

- (c) and (d) We have dealt in another part of this report with the necessity for rationalizing the system of mortgage relief, by drawing a definite line of demarcation between cases in which a return to solvency is reasonably likely and cases that are hopelessly insolvent, and with the necessity for affording planned assistance, on sound lines, to the former. The scheme that we have outlined enables this objective to be attained with justice to mortgagor and mortgagee. We are convinced that where assistance is necessary budgetary supervision is the only means of assuring that the assistance given will be genuinely beneficial. It provides a method of gradually liquidating the excess indebtedness both through improved farm efficiency and through ordered and economical control of expenditure. Budgeting, in essence, is a joint effort on the part of mortgagor and mortgagee to realize the best results from the enterprise in the interests of both. It has the special merit, too, of converting the nature of the assistance given to mortgagors from a relief basis to a genuine investment basis.
- (e) The principle of regular amortization is fundamental to the scheme.
- (f) The majority of "flat" mortgages in respect of which relief has been applied for are now overdue. In many cases the mortgagees require the repayment of their principal, but are unable to obtain it. We have recommended the adoption of a scheme by which their mortgages, or such part of them as may be considered to be sound, may be realized upon. While it is impossible to repay the mortgagees in cash, the issue of negotiable bonds, carrying a Government guarantee of interest at current rates, will place them in a better position than they would be in if a large number of forced sales were permitted to take place. In the case of mortgages that cannot safely be taken over *in toto* by the Corporation, the provisions we have suggested for the transfer of the less sound portion of the mortgage debt to a suspense account controlled by the Corporation, and for budgetary supervision by the Corporation, will materially assist the mortgagees concerned. The effective handling of this portion of the mortgage indebtedness will be a vast improvement on the position at present existing in many cases. Our proposal aims at substituting controlled for uncontrolled indebtedness, and disposing of the less sound surplus of debt by wise management of farm and finance. It provides a means of attaining the objective of releasing mortgagors from relief conditions and mortgagees from restrictions. We have recommended that mortgagors whose mortgages are not overdue be given the right to refinance through the Corporation on giving twelve months' notice to their mortgagees. Many long-term mortgages contain a provision enabling repayment to be made before the due date, and our recommendation makes the application of this provision universal, in so far as existing mortgages are concerned. We think, however, that in most cases likely to be affected by this part of our recommendations the mortgagor and the mortgagee would agree to continue the existing security at an agreed rate of interest.

171. Position of Private Lenders :

It is not our desire to hamper the private lender, but to encourage him by freeing him from the restrictions that are now imposed on him. He will, in many cases, especially when he is perfectly satisfied as to the soundness of the security and the efficiency and reliability of the borrower, prefer to secure a somewhat higher rate of interest than he would derive from mortgage bonds and carry what he will regard as a negligible risk; and he will, of course, have the short-term mortgage field fully open to him.

172. Writing-off of Capital Indebtedness :

We think that it is due to the farmers of the Dominion that we should state that they did not ask to be allowed to repudiate their capital liabilities. While nearly all witnesses who gave evidence on the subject of mortgage finance put forward a case for relief from high interest commitments, scarcely one urged that a mortgagor should be relieved of his capital liability, although a few witnesses made an exception in the case of vendor mortgages. We found, however, that it was impossible to distinguish vendor mortgages from other mortgages. Many of them were, and are still, perfectly sound propositions and have been distinctly helpful to the purchasers. It must be remembered, too, that where an element of gambling has been present, through land being sold at an unduly high price and a mortgage taken by the vendor for a large part of the purchase-money, both vendor and purchaser were parties to the speculation, and both relied on high prices for produce being maintained indefinitely. One cannot blame the other. Then, too, many vendor mortgages have been transferred or submortgaged and are no longer in the hands of the original vendors. We are of the opinion that no special form of relief should be given in the case of vendor mortgages, not only because it is impossible to do so, but because they will fit into their proper place in the scheme that we have outlined and will be dealt with according to their basic soundness or unsoundness.

173. The Personal Covenant in Mortgages :

A number of witnesses urged that legislation should be passed to abolish the personal covenant in all mortgages. This request appears to us to be founded on a lack of comprehension as to the nature of a mortgage, especially a mortgage under the Land Transfer system, which is now practically the only system of registration of titles in force in New Zealand. A mortgage is not a mere pledge of land of a nature similar to that of a pledge to a pawnbroker of some article of personal property. The difference is that the mortgagor retains possession of and the legal title to the land for so long as he complies with