certain interest under the mortgage to the Public Trustee, but His Honour, while reserving leave for the application to be renewed at a later date, stated that he was not at that stage prepared to make an order which would deprive the Public Trustee of any of his interest, as it was impossible to say what would be the position of the mortgagor in 1933.

RATES OF INTEREST ON MONEYS INVESTED IN THE COMMON FUND.

29. The rate of interest allowed on moneys invested in the Common Fund is necessarily determined by the return derived by the Public Trustee from the investment of the moneys which in the aggregate make up the fund. Though every precaution was taken in the past to ensure that the investments were made only on the most attractive classes of security, and, where the security consisted of a mortgage of land, well within the conservative margins fixed by statute, the unprecedented severity of the depressed conditions which have been experienced throughout the Dominion has inevitably had its effect on the investments. The difficult position in which the mortgagors are at present placed has rendered it impossible for a large number to meet their interest payments, and losses of interest falling due or already accrued and, in some cases, losses of portions of the principal moneys invested must be faced. The position of the Public Trust Office regarding the investments is, of course, no different from that of other lending institutions and private investors in the Dominion, and, indeed, throughout the world, at the present time.

For these reasons it was not possible to continue payment of the rate of interest allowed during more prosperous years on moneys invested in the Common Fund, and a reduction from 5¼ per cent. to 4¾ per cent. was made on the 18th December, 1931, in respect of moneys held in trust, the reduction being effected by an Order in Council of that date published in the *New Zealand Gazette* of the 24th December, 1931.

30. The passing of the National Expenditure Adjustment Act after the close of the year under review made a subsequent revision of the Office rates of interest imperative. Under the statutory provisions governing the investment of moneys forming the Common Fund, investments have been confined largely to liquid investments such as Government securities and the securities of local authorities in the Dominion, and to mortgage investments for fixed terms, and the greater proportion of the investments consists of mortgages. Under the provisions of Part III of the National Expenditure Adjustment Act the rates of interest in respect of the classes of mortgage securities held by the Office were subjected to reductions up to 20 per cent. of the rates prescribed by the contracts, and, though the Act was passed on the 10th May, 1932, the reductions took effect from the 1st April, 1932. Under Part IV of the Act a special stamp duty was made payable in respect of the periodical instalments of interest on Government, local-body, and certain other securities which became payable on or after 14th May, 1932, and the effect of the statutory provisions was to reduce by 10 per cent. the amount of interest received by the Office on or after that date from its investments. A substantial amount of duty became payable in respect of a large amount of interest which, though it had accrued in respect of periods prior to the 1st April, 1932, was included in half-yearly instalments of interest payable on or after the 14th May, 1932.

The duration of the legislation was in both regards fixed at a period of three years. The effect of the Act was therefore to reduce to a very large extent and for a considerable period the revenue derived by the Office from the investments of the Common Fund, and, though new contracts were not affected, the Public Trustee is in practical effect precluded by the terms of his contracts with borrowers, and by other considerations arising out of the special relief legislation and the conditions prevailing, from taking any effective steps to increase the rate of interest from the Office investments. Furthermore, the benefits received by the Public Trustee from the operation of the legislation are negligible in comparison with the reduction of revenue which has been sustained.

In the circumstances, it was not possible to continue payment of the existing rates of interest, and a further reduction to 4 per cent. in respect of moneys held