

the term, in the absence of a mortgage market, involves the tying-up of the investor's capital for a longer period than is usually desired. A system of long-term financing of farmers through a Rural Mortgage Corporation, which will enable private investors who desire to realize on their mortgages to exchange them for bonds carrying current interest-rates, and will also provide an outlet for the capital of persons who wish to invest in a form of collective mortgage security, appears to be the most suitable.

157. Necessity for Variable Interest-rates for Rural Mortgages :

An objection to long-term mortgages at fixed rates of interest is that they are unsatisfactory to investors when rates of interest are low, and unsatisfactory to borrowers when rates of interest are high. In the one case, the mortgagee is required to accept a rate of interest that is probably lower than the average of the rates current during the term of his mortgage ; and, in the other, the mortgagor is required to pay a rate that is probably higher than the average, and he may be unable to maintain his payments if commodity prices fall for a period of years. There is therefore a case for the establishment of a system of long-term mortgage credit, bearing variable rates of interest in conformity with the current rates earned by investment capital.

Although the provision of variable interest-rates for mortgages and for mortgage bonds is somewhat novel, it is submitted that such a proposal is eminently sound. When it is remembered that an investor who buys shares in a trading company has to take an interest or dividend return which varies according to the profit-earning capacity of the company, there can be nothing unreasonable in the provision that the interest return on a mortgage investment should be varied at stated intervals in conformity with the general current rates of interest.

158. Essentials of Rural-credit System :

An adequate long-term mortgage credit system that will enable the present difficult position to be met, and that will be suitable for future needs, should meet the following requirements :—

- (a) It should be sufficiently elastic to permit a closer approximation of interest-rates on rural securities to the rates of interest on other securities, and consequently to the prevailing levels of produce prices. It is not suggested, of course, that the general level of interest returns on securities other than mortgages rises or falls simultaneously with, or to the same extent as, the general level of prices of primary products, but the response is more rapid.
- (b) It should be designed to minimize as far as possible speculation in land in times of prosperity, and to stabilize land-values. Excessive inflation of land-values in periods of rising prices and panic depreciation of land-values in periods of falling prices are fruitful causes of financial disaster.
- (c) It should make an effective discrimination between suitable and unsuitable cases for accommodation, and make it possible to end the present state of debt suspension.
- (d) It should protect economic farming propositions by providing an efficient method of budgetary supervision in cases where existing mortgages cannot be realized in full, and provide for control of that portion of the farmer's indebtedness which cannot, at the present level of prices, be liquidated immediately.
- (e) It should aim at a wider adoption of the principle of regular amortization of mortgage debts. Short-term "flat" loans should, as far as possible, be restricted to cases in which it is reasonably probable that further accommodation will not be required at the expiration of the mortgage term.
- (f) It should enable a mortgagee to realize such portion of his present mortgage as is sound at the present level of prices, and it should also provide a form of investment in collective securities over land, which would have the advantage of negotiability and be otherwise attractive to investors.

159. Recommendations for Establishment of Rural Mortgage Corporation :

We therefore recommend the establishment of a rural mortgage organization to be known as the New Zealand Rural Mortgage Corporation. In order that the Corporation may be soundly informed on matters relating to primary production and finance, it is suggested that the governing body should include one or more representatives of the directorate of the Reserve Bank and the Chairman of the Council of Production and Trade.

District Rural Mortgage Commissions should be set up by the Corporation as required. It is thought that in the initial stages the existing Mortgage Adjustment Commissions, which have gained much valuable experience, would be able to act usefully as District Commissions. They would continue to be vested with their existing powers for the remainder of the currency of the Mortgagors and Tenants Relief Act, and would have conferred on them such additional powers as were thought necessary to enable them to give effective assistance to the Corporation. It may be necessary to set up additional Commissions and to appoint additional members to the existing Commissions. District Commissions should have seconded to them sufficient staffs of officers to provide valuation, supervisory, and budgetary services. These officers should be drawn from the existing field staffs of the State Departments of Agriculture, Lands and Survey, State Advances, and Valuation.