the Board did not put the discounting-powers into immediate operation, as there were no means of judging to what extent the funds at its disposal would be sufficient to meet requirements in regard to applications for loans under Parts II, III, and IV of the Act, which it considered should be given preference. Later, however, certain dairy companies expressed themselves desirous of assisting their suppliers to secure small loans by this method upon the same favourable terms on which other classes of accommodation were provided by the Board, the loans being required mainly for seasonal needs, such as manure and seeds, as well as small purchases of stock. To meet this demand the Board decided to undertake the discounting of promissory notes and bills of exchange, fixing at the time a limit of £100 as the maximum sum which would be made available to any individual farmer by this method. During the year representations were made by dairy companies which were discounting notes with the Board that the limit should be increased, as the amount of £100 was not sufficient to provide for the seasonal needs of a number of their suppliers for whom they desired to arrange loans. After due consideration the Board decided to increase the maximum sum to be made available to £200, which is the present limit. The term fixed by the Board for advances by this method is two years, but it is found that, as it is used largely for providing for seasonal requirements, discounting companies generally prefer to make the notes payable within a period of twelve months or to have them cleared by the end of the milking season following the time of discounting. The Board's discount rate has remained throughout at 6½ per cent. per annum.

The procedure for companies desirous of arranging for the acceptance of their endorsements of notes and bills for discounting is similar to that followed in regard to the acceptance of the guarantees of companies in respect of loans under Part III of the Act. Evidence of the financial position of the company is submitted, mainly in the form of copies of the balance-sheets and profit and loss accounts for the last three complete financial years of the company, with such additional information as may be called for, and the Board fixes the limit up to which notes or bills will be discounted for it. Usually the Board is asked to fix a comprehensive limit in regard to the liability of the company in respect of both guarantees of loans and endorsements of notes.

Once the limit has been fixed in respect of a company, the procedure is simple, as all that is necessary is for the company to obtain the signatures of suppliers whom it desires to provide accommodation for to promissory notes, which are then handed over to the Board, with the endorsement of the company, for discounting. In comparison with the procedure under Parts II and III of the Act, the discounting procedure is extremely simple and inexpensive, as no valuations of stock or chattels are required, and the expense of legal documents is avoided.

52. *Utilization of Monthly Deductions from Cream Cheques.*—Dairy companies which endorse promissory notes of suppliers and present them to the Board for discounting usually arrange for an appropriate deduction from the suppliers' milk cheques in order that they may be in possession of sufficient funds to meet the notes on maturity, and during the period under review the question was raised as to how the monthly payments might be employed during the currency of the notes, so as to enable the suppliers affected to receive a rebate of interest in respect of the amounts held on their behalf. Where a discounting company is working on a bank overdraft it can, of course, apply the monthly payments in reduction of its account and pass on to the suppliers concerned the saving of interest thereby effected. To meet cases where this course is not practicable, however, the Board has approved of the following arrangement :—

Where the discounting system is adopted by a dairy company to any great extent the deductions received from the whole of the borrowing suppliers in each month will be considerable, and the Board is prepared to receive each month the total of the deductions made, allow promissory notes discounted by the company to an equivalent value to be retired, and grant a rebate of interest in regard to these notes upon condition that this saving of interest is passed on to all the suppliers affected, so that as a result they will be paying $6\frac{1}{2}$ per cent. only on the amount outstanding on account of their loans from month to month. This arrangement ensures that the discounting business of the Board is conducted on the most favourable terms to borrowers. The discounting method is simple in practice and most economical to borrowers, for, as mentioned above, no valuations are required and there are no legal documents to be prepared. It is not surprising, therefore, that dairy and other companies are becoming more alive to the advantages it presents to them for securing for their suppliers finance for minor farm requirements upon the most favourable terms. From the Board's point of view the discounting business is of a satisfactory character, as it is sound from an investing standpoint, in view of the fact that the discounting companies, the financial position of which has been ascertained in advance to be satisfactory, are fully responsible for payment of the notes on maturity ; that consequently they are unlikely to endorse the notes of any farmers whose financial position is not favourably known to them ; and, finally, that they will, in the majority of cases, provide for the payment of the notes on maturity by appropriate deductions from the milk cheques of the suppliers who have given the notes.

53. *Companies adopting System.*—The number of companies which had entered into discounting arrangements with the Board up to the 30th June, 1929, was twenty-six, and seven further companies have since concluded arrangements. It is unfortunate that in a number of cases the memoranda of association of companies desirous of entering into discounting transactions with the Board have not conferred upon them the requisite legal power to do so. In some cases applications have been made by the companies to the Supreme Court for authority to amend their memoranda of association so as to confer the requisite power, but in other cases the amount of discounting business in immediate view has not been thought sufficient to justify the expenditure involved.

54. *Volume of Business transacted.*—As at the 30th June, 1929, the face value of bills discounted by the Board and outstanding was £4,232. No discounts had been effected as at the 30th June, 1928 ; and the figures for the 31st August, 1928 and 1929 respectively, were £1,265 and £7,265, showing a substantial increase. Actually the business transacted under this heading was larger than the impression these figures convey, as, while bills may, by arrangement with the Board, be discounted for periods up to a maximum of two years, generally the periods are for twelve months or under, including terms expiring towards the close of the milking season

following the time of discounting ; so allowance has to be made for a greater proportion of completed transactions than in the case of the larger loans under Parts II and III of the Act.

55. *Appreciations of Discounting System.*—The following extracts from a letter written to the Commissioner by the secretary of the Te Awamutu Co-operative Dairy Co., Ltd., which has discounted notes extensively with the Board, are interesting, as an expression of appreciation of the system by a company with extensive experience of its working :—

“ We take this opportunity of extending to your Board our appreciation of this cheap and expeditious method of finance. From a recent press report we were surprised to find that so few co-operative dairy companies had availed themselves of the discounting provisions. It is an ideal system from a dairy-company point of view : it provides finance during the lean months of winter, and a graduated system of monthly deductions from suppliers' milk cheques, commencing from September, enables repayment to be made without difficulty.”

