

STATE ADVANCES CORPORATION OF NEW ZEALAND.

BOARD OF MANAGEMENT :

A. D. PARK, C.M.G., Chairman.
T. N. SMALLWOOD, J.P., Deputy Chairman.
G. A. LEWIN, C.M.G.
B. C. ASHWIN (*ex officio*).

HEAD OFFICE :

State Fire Insurance Building, Wellington.

CHIEF ADMINISTRATIVE OFFICERS :

G. E. MILLER, Manager.	F. E. MITCHELL, Assistant Manager.
K. J. CAVERHILL, Secretary.	R. ROBERTSON, Chief Accountant.
H. M. CASELBERG	V. E. LOUGH, Chief Property Super-
B. C. McCABE	visor.

} Supervising Valuers.

AUDITORS :

L. H. HESLOP. R. C. BURGESS.

1937.
NEW ZEALAND.

STATE ADVANCES CORPORATION OF
NEW ZEALAND.

REPORT AND ACCOUNTS FOR YEAR ENDED 31st MARCH, 1937.

Laid before both Houses of the General Assembly in pursuance of Section 42 of the State Advances Corporation Act, 1936.

PART I.—GENERAL.

	PAGE
1. Change in Constitution	4
2. World Events	5
3. Business Conditions in New Zealand	5
4. Trend in Interest-rates	6
5. Fresh Issue of Stock and Debentures: Series "B"	8
6. Management of Corporation Stock and Debentures	9
7. New Business	9
8. Loans for Industries	13
9. Reserve Fund Investments	13
10. Establishment of Branch Offices	13
11. Transfer of Discharged Soldiers Settlement Mortgages	14
12. Transfer of Rural Intermediate Credit Securities	16
13. Adjustment of Mortgages under Section 39, State Advances Corporation Act, 1934-35	16
14. Mortgagors and Lessees Rehabilitation Act, 1936	16
15. Field Staff	17
16. Agencies for other Government Departments	18
17. Arrears of Instalments	19
18. Interest due and received	19
19. Reverted Securities: Urban Properties	20
20. Reverted Securities: Rural Properties	20
21. Salvage Advances	20
22. Revenue Accounts—Comments on	21
23. Balance-sheet—Comments on	21
24. Organization and Staff	22
25. Conclusion	23
Accounts and Auditors' Report	24

PART II.—OPERATIONS UNDER HOUSING ACT, 1919.

1. Change in Constitution	25
2. Transfer of Housing Account	25
3. Housing Policy	25
4. Organization	26
5. Report of Director of Housing Construction	27
6. Loans to Local Authorities	29
7. Loans to Co-operative Dairy Factories	29
8. Balance-sheet and Revenue Accounts—Comments on	29
9. Statutory Returns	30
Accounts and Auditors' Report	30

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

this has now been enlarged principally for the purpose of encouraging the erection of new houses and for the financing of farms. This provision has enabled the Corporation to make advances to qualified applicants for the erection of houses in urban and suburban areas as part of the Government housing policy.

There were other changes effected by the Act to which reference will be made in the course of this report but which need not be specifically detailed at this stage.

2. *World Events*.—A reference to overseas conditions is a prelude to a study of general business conditions in New Zealand as affecting the progress of the Corporation.

The year under review has been marked by a series of international incidents each of which has had its effect on international relationship and good will. In the monetary field we have seen the departure of France from the gold standard quickly followed by Holland and Switzerland, these being the only countries of any importance at the time maintaining the gold bloc. Then came the Tripartite Currency Agreement between Great Britain, France, and the United States, by which these three countries agreed upon a gold-exchange parity. Probably no single factor during the past decade has had a greater influence upon world economic affairs than this agreement, which aimed at the stabilization of currencies and a greater freedom of international trade. In the stimulation of international trade, increased real purchasing-power, and the establishment of a generally higher level of prices for commodities lies the amelioration of the present difficulties in world economic affairs.

If from the present multitude of conflicting circumstances there arises a reasonable degree of international goodwill, the world should not have to wait long for the desired return of those elements of confidence and stability which are essential to the general well-being. Recent trends indicate that the prospects of continued progress in international trade are reasonably good. Trade is increasing and the process of recovery is continuing, which augurs well for the future of a primary producing and exporting country such as New Zealand.

With our prolific production of primary produce and relative paucity of secondary industries we are materially interested in the trends of markets overseas. Our domestic economy in the past has always reacted to fluctuations in overseas prices, although the operation of the guaranteed-price legislation now has a steady influence.

