

## PART I.

It is appropriate that this report on the operations of the State Advances Corporation for the year ended 31st March, 1937, should deal firstly with the change in the constitution of the Corporation following the passing of the State Advances Corporation Act, 1936, which in the course of this report I shall refer to as "the Act" in order to avoid repetition.

1. *Changes in Constitution.*—The Act amongst other things changed the name of the Corporation from the Mortgage Corporation of New Zealand to the State Advances Corporation of New Zealand, and provided that the members of the Board of Management other than the Joint Managing Directors and the *ex officio* Director who held office on the passing of the Act should be deemed to have vacated their offices on 1st July, 1936. The Board was then reconstituted, and a new Board was appointed by the Government. The personnel of the Board is now Mr. A. D. Park, C.M.G., Joint Managing Director, Chairman, Mr. T. N. Smallwood, J.P., Joint Managing Director, Deputy Chairman, Mr. G. A. Lewin, C.M.G., Dunedin, and Mr. B. C. Ashwin, of the Treasury, *ex officio*, all of whom were members of the previous Board.

The original capital of the Mortgage Corporation of New Zealand consisted of shares to the value of £1,000,000 of which 500,000 shares of £1 each were held by the Minister of Finance on behalf of the Crown and 500,000 shares of £1 each were offered to and subscribed by the public of New Zealand. There has, however, been a complete change in that all the shares held by private shareholders have been taken over by the Government. Actually, therefore, the capital under the Act is maintained at £1,000,000 the whole of which is provided by the State.

The private shareholders were fully compensated for the shares held by them, and were given the option to receive in cash the amounts paid up on shares plus a premium calculated at such a rate as would return to them the actual market value of their shares, or they could elect to receive a like amount in New Zealand Government stock bearing interest at 4 per cent. per annum. Broadly speaking this latter option had the effect of preserving to the shareholders an income equivalent to the income they would have received from their shares had no change taken place.

The Mortgage Corporation of New Zealand had borrowed by the issue of debentures and stock to the investing public the sum of £500,000, and the securities issued constituted a floating charge on all the assets of the Corporation. The Act provided for a State guarantee of all securities issued by the Corporation, whether before or after the passing thereof, so that investors in securities of the Mortgage Corporation now enjoy the additional privilege of a State guarantee of their investment both as to principal and interest, and the issue now on the market and all further issues of the State Advances Corporation are so guaranteed, thus providing a most attractive investment.

The Act also charged the Corporation with the responsibility of administering the Housing Act, 1919, but special mention is made of the activities under this legislation in Part II of this report.

A further and most important change was brought about by the operation of the Act which extended the powers of the Corporation in the granting of loans. Section 30 provided the authority whereby the Corporation may grant loans exceeding two-thirds of the value of the security with a guarantee from the Minister of Finance against any loss that may be incurred in so far as such loss is attributable to the excess of the loan over the normal lending margin. Previously this power to grant loans in excess of two-thirds of the value was confined to the investment of funds on rural securities for the purpose of discharging mortgages thereon, but by arrangement with the Minister of Finance in terms of the Government guarantee