This company was also instrumental in the formation of a co-operative rural intermediate credit association among its suppliers, and, in acknowledging a copy of the circular letter which, as mentioned elsewhere in this report, was sent out during the year to all dairy companies, it expresses views as to the benefits of the intermediate credit system generally in the following words :—

“ Our company has benefited very considerably by the Rural Intermediate Credit Act. You may remember that we took the lead in this district in the formation of a local rural intermediate credit association. Quite a number of our suppliers have had their finances placed on a most satisfactory basis through assistance received from that source. In addition we have availed ourselves of the discounting provisions of the Act, and the limit granted us by your Board has proved invaluable in letting out small sums to suppliers during the winter months for the payment of interest, purchase of manures, and additions to their herds. The rapid growth of our company during the past two years has made heavy demands upon our own financial resources for additions to buildings and plant, and if we had been unable to avail ourselves of the limit granted by your Board for the discounting of promissory notes we could not possibly have given adequate service and satisfaction to our suppliers in connection with advances of a temporary nature against the new season's supply. In our opinion, the Rural Intermediate Credit Act embodies a most practical method of promoting increased production in the dairying industry ; and we should like to add that the expeditious manner in which your district office has handled the discounting arrangements leaves nothing to be desired.”

LOANS TO CO-OPERATIVE SOCIETIES.

56. Under the provisions of Part IV of the Act the Board is authorized to make advances to farmers' co-operative societies, to cover co-operative companies (not being associations established primarily for the purpose of the Act) incorporated under the Companies Act, 1908, and having for their principal object the production or sale of staple agricultural or pastoral products, including live-stock and including goods manufactured from any such products. To be competent to receive a loan from the Board a co-operative society answering to this description must have a subscribed capital of not less than £2,500 and be composed of not fewer than thirty members. To a society fulfilling these requirements the Board may grant advances, on the security of any live-stock or produce belonging to the society, of an amount not exceeding 80 per cent. of the fair market value of such live-stock or produce. Loans so granted are to be for terms of from six months to three years, and the rate of interest is not in any case to exceed 7 per cent. per annum. The rate of interest on loans of this class has been fixed by the Board at 6½ per cent. per annum.

■ The Act provides that a register shall be kept by the Board of co-operative societies to which this part of the Act is applicable, entry in the register being made only on the application of the societies.

Up to the present the provisions have not been utilized to any extent, one application only having been received for entry on the above register. This application was approved, but so far no applications have been received for advances.

FINANCE AND ACCOUNTS.

57. The system of accounts designed to record the business of the Board has continued to prove satisfactory, and throughout the year has admirably fulfilled all requirements. All accounts relating to advances are kept at the offices of the district boards, and thus information required by borrowers in relation to their accounts is readily available and District Supervisors are always completely informed without the necessity of reference to the Head Office.

The progress of the business in the various districts is closely watched, and the Head Office is kept in touch with the position by regular returns rendered by each District Supervisor. By this system the financial requirements of branches can be gauged and arrangements made to have funds available for settlement of loans when required. Remittances to branches for settlement of loans are made only when everything is in order for disbursement of the money, and this ensures that no large sums lie idle in the branch bank accounts.

Provision has been made for the temporary investment in Government securities of all funds not immediately required for payment of loans, &c., and these moneys have thus been enabled to earn interest while awaiting permanent investment. The system ensures that there shall be no delay in making temporarily invested funds available when they are required to settle with borrowers.

58. *Accounts to 30th June, 1929.*—This is the Board's first complete year, the period to 30th June, 1928, being of six months only from the date the Act came into force. This period of inauguration was naturally occupied mainly by the preliminary work in connection with the establishment of the Board and the district boards, and the setting-up of a system to ensure that the business would be dealt with on a sound basis.

Since the commencement of the year on the 1st July, 1928, the business has increased steadily. There has been nothing spectacular in its growth, but every month has seen a substantial increase. At the 30th June, 1928, the investments (excluding Rural Intermediate Credit Redemption Fund investments) were only £2,034. At the 30th June, 1929, they amounted to £165,115, excluding temporary investments, £34,000.

The income from the Board's investments was £5,940 11s. This amount does not, however, include the income earned by the investments of the Rural Intermediate Credit Redemption Fund, which amounted to £1,630 17s. 10d., and has been credited direct to the Rural Intermediate Credit Redemption Fund. The expenditure totalled £5,379 10s. 4d., and there was thus an excess of income over expenditure of £561 0s. 8d., which has been transferred to the Appropriation Account, and, in accordance with section 39 of the Act, appropriated one half to the Rural Intermediate Credit Redemption Fund and the other half to the Rural Intermediate Credit Reserve.

The figures published in the First Appendix to this report warrant the belief that the Board's business will show steady and satisfactory expansion, but until the volume has considerably increased it is unlikely that the expenditure necessary for efficient management can be fully met without utilizing to some extent the profit interest derived from the moneys advanced by the Legislature, which, in terms of the Act, are free of interest for a period of ten years. This result was obviously anticipated when the legislation was enacted by Parliament.

Advances totalling £197,100 have been received from the Consolidated Fund under the statutory provision in section 16 of the Act, authorizing advances to be made to the Board from the Consolidated Fund up to an amount not exceeding £400,000. The amount raised by the Board during the year by issue of bonds and debentures was £70,700.

The total investments and accrued interest thereon amount to £269,074 2s. 11d. Of this amount, however, £67,329 18s. 7d. represents the investments of the Rural Intermediate Credit Redemption Fund. One-third of all advances received by the Board from the Consolidated Fund under section 16 of the Act is required to be added to the Rural Intermediate Credit Redemption Fund and invested in Government securities. The interest on the investments as received is also invested and added to the Redemption Fund. The accretion to the fund by way of interest during the past year was £1,630 17s. 10d., and this amount, together with one-half share of the net profits, £280 10s. 4d., has been credited to the Rural Intermediate Credit Redemption Fund. The investments of the Redemption Fund are set aside for the redemption of debentures issued by the Board, and, under the provisions of the Act, cannot be used for any other purpose.