3. *Business Conditions in New Zealand*.—Exports for the year realized the unprecedented total of £(N.Z.)60,230,000 as compared with £(N.Z.)49,680,000 for the previous year and with £(N.Z.)33,940,000 for the depression year of 1931–32. Export-price levels were substantially higher than for the previous year, as is evidenced by the graph showing the index numbers of export prices appearing at page 32 herein, but increased volume of exports also accounted to some extent for the increased total value.

The phenomenal rise in the export values of wool from £(N.Z.)10,420,000 in 1935–36 to £(N.Z.)15,780,000 in 1936–37 accounted for a little more than half of the total increase. Dairy-produce export values increased by £(N.Z.)3,170,000 while values of other produce—meat, skins, &c.—were also on a higher plane.

The rise in export values contributed to increased purchasing-power of the public; wages were restored to the 1931 level, and, with returning confidence, the year has been one of marked business activity.

Imports increased from £(N.Z.)37,440,000 in 1935–36 to £(N.Z.)47,620,000 in 1936–37, while the excess of exports over imports for the same period rose from £(N.Z.)12,230,000 to £(N.Z.)12,600,000.

The trade balance may therefore be regarded as satisfactory, especially when it is remembered that the marked increase in imports is, in part, due to the replenishing of stocks which had through the depression years been maintained at remarkably low levels, and were insufficient to support the volume of internal trade now being experienced.

There is no doubt but that the rearmament programme in Great Britain and other countries to some extent influenced the rise in export values, and will undoubtedly be a factor in maintaining those values. To the same cause may be attributed sharp increases in the price-levels of many classes of imports, notably metals and other basic materials.

Practically all official statistics for the year under review, as compared with the previous year, illustrate the relative prosperity of the times. For instance—

	Per Cent.
Exports increased by	21·3
Imports increased by	27·2
Excess of exports increased by	3·1
Bank debits in March (excluding Government) increased by	25·1
Net note-circulation (March, 1937, as compared with March, 1936) increased by	26·1
Retail-price index increased by	7·6
Wholesale-price index increased by	6·2
Export-price index increased by	12·2
Sales tax collected increased by	23·6
Mortgages registered increased by	13·8
Mortgages discharged increased by	12·1
Unemployed males <i>decreased</i> by	31·3

In any primary producing country the relationship between farm expenditure and export prices is of immediate concern, and it was the sudden gap between costs and prices in New Zealand which developed as a result of the depression which upset our farming equilibrium. The graph at page 32 hereof clearly shows the divergence between these factors which commenced in 1929–30. The graph shows that on the 1914 base the indices of these two items were approximately at the same level in 1929. In 1931 the disparity between farm expenditure and export prices was particularly marked. In 1932 there was practically no improvement, in 1933 the difference was reduced to a slight extent, and in 1934 there was a substantial improvement in the position. In 1935 there was little change, while in 1936 the sharp upward trend of export values, although accompanied by an upward trend in farm expenditure, resulted in the still further closing of the gap, until at the end of 1936 it might fairly be said that the relative position was that obtaining in 1929. The graph above referred to shows the relationship between export prices as a whole and farm costs generally without any differentiation between the various classes of exports. As at 31st December, 1936—beyond which date official statistics relating to farm expenditure are not available—equilibrium had been restored in farm budgets taken over the whole field of production.

The movements of wholesale and retail prices, wage-rates, and value of production may be clearly followed from the graph appearing at page 33 herein. The graph which has been prepared on an annual basis up to 31st December, 1935, and thence on a quarterly basis up to 31st March, 1937, illustrates that the upward trend in wage-rates (increased purchasing-power) was not cancelled out by the upward trend in retail prices (cost of living), although the latter have shown a steeper rise over the year than wholesale prices.

As to the future, the prospects for our primary products, notably wool, are bright, and, apart from any complications which might arise out of the international situation, it seems reasonable to look forward to a further year of prosperity.

From the viewpoint of the Corporation, directly concerned as it is with the welfare of large numbers of primary producers, the year has been a successful one, but allowances must be made for the fact that during the depression years farmers have, in many cases, been unable to provide for maintenance expenditure to the extent that was desirable. There is, therefore, leeway to make up, and observations in the field point to the fact that the standard of maintenance of pastures and stock is now being improved. At the same time receipts have increased substantially, and the Board looks forward with confidence to a continued improvement in this way.

In so far as urban mortgagors are affected, the restoration of wages to the 1931 level, the reduction in registered unemployed, and the generally improved conditions are reflected in the improved receipts during the year, although lost ground has still to be recovered.