The investments in the course of the Board's ordinary business amount to £165,115 5s. 9d., classified as follows :—

	£	s.	d.
Advances to associations under Part II ..	68,828	15	8
Advances to farmers under Part III ..	92,334	5	5
Bills discounted	3,952	4	8
	£165,115	5	9

Temporary investments, representing funds held for settlement of loans on the point of completion, amount to £34,000.

59. *Issue of Debentures.*—In addition to providing for advances to the Board from the Consolidated Fund up to an amount not exceeding £400,000, the Act authorizes the Board, subject to certain conditions, to raise such further funds as may be required by the issue of debentures.

The Board has thought it advisable, as a matter of policy, to issue debentures to a limited extent for the purpose of supplementing the advances received from the Treasury. While no prospectus has been circulated and no general invitation has been given to the public to subscribe for these debentures, there have been numerous inquiries from investors interested in the scheme, and a total amount of £70,700 has been raised.

60. *Collection of Interest, Instalments, and Monthly Payments due by Borrowers.*—The Board appreciates the necessity for close supervision of all loan accounts, as, should borrowers fall into arrears with their payments, it is important that the position should be immediately brought under notice and receive proper attention.

A system has accordingly been provided whereby all loan accounts are regularly scrutinized, and cases where the stipulated payments have not been forthcoming or the payments received are insufficient to provide for interest and the required reduction of principal are recorded on a special "Arrears List." All cases on the Arrears List are kept under close observation and receive special attention until the accounts are again in a satisfactory position.

61. *Accounts of Associations.*—With a view to securing uniformity in the accounts of associations, the Board has laid down a suitable system to be followed in all cases, and has supplied carefully prepared instructions to the secretaries and treasurers of all associations. The District Supervisors and the Accountants at the Board's offices are at all times ready to give any further assistance and guidance that may be required.

In order to reduce the cost to associations, suitable accounting and statistical books and forms have been designed and printed in quantities. The Board is thus able to supply associations with the necessary books, and the small quantity of forms required, at a minimum cost.

62. *Increased Business for Year ended 31st August, 1929.*—The comparative statement published in the First Appendix to the report shows that the total investments of the Board increased during the year 31st August, 1928, to 31st August, 1929, from £30,945 to £215,176, an increase of 600 per cent., despite considerable repayments of loans effected during the year in accordance with the policy adopted by the Board of placing every loan granted on a reducing basis.

All classes of loans showed approximately an equal rate of increase. Loans granted to associations under the provisions of Part II of the Act outstanding increased from £13,655 to £89,530. Advances to farmers direct supported by guarantees increased from £15,979 to £117,987, the majority of the loans being granted as mentioned elsewhere upon the guarantees of dairy companies, and the face value of bills and notes discounted showed an increase from £1,265 to £7,265. The balance of the totals referred to above were made up of advances to associations for preliminary expenses, which amounted on the 31st August, 1929, to £394, as against £46 on the 31st August, 1928.

The total of loans paid and bills discounted from the inception of the scheme up to the 31st August, 1929, was £264,496, and apart from this there were then loans amounting to £42,874 granted, but not completed, and applications totalling £10,260 under consideration, bringing the total of the business actually completed, in prospect, or under consideration to £317,630.

DAIRY COMPANIES.

63. The facilities for rural finance provided by the Rural Intermediate Credit Act have proved to be specially suited to the needs of the dairying industry, and have been utilized very extensively in most parts of the Dominion where dairying is carried on. A substantial proportion of the loans have been made either directly or indirectly through the medium of dairy companies (co-operative and proprietary), which have made use of the various methods for securing financial assistance for their suppliers.

There are three ways in which a dairy company may assist its suppliers to obtain the benefits of the system, viz. :—

- (a) By guaranteeing direct loans from the Board to individual suppliers of the company. The use made by dairy companies of the system of direct loans has been particularly marked in the Waikato district, where the direct provisions of the Act have been largely availed of. In undertaking to guarantee 20 per cent. of each loan dairy companies are running little risk, since loans are made by the Board only on sound lending margins on valuations made by capable and experienced valuers. Moreover, the loans granted are definitely on a reducing basis, and repayments of principal and periodical payments of interest are secured by orders on the milk cheques which are lodged with the companies which guarantee the loans. The adoption of the system by the dairy companies assists their suppliers materially, and it is also of direct advantage to the factory by increasing the suppliers' production, and consequently the output of the factory. It seems undoubted that as the benefits of the new system become apparent to the dairy companies they will be prepared to utilize the provisions of the Act to an increasing extent. As already mentioned, the Act confers on every company power to enter into guarantees of this nature, even if the company is not authorized or is expressly forbidden by its memorandum of association to give guarantees.
- (b) By organizing the formation of a co-operative rural intermediate credit association among its suppliers and undertaking the secretarial duties in connection with the association when formed. In many cases where this is done the directors of the dairy company have further assisted by serving upon the board of directors of the association, their knowledge of local conditions being of great assistance both to the association and also to the Board when applications for loans are being considered.
- (c) In addition to the provisions which permit of the lending of moneys upon the security of a mortgage of stock and chattels, power is given to the Board by the Act and the regulations issued under it to discount promissory notes and bills of exchange given by farmers

and endorsed to the satisfaction of the Board. This system, which is explained in another portion of the report, is well suited to the requirements of dairy-factory suppliers requiring temporary financial assistance during the winter months, when the milk cheques have practically ceased, to enable urgent outgoings to be met, such as payment of interest on mortgages, living-expenses, cost of purchase of fertilizers, and similar expenses, and it is in active operation amongst dairy companies in various parts of the Dominion. It is the custom of these companies, towards the close of the production season, to invite applications from their suppliers for loans of amounts required to tide them over the winter months. These applications are scrutinized by the directors of the companies, who select those cases which they are prepared to assist. Promissory notes for the individual amounts are taken from the suppliers and endorsed by the dairy companies to the Board, and the total discounted value of the notes so endorsed is immediately made available to the companies for distribution to their suppliers.