4. *Trend in Interest-rates.*—The policy of lower interest-rates enunciated at the British Empire Conference at Ottawa in 1932, and confirmed collectively and individually by the several Governments within the British Commonwealth of Nations in succeeding years, is still being actively maintained. A similar policy has been adopted by practically all other important nations, but the countries

where the policy has been most successful have been those within the sterling group. Speculation has been rife as to the prospects of a general rise in interest-rates, and there has been a tendency in certain directions to inspire such a rise. There is a school of thought which believes that the lessons of past experience indicate serious doubts as to the practicability of maintaining the present low levels.

Whilst the world monetary system was based generally on a gold standard and subject to less control, such a view as expressed above would carry weight, but the position to-day is entirely altered.

Past records bear witness to the fact that capital enterprise, industry, and trade in Great Britain have frequently borne the brunt of higher interest-rates than they would have but for unfavourable events of external origin. Progress in technique, however—*e.g.*, the Exchange Equalization Account, Treasury control of capital issues, &c.—has introduced a method of insulating Great Britain's internal conditions from the effects of external events. This principle of British monetary policy was summed up some time ago by the present Prime Minister, then Chancellor of the Exchequer, when he said—

“If this country were to go back to the gold standard it would mean that we should no longer be free to adapt our policy in regard to price-levels and cheap money to our domestic requirements. We should have to adjust it according to conditions overseas, over which we have no control, at a time when international affairs were unsettled, and when large movements of capital sufficient to upset established equilibrium were by no means beyond the bounds of possibility.”

Trade recovery in Great Britain has not been accompanied by any appreciable rise in interest-rates. The cheap-money policy of both Great Britain and the United States still prevails, assisted by the weight of funds in each country. Opinion as to future trends is by no means unanimous, but a recent statement by the well-known authority, Mr. J. M. Keynes, to the effect that in the years to come investors cannot expect a long-term rate of interest in excess of 3 per cent., has not been seriously challenged. On present indications it may fairly be said that the resumption of international lending on a large scale and the still further widening of international trade are the two factors necessary to challenge seriously the present policy of low interest-rates in those countries.

Towards the end of 1935 the course of events in Australia to some extent influenced New Zealand opinion as to the trend in interest-rates. Any comparison, however, between New Zealand and Australia must be approached with caution. Conditions are by no means parallel in the two Dominions. The position of London funds and local cash resources in Australia at the period referred to caused concern. In addition, general reactions in the metal markets, mainly as a result of rearmament policies overseas, reflected adversely for a while on gilt-edged securities and created a boom in the relative share prices of industrial concerns on the stock exchanges. The cumulative effect was the lessening of the demand for, and a fall in the price of, gilt-edged securities, with a consequent higher interest return to the buyer. Whilst this condition obtained the interest-rate on new issues of gilt-edged securities necessarily rose.

The position has, however, since completely changed. The rise in the price of exports, the slowing-down—if not the termination—of the speculative elements which dominated the stock exchanges, particularly in relation to mining and certain other industrial shares, the increase in London funds and the change in investment flow has reversed the position in respect of gilt-edged securities and the temporary rise in interest-rates in Australia has been checked.

During the year under review, New Zealand was not faced with any shortage of London funds. The published returns of the trading banks continued to show a large excess of deposits over advances and discounts. Increased savings were indicated by the Post Office and Trustee Savings-banks. Insurance companies recorded increased business. Primary products continued to recover in price. There was an absence of large new loan issues on the market. Therefore, a review of the relative factors involved leads to the conclusion that there is little to justify the assumption that interest-rates in New Zealand are bound to rise in the immediate future above present levels.

The policy of long-term low interest-rates in this Dominion was commenced with the conversion of Government securities. The conversion of local authorities' securities followed, thus completing the reduction as affecting gilt-edged securities. In the field of mortgage investment, the passing of the legislation which created the State Advances Corporation has paved the way for the reduction in interest on mortgage debts to a rate which has no parallel in the history of the Dominion. Not only has the Corporation, by its adoption of a lending-rate of $4\frac{1}{8}$ per cent. for new loans, set a standard for new mortgage business, but the option given by the legislation to existing mortgagors of the Corporation to obtain a reduction in interest to $4\frac{1}{8}$ per cent. has assisted them materially to recover their position. The influence of the Corporation in the land-mortgage market is strikingly evident from the statistics in relation to mortgage registrations and rates of interest. The figures which are reduced to the form of a diagram appearing at page 34 hereof may be summarized as follows:—