The original limit observed in regard to this class of loan was £100, but in view of its usefulness as demonstrated in actual practice, and in response to a wide demand upon the part of companies discounting notes with the Board, the Board recently extended the limit and an amount of £200 may now be granted to a farmer by this method. Companies, as a rule, provide for the notes being liquidated by deductions from the milk cheques in the next farming season, and in practically every case the amounts outstanding have been repaid by the suppliers within the first few months of the season. Arrangements approved by the Board permit of the monthly repayments received from the milk cheques being paid over to the Board, and a rebate of interest is secured for the benefit of the borrowers, with the result that suppliers whose notes are discounted will be paying $6\frac{1}{2}$ per cent. only on the amount of their loans from month to month.

In view of the opportunity which the intermediate credit system affords dairy companies of co-operating with their suppliers in relation to their financial requirements, it was recently thought advisable to send a circular letter to all dairy companies, setting out the various methods as outlined above by which they might utilize the system for the benefit of their suppliers. This has been done, all companies, whether co-operative or proprietary, being circularized, and in response several companies have made application for the acceptance of their guarantee of loans under Part III or endorsement of notes for discounting.

Apart from this action, inquiries from dairy companies throughout the period under review for information regarding the system or its practical working have been given special attention, and in appropriate cases the Deputy Commissioner or the District Intermediate Credit Supervisor for the district has attended directors' meetings or meetings of suppliers convened for the purpose of receiving first-hand information regarding the scheme and the various ways in which advantage may be taken of the benefits provided by it.

Along with the development of the system there has been a marked increase in the business transacted by the Board either directly or indirectly through the medium of dairy companies, and it may be expected that steady progress will be recorded in this regard in the future.

VALUATIONS.

64. The practice of having the valuations in connection with loan applications made by private valuers, whose services are utilized as the necessity arises, has been continued during the past year, and has given every satisfaction. In several instances the Board agreed to accept the valuations of independent private valuers nominated by associations or by dairy companies proposing to put forward

applications by their suppliers under the provisions of Part III of the Act, the qualifications of the valuers having first been considered by the district boards and favourably reported on by them. In some cases the Board was requested to accept the valuations of directors or employees of guarantor companies, but considered it preferable that the valuations should be made by independent parties. Generally the wishes of such companies have been met through the appointment of some independent valuer of suitable qualifications nominated by the company.

Apart from valuers nominated in these circumstances, the Board has from time to time approved of additional valuers whose appointment has been necessary to meet needs occasioned by the extension of its lending business to districts which were not sufficiently served by the valuers already approved. Where it has been shown to the Board that the expenses involved in making valuations in certain districts would be materially reduced if the services of a valuer resident within the district or within easier reach of it than the valuers already available could be utilized, and that the services of a suitable person were available, the appointment has been made if the district board has been satisfied as to the qualifications of the proposed valuer.

A large number of names have been included in the lists of approved valuers in the various districts throughout the Dominion, and, as a result, in the case of practically every application a valuer is available at no great distance. It has therefore been possible to keep the expense involved in valuing securities at a minimum, and no necessity has arisen for setting up a general scale of charges governing the fees to be charged for valuations.

SUPERVISION OF SECURITIES.

65. The two methods by which loans are made by the Board to farmers upon the security of stock and chattels and other farming assets are of such a nature that the Board is provided with some measure of independent supervision over the securities.

In the case of co-operative rural intermediate credit associations members are collectively responsible, to the extent of the share capital which they have taken up for the repayment of all advances obtained by the association from the Board to permit of the loans being granted to the individual members, and a consequence of this liability will, it is anticipated, be the careful and prudent administration of the associations' lending businesses, including a close supervision over the securities for the loans. In general, the area over which an association will be operating will be restricted in extent, and it will be composed of farmers living at no great distances from each other. As a result it is unlikely that any developments adversely affecting the association's securities will occur without those responsible for the conduct of the lending operations being promptly acquainted with the happenings. Largely the value of the principles of co-operation as applied to rural intermediate credit associations will be demonstrated by the economies which may be effected in costs of administration through the co-operation of the members, and it is particularly in regard to the costs of supervision of the securities, which normally entail a considerable amount of expense, that savings can be effected through the mutual efforts of the members.

In the case of direct loans one result of the provision for all such loans being guaranteed for 20 per cent. or more as required by the Board in individual cases, should be the maintenance by the guarantors of close contact with the securities, thus reducing to a minimum extent the expenditure required on the part of the Board for this purpose. The more direct benefits of supervision by guarantors will be secured in cases where the loans are guaranteed by stock and station agents, dairy companies, and similar concerns, which have special organizations enabling them to keep in touch with the securities. In the case of one guarantor company with which a considerable volume of business has been transacted a special arrangement entered into with the company provides for periodical reports being furnished to the Board upon the securities at intervals ranging from three months to a year, according to the requirements of individual cases. It may be mentioned in this regard that provision is contained in the form of guarantee which is executed

by guarantors in respect of direct loans for the furnishing of periodical reports as called for by the Board. In the case of private guarantors, while the liability incurred by such persons secures a certain interest in the securities, the Board takes independent measures to satisfy itself that the securities are being maintained in a satisfactory condition.

Arrangements have been made with the Public Trustee for the services of the farm inspecting staff of the Public Trust Office to be made available when the officers are in the districts in which the securities for the Board's loans are situated, for the purpose of making whatever inspections are considered necessary. This action is taken mainly in cases where the guarantor is not resident in the district, or, in selected cases, as a means of checking the supervision which is exercised by associations or guarantors in respect of the loans. These inspections are kept at a minimum, so that the expenses involved in the administration of the system will be kept as low as possible. Moreover, to a large extent, as indicated above, the Board is able to rely upon the independent supervision which is ensured by the loan methods provided by the Act.

Apart from these steps, however, a useful check is provided in the case of dairy-farmers, to which class of farmer the bulk of the advances up to the present have been made, by the payments received under the partial order on the cream cheques taken to cover interest and repayments of principal, the payments furnishing a guide to the productivity of the farm and the progress which the borrower is making. The payments are received by the Board in the case of loans under the provisions of Part III of the Act and by associations in the case of loans granted through the medium of these concerns. In the latter cases periodical inspections of the associations' accounting records relating to loans are made by the accounting officers of the Board, and in this manner the Board keeps in touch with the position of the associations' loans, so that any unsatisfactory features disclosed or suggested by the payments received may be speedily followed up. In the case of sheep and other securities the proceeds of the produce are received by the Board or the association concerned, and again are an index to the borrower's financial position. In addition to this, in all cases the registration of the chattels security taken by the Board or by an association ensures that the proceeds of the partial realization of securities is paid to the Board or association, and adequate control over stock changes is thereby provided.

The Board is satisfied that the methods by which loans are granted and the measures taken independently to safeguard the securities result in an adequate degree of supervision being maintained on the most economical basis.

INSTRUCTIONS TO OFFICERS.

66. Standard instructions summarizing the Board's policy in regard to its lending business, and incorporating instructions for dealing with matters of detail, provide for uniformity in the handling of loan applications and other matters by the local representatives of the Board and the district boards. These instructions are supplemented monthly by a circular issued to all officers, which contains advice of new developments in the business and changes of policy or procedure, and which is published in a form enabling suitable extracts to be included in the main book of instructions.

It is stated elsewhere in this report that a similar publication was issued during the year to facilitate the transaction of the business of co-operative rural intermediate credit associations by the directors and secretary-treasurers, and has proved of great practical benefit to them.

INSPECTION OF WORK.

67. In common with other systems in operation in the Public Trust Office which have proved their value over a period of years, the system for the inspection of clerical and accounting work has been extended to cover the intermediate credit work performed by the Public Trust Office organization. As a result of the

periodical inspection of the work made by experienced officers, the most efficient standard of work is achieved, and uniformity of practice and procedure in the various branch offices is assured. During the past year a considerable portion of the time of the Reviewing Inspectors was devoted to the inspection of the intermediate credit work.

SYSTEMS OF RURAL FINANCE IN OTHER COUNTRIES.

68. The experience of institutions in other countries administering systems of rural finance is of special interest to the Board in the administration of the intermediate credit system in the Dominion. The novel features of schemes introduced in other countries and the practical experience of institutions administering existing schemes are carefully noted, so that should it be thought advisable to make any modifications in the New Zealand system the Board will have the experience of other countries to guide it in formulating or discussing proposals for modification of the scheme. Steps have accordingly been taken to ascertain and keep the Board fully advised of developments in connection with systems of rural finance abroad.

69. *Ireland*.—Interesting particulars were received during the year regarding the commencement of the operations of the Agricultural Credit Corporation set up in the Irish Free State under the provisions of the Agricultural Credit Act of 1927. The corporation, which has State backing both in regard to its initial share capital and additional funds raised afterwards by debenture issues, is authorized to make loans upon the security of farming-land, and to advance funds also upon securities similar to those which the Board may accept, both direct to farmers and indirectly to them through the medium of co-operative creameries. A pamphlet issued by the corporation indicates that it is making a special endeavour to develop its lending business through the latter channel, recognizing that the creameries have a vital interest in the increase of production by their suppliers. The experience of the corporation in dealing with individual farmers has been that in many cases creameries could secure a larger milk-supply if some simple means of obtaining capital were available locally to farmers. It is stated that many dairy-farmers who might stock more cows are unable to do so for want of capital, while others who are anxious to change over to dairying cannot do so for the same reason, and business is thus lost to the creameries.

The scheme placed before the creameries by the corporation is that each of the creamery societies should set up a special credit section to consider applications for loans from its farmer members. The credit section will be controlled by a sub-committee of the committee of management of the society, to be known as the "Credit Committee," which will recommend or reject applications for loans made by members of the society. The loans recommended will then be reported to the committee of management, which will have an absolute veto on the recommendations of the credit committee. Application will then be made to the Agricultural Credit Corporation, for an advance equivalent to the total amount sanctioned by the committee of management, and the society will assume full legal responsibility in respect of advances made by the corporation in response to applications made from time to time by the committee of management.

Before the corporation will make advances to a creamery it will require the society to enter into an agreement under which the society agrees to adopt certain standard rules approved by the corporation, and undertakes not to alter its rules without the approval of the corporation. The society is also required to open a special account with a bank approved by the corporation, and to authorize the bank to hold to the use of the corporation all moneys lodged or credited to the account, and to refuse to honour any cheques drawn on the account except cheques drawn by the corporation. Thus all moneys paid to the creamery society by borrowers in reduction of their loans are immediately at the absolute disposal of the corporation and cannot be utilized by the society for any purpose whatever.

Another feature of the loans to be made through creamery societies is that it is contemplated that each individual borrower through the society shall obtain from two or more other farmers a guarantee for the repayment of the whole debt, supported

by an agreement by the guarantors that, in the event of default being made by the borrower, the guarantors will not sell any milk, cream, or cheese produced upon their farms otherwise than through the society, and that it shall be lawful for the society to make such deductions from the amounts due by the society to the guarantors for the price of such milk, &c., as the society in its absolute discretion thinks fit.

The maximum amount which the committee of a society may advance to any one borrower is £150, and applications for loans in excess of that sum are to be referred to the corporation. The purposes for which loans may be granted are practically the same as those for which loans may be granted by the Board, and the loans are also to be repayable by instalments, with a maximum period for repayment of seven years. In this regard creameries are recommended, in the interest of borrowers, to arrange for deductions to be made from the monthly milk cheques to meet the annual repayments.

The operations of the Agricultural Credit Corporation are of particular interest to the Board, and it will be observed that the endeavours made to secure the co-operation of the creamery societies correspond in the case of the Dominion with the successful efforts made by the Board to secure the active interest of dairy companies in the intermediate credit system. The method by which loans may be obtained in Ireland through the medium of the creameries combines characteristics both of the discounting system and the procedure in obtaining loans through the medium of co-operative rural intermediate credit associations, and the Irish system generally reproduces many of the principal characteristics of the system which the Board is administering.

70. *Scotland*.—In Scotland, by the Agricultural Credits (Scotland) Act, 1929, the establishment of a company with the object of making advances upon the security of agricultural land is authorized. In addition, with the object of facilitating the obtaining of credit by societies engaged in the provision of agricultural requisites for their members and the sale of agricultural produce purchased from the members, provision has been made for a special form of charge, called an “agricultural charge,” to be given by the societies over their stocks of merchandise in favour of banks of currency. To be competent to avail themselves of the facilities provided, such societies must be registered under the Industrial and Provident Societies Acts.

71. *England*.—The means provided for assisting farmers in Scotland to obtain loans on the security of their farm properties are practically identical with the facilities provided for in England by the Agricultural Credits Act of 1928, which made provision for the formation and administration of a limited-liability company with the principal object of making long-term advances upon farming lands. The corporation has been set up and is now in active operation. The position in England regarding credit for shorter terms for agricultural purposes is, however, different. Further provisions of the Act of 1928 legalized a form of security, also called an “agricultural charge,” which may be taken by a bank to secure moneys advanced on a farmer’s stock, crop, implements, machinery, and similar assets. It has been stated that by the end of April last applications totalling two and a half million pounds had been made for loans upon the security of long-term mortgages of farming-land and in respect of major permanent improvements to such lands, and that in the same period over one thousand applications had been made for short-term credit from the ordinary banks by farmers and co-operative societies.

72. *Other Countries*.—The Board has also received reports and publications issued by the Farm Loan Board of the United States of America and by various institutions in the Union of South Africa and the Commonwealth of Australia engaged in the provision of credit facilities for farmers. Arrangements have been made in all cases for copies of further publications to be forwarded to the Board as they are issued by these concerns.

CONCLUSION.

73. It will be recognized that the new system of rural finance which the Board is charged to administer is still largely in the developmental stage, and that, whilst a satisfactory amount of business has been transacted during the year under review, the Board has also been largely concerned with laying down lines for future progress and establishing the necessary machinery to deal with the increased amount

of business which may be reasonably anticipated. The comparative statement published in the Appendix to this report, giving the total amount of business transacted or under consideration as at the 31st August in the years 1928 and 1929 respectively, shows that there has been a very satisfactory growth in the business during the period covered by the statement. In estimating the prospects of future business it must be borne in mind that many valuable points of contact have been established by the Board with the farming industry, and that from these a steadily increasing volume of business may be anticipated. Up to the present the scheme has been almost exclusively utilized by the dairying industry, the loans granted to other classes of farmers, such as sheep-farmers and grain-growers, being very limited in number and amount. This result is attributable to a number of special causes. In the first place, the limit of £1,000 fixed under the existing legislation, has proved inadequate for the requirements of sheep-farmers and grain-growers during the "dead" season of the year, when no revenue is being obtained and the expenses connected with farming operations, including the planting of crops, have to be met. In the second place, it would appear that the same facilities have not been at the disposal of the sheep-farmers as was the case with the dairy-farmers in obtaining guarantees of loans to enable the provisions of Part III of the Rural Intermediate Credit Act to be utilized. The third cause is probably to be found in the fact that, whilst a fixed loan to be liquidated over a period of years is usually suited to the requirements of the dairy-farmer, who is able to pay his interest and the instalments of principal required by the Board by deductions from his milk cheques throughout the productive season, such a loan is not equally applicable to the circumstances of the sheep-farmer, whose indebtedness steadily increases during the major portion of the year and is then rapidly liquidated either in whole or in part during the production season.

The Board has given careful consideration to these disabilities, and arrangements are in hand which it is anticipated will make the scheme equally popular with the sheep and grain farmers as it has proved with the dairy-farmers. On the representations of the Board, supported by a resolution of the last Dominion Conference of the New Zealand Farmers' Union, the Right Hon. the Prime Minister has undertaken to introduce legislation during the present session of Parliament raising the limit to be obtained by any borrower from the Board to £2,000. The Board has also devised a system for the fixing of limits up to which sheep-farmers and those engaged in mixed farming will be able to draw for their seasonal requirements, the amounts being reduced or liquidated from the proceeds of the next season's produce. Details of the Board's proposals in this connection are contained at an earlier stage of this report.

The difficulty of obtaining guarantees to support the loans of sheep-farmers will largely be disposed of by the formation of rural intermediate credit associations in the sheep-farming and grain-growing districts. It is of interest to record that the first of the associations in such districts has been formed in Mid-Canterbury, with headquarters at Ashburton. It is undoubted that the formation of this association has been stimulated largely by the public notification of the Right Hon. the Prime Minister that the limit for loans will be raised to £2,000, and by the Board's announcement of its new proposals relating to loans to sheep-farmers and grain-growers.

With these modifications of the system the Board confidently expects that the volume of business to be transacted with farmers other than dairy-farmers will show a marked and substantial increase.

74. In an earlier portion of this report reference has been made to certain complimentary comments which have been passed on the various modes of lending adopted by the Board. These expressions of satisfaction are the more gratifying in that the operations of the Board have been subjected to a certain amount of criticism during the year, some of which was obviously based on imperfect acquaintance with the facts, as the Board was able to demonstrate. It is obvious that in the early stages of the scheme, when the lines of organization were being laid down and the policy of the Board in its lending operations was being developed, it was not reasonable for applicants to expect exactly the same promptitude as though the Board's organization were fully established. The Board is in a position

to state that its organization is now complete, and that where an applicant has a satisfactory security to offer no delay in dealing with the application need be anticipated. The powers of district boards to deal with applications have been extended during the year, and a substantial proportion of the Board's lending is now carried out in the districts where the borrowers are located. In the other cases the applications are submitted to the central Board for final decision, but in order that such applications may be dealt with expeditiously the Board has delegated the power to deal with such loans to a local committee consisting of Board members who are resident in Wellington. This committee meets each week to deal with applications, and any apprehension of delay under this heading is thus removed.

The Board will continue to give constant attention to the speeding-up of the administration and the elimination of any unnecessary work, as it realizes to the full the necessity of providing money for the farming industry not only at reasonable rates of interest, but with a minimum of machinery and delay.

75. The amount of business already transacted by the Board has been sufficient to demonstrate the need and value of such a scheme as the rural intermediate credit system, and is an indication that there is scope for considerable expansion in the business to be transacted. The value of the scheme cannot be measured solely by the direct lending which it has effected, as the establishment of the scheme and the operations of the Board have undoubtedly served to concentrate attention on the problem of rural finance, and have led to more sympathetic consideration of this type of finance by other financial institutions, with consequent benefit to the farming industry. It is felt that, as the system extends, its benefit will become more and more apparent, and it will assist in the attainment of a closer approximation to the ideal conditions under which the farmer will arrange for his long-term credit by means of a mortgage of his land, secured under the amortization or instalment system, and will obtain the additional finance requisite for stocking and working the property by means of a loan from the Rural Intermediate Credit Board, which will also be on a definitely reducing basis. The closer the approximation to this ideal, the more stable will become the position of the farmer, and the better able he will be to meet the inevitable fluctuations which take place from time to time in the prices of our primary products. A system of long-term amortized loans will also have a most valuable effect in serving to stabilize the values of land, and tend to reduce the possibility of rapid inflation and deflation, which in the past few years have caused such hardship to the farming community.

76. The Board desires to place on record its sincere appreciation of the valuable services rendered by the members of district boards, including leading farmers, representatives of the stock and station companies, and Government officials, such as the Commissioners of Crown Lands, and officers of the Valuation or Agriculture Departments, together with the District Public Trustees who are chairmen of the boards in the various districts. The Board also desires to tender its thanks to those public-spirited farmers in the various districts who have promoted the formation of rural intermediate credit associations and are serving on the directorates of such associations in an honorary capacity.

I have, &c.,
(For and on behalf of the Board),

J. W. MACDONALD,
Commissioner.

The Right Hon. the Prime Minister.

APPENDICES.

APPENDIX I.

COMPARATIVE STATEMENT OF TRANSACTIONS AS AT 31ST AUGUST, 1928, AND 31ST AUGUST, 1929.

	31st August, 1928.			31st August, 1929.		
	£	s.	d.	£	s.	d.
Investments (including loans made and face value of bills and notes discounted)	30,945	0	0	215,176	0	0
Loans granted but not completed	34,214	0	0	42,874	0	0
Applications entertained and in course of consideration	31,510	0	0	10,260	0	0
Total	£96,669	0	0	£268,310	0	0

The investments referred to above were made up as follows :—	£	s.	d.	£	s.	d.
Advances to associations for preliminary expenses ..	46	0	0	394	0	0
Advances to associations under Part II of the Act ..	13,655	0	0	89,530	0	0
Advances to farmers under Part III of the Act ..	15,979	0	0	117,987	0	0
Bills and notes discounted (face value)	1,265	0	0	7,265	0	0
Total	£30,945	0	0	£215,176	0	0

The business dealt with by the Board up to the 31st August, 1929, or under consideration at that date, reached the total of £317,630, made up as under :—

	£	s.	d.
Applications under consideration	10,260	0	0
Loans granted but not completed	42,874	0	0
Loans paid and bills and notes discounted since the inception of scheme	264,496	0	0
Total	£317,630	0	0

APPENDIX II.

DIRECTORS AND SECRETARY-TREASURERS OF CO-OPERATIVE RURAL INTERMEDIATE CREDIT ASSOCIATIONS.

NORTH AUCKLAND DISTRICT.

Bay of Islands Association (Headquarters: Kaikohe. Registered 10th September, 1929)—
Provisional directors: Hubert Knox Hatrick, Waimate North; William Joseph Pole, Kaikohe;
James Gray Ritchie, Kaikohe; Herbert Martin Rockell, Kaikohe.
Secretary-Treasurer: Kenneth William Harold, Kaikohe.

Northern Wairoa Association (Headquarters: Dargaville. Registered 9th October, 1928)—
Directors: Henry Polden Walton, Tokatoka (Chairman); George Druitt, Mamaranui; John
Irwin, Ruawai; Frank Joseph Johanson, Parore; Arthur Leslie Williams, Dargaville.
Secretary-Treasurer: Douglas Leith Ross, Dargaville.

AUCKLAND DISTRICT.

Helensville Association (Headquarters: Helensville. Registered 11th October, 1928)—
Directors: Alexander Ernest Diprose, Kaukapakapa (Chairman); James Mackie, Helensville;
Harold Phillip McLeod, Helensville.
Secretary-Treasurer: Frank Taylor, Kaukapakapa.

Waiuku Association (Headquarters: Waiuku. Registered 12th June, 1928)—
Directors: Colonel Maxwell Aldred, Whiriwhiri (Chairman); Archibald White, Glenbrook.
Secretary-Treasurer: John Murray Heise, Waiuku.

WAIKATO DISTRICT.

Hamilton Association (Headquarters: Hamilton. Registered 7th May, 1928)—
Directors: Walter Cooper-Smith, Frankton Junction (Chairman); Herbert John Coxhead,
Claudelands; Charles Edwards, Frankton Junction; Arthur Wallace, Frankton Junction.
Secretary-Treasurer: Thomas Gordon Reynolds, Hamilton.

Te Awamutu Association (Headquarters: Te Awamutu. Registered 12th June, 1928)—
Directors: Charles Monrath Alexander, Te Awamutu (Chairman); Walter Frederick Woodward,
Te Awamutu.
Secretary-Treasurer: James Gladwin Wynyard, Te Awamutu.

- Otorohanga Association* (Headquarters: Otorohanga. Registered 21st June, 1928)—
Directors: Herbert Arthur Lurman, Otorohanga (Chairman); George Dixon Hall, Otorohanga;
Jens Christen Petersen, Otorohanga; James John Walker, Otorohanga.
Secretary-Treasurer: John Francis Trapski, Otorohanga.
- Te Kuiti Association* (Headquarters: Te Kuiti. Registered 11th July, 1928)—
Directors: James Nicol Boddie, Te Kuiti (Chairman); Richard Robert Dean, Te Kuiti; Arthur
Llewellyn Flux, Te Kuiti; Alexander John Sutherland, Te Kuiti.
Secretary-Treasurer: Albert William Whyte, Te Kuiti.
- Taumarunui Association* (Headquarters: Taumarunui. Registered 18th October, 1928)—
Directors: Arthur Wesley King, Taumarunui (Chairman); Joseph Fry, Owango; Geoffrey
John Hammond, Owango; George Peterson, Taumarunui.
Secretary-Treasurer: William Alexander Nisbet Campbell, Taumarunui.
- Hauraki Association* (Headquarters: Paeroa. Registered 21st July, 1928)—
Directors: Murdo Archibald Carter, Awaitei (Chairman); George Death, Netherton; James
Irwin, Paeroa; Vivian Young, Hikutaia.
Secretary-Treasurer: Arthur Thomas Jones, Paeroa.
- Te Aroha Association* (Headquarters: Te Aroha. Registered 23rd November, 1928)—
Directors: Francis William Walters, Waitoa (Chairman); John Dennerly Johns, Te Aroha;
John David MacKay, Waihou; Peter Alexander Swney, Waihou.
Secretary-Treasurer: Horace Rowbotham, Te Aroha.
- Morrinsville Association* (Headquarters: Morrinsville. Registered 22nd September, 1928)—
Directors: Frederick William Seifert, Morrinsville (Chairman); John Henry Geddes, Morrins-
ville; Frederick Chafe Kennedy, Morrinsville; George Henry Pirrit, Morrinsville.
Secretary-Treasurer: Joseph Lewis Faulkner, Morrinsville.
- Katikati Association* (Headquarters: Katikati. Registered 18th September, 1929)—
Directors: John Dugald Morrison, Katikati (Chairman); Samuel Charles Barron, Katikati;
David Charles Douglas Thomas, Katikati; Marcus Nicholson Trotter, Katikati.
Secretary-Treasurer: James Frederick Russell Wallace, Tauranga.

NORTH TARANAKI DISTRICT.

- North Taranaki Association* (Headquarters: New Plymouth. Registered 19th July, 1928)—
Directors: Samuel Vickers, Omata (Chairman); Arthur Robert Alpe, Uruti; Henry Ernest
Blyde, Lepperton; William Henry Whittaker, Okoke.
Secretary-Treasurer: Dann Le Cren Morgan, New Plymouth.
- Kaimata Association* (Headquarters: Inglewood. Registered 1st October, 1928)—
Directors: Henry Jones, Kaimata (Chairman); Alfred Maurice Allen, Inglewood; John Klenner,
Kaimata; William Murray Willans, Ratapiko.
Secretary-Treasurer: Ian Percy Grant, Inglewood.

SOUTH TARANAKI DISTRICT.

- South Taranaki Association* (Headquarters: Hawera. Registered 21st March, 1928)—
Directors: John Cocker, Eltham (Chairman); James David Conaglen, Pihama; Alfred
Benjamin Muggeridge, Manutahi; Thomas Wilson, Ararata.
Secretary-Treasurer: Edward Knowles Cameron, Hawera.
- Stratford Association* (Headquarters: Stratford. Registered 25th July, 1929)—
Directors: Alfred David, Stratford (Chairman); Ernest Albert Adlam, Waipuku; Herbert
James Shrimpton, Lowgarth; William George Thurston, Stratford.
Secretary-Treasurer: Robert Reid Tyrer, Stratford.

MANAWATU-WELLINGTON DISTRICT.

- Waimarino Association* (Headquarters: Ohakune. Registered 10th October, 1928)—
Directors: George James Goldfinch, jun., Ohakune (Chairman); Louis Fetzner, Ohakune; Arthur
Benjamin Harris, Raetihi; Herbert Rieper, Raetihi.
Secretary-Treasurer: Joseph Jones, Ohakune.
- Oroua Association* (Headquarters: Feilding. Registered 7th June, 1928)—
Directors: Walter Lough Grice, Cunningham's (Chairman); John Bernard Bradley, Feilding;
Cyril Guy Conduit Dermer, Cheltenham; George Watt, Kimbolton.
Secretary-Treasurer: Thomas Leonard Seddon, Feilding.
- Horowhenua Association* (Headquarters: Levin. Registered 29th October, 1928)—
Directors: Robert Gillies Wall, Kuku, Ohau (Chairman); Sam Atkinson Broadbelt, Ihakara;
Raymond Vickers Brown, Weraroa; Ronald Joseph Law, Shannon.
Secretary-Treasurer: George Dacre Hamilton, Levin.

WAIRARAPA DISTRICT.

- Wairarapa Association* (Headquarters: Masterton. Registered 11th December, 1928)—
Directors: Alexander Ross, Longbush (Chairman); Charles Churchill Jackson, Kopuaranga;
James Miller Laing, Tinui; Walter Asker Tate, Greytown.
Secretary-Treasurer: James Watson, Masterton.

MID-CANTERBURY DISTRICT.

Mid-Canterbury Association (Headquarters: Ashburton. Registered 24th July, 1929)—

Directors: Henry Charles Bayly Withell, Ealing (Chairman); James Carr, Methven; Alfred Gregory, Seafeld; William Thomas Lill, Willowby.

Secretary-Treasurer: William Horace Woods, Ashburton.

OTAGO DISTRICT.

Tapanui Association (Headquarters: Tapanui. Registered 18th October, 1928)—

Directors: Edward Henry Murney, Tapanui (Chairman); Alfred Squires Herbert, Kelso; Mark McAuley, Tapanui; Arthur James Stuart Sim, Heriot.

Secretary-Treasurer: William Benjamin Naylor; Tapanui.

SOUTHLAND DISTRICT.

Mataura Association (Headquarters: Mataura. Registered 13th May, 1929)—

Directors: William Young Dickie, Ferndale (Chairman); Henry Cockburn, Mataura; Angus MacKay Robertson, Mataura; Donald Wight, Tutarau.

Secretary-Treasurer: Charles Harold Hargest, Matanra.

Central Southland Association (Headquarters: Wright's Bush. Registered 12th January, 1929)—

Directors: David Teviotdale, Isla Bank (Chairman); Robert Beggs, Wright's Bush; John James Blakie, Ryal Bush; Andrew Hannah Hall, Thornbury.

Secretary-Treasurer: Thomas McKenzie, Wright's Bush.

The statutory meetings of the Te Puke and Rangitaiki Associations not having yet been held, the directors have not yet been elected or the secretary-treasurers appointed.

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