<i>July, 1935.</i>			<i>March, 1937.</i>		
Mortgage registrations at rate of interest—		Per Cent.	Mortgage registrations at rate of interest—		Per Cent.
Not exceeding $4\frac{1}{8}$ per cent. . . . .	..	6·8	Not exceeding $4\frac{1}{8}$ per cent. . . . .	..	25·7
Over $4\frac{1}{8}$ per cent. but not exceeding 5 per cent. . . . .	..	78·8	Over $4\frac{1}{8}$ per cent. but not exceeding 5 per cent. . . . .	..	67·8
Over 5 per cent. but not exceeding 6 per cent. . . . .	..	11·8	Over 5 per cent. but not exceeding 6 per cent. . . . .	..	5·0
Over 6 per cent. . . . .	..	2·6	Over 6 per cent. . . . .	..	1·5
<hr/>			<hr/>		
100·0			100·0		

The figures for July, 1935, do not reflect any influence of the Corporation, as its lending operations had not then commenced. The effect of the policy of the Corporation is, however, shown in the figures as at March, 1937, when the mortgage registrations at rates of interest not exceeding $4\frac{1}{8}$ per cent. rose from 6·8 per cent. in July, 1935, to 25·7 per cent. in March, 1937, but these figures do not take into account the adjustment of mortgages under section 39 of the statute whereby the interest-rate was reduced to the current lending-rate of $4\frac{1}{8}$ per cent. net. Mortgages to the value of approximately £20,000,000 have been adjusted in this way, and of this amount documents affecting less than £50,000 worth of mortgages have been registered, so that the chart for the future will reveal a much sharper contrast resulting from the operations of the Corporation.

There can be no argument but that a policy of cheap money is invaluable in a period of economic stress and also in a period of recovery, and it can hardly be said that recovery in the field of mortgage finance in New Zealand is yet complete.

5. *Fresh Issue of Stock and Debentures: Series "B."*—Having regard to the continuing calls on its funds for new loans, the Board decided early in 1937 to place on the market a new loan issue to provide additional capital with which to continue its active lending policy. The first issue in 1935 was limited to £500,000 bearing interest at $3\frac{3}{8}$ per cent., with currency to the 1st September, 1960, and with an option to the Corporation to redeem the securities at any time after the 1st September, 1955. The Board felt that it would be preferable not to fix an upper limit for the new issue which was opened for subscription on the 16th February, 1937, and it was accordingly decided to float this as an "over the counter" issue which could be regulated according to the requirements of the Corporation in the matter of further capital. That this decision was fully justified has since been proved, for, while sufficient funds have been obtained to meet present requirements, the demand for new loan-moneys still continues. However, the funds available from time to time from the current issue and capital repayments from existing mortgages enable the Board within the limits of its policy to cope with the position.

The Board of Management gave very careful consideration to the terms and conditions of the new issue. It was felt that it would be more advantageous to place on the market a short-dated issue as by so doing a lower rate of interest could be fixed. It was finally decided that the new issue should be for a term of seven years, with interest at $3\frac{1}{4}$ per cent. In accordance with the statute this and all future issues will carry a State guarantee as to principal and interest, in addition to which the securities constitute a floating charge over the assets of the Corporation, the total value of the latter being now in excess of £56,000,000.

Up to the end of the financial year now under review the subscriptions as a result of this issue amounted in all to £563,280.

A short-term loan issue may seem to be at variance with the long-term mortgage policy of the Board, but in proportion to its total liabilities the amount involved will be well within the capacity of the Corporation to handle on maturity date from normal capital repayments in respect of current mortgages.

6. *Management of Corporation Stock and Debentures.*—It was provided by section 22 of the State Advances Corporation Act, 1934–35, that issues of stock by the Corporation may be inscribed or registered in the books of the Reserve Bank of New Zealand, and arrangements have been made in pursuance of the special provisions in the Act for the management of all existing and future securities to be placed under the control of the Reserve Bank. The Reserve Bank will henceforth undertake the management and inscription of existing and future issues of securities by the Corporation on such terms as may be mutually agreed upon between the Corporation and the Bank and approved by the Minister of Finance.

7. *New Business.*—The lending-rate of the Corporation for loans on mortgage remains fixed at $4\frac{1}{8}$ per cent., and it may fairly be claimed that the policy of the Corporation in stabilizing long-term lending at this rate is in no small measure having the effect of regulating interest-rates throughout the whole field of mortgage investment. It may be conceded that mortgage finance has in some instances been arranged through other channels at lower rates, but these cases are comparatively few for limited periods, and in a special class verging on the “gilt-edged,” with a large margin of security in favour of the lender.

That this service is appreciated is evidenced by the numbers of applications received and dealt with during the year under review. The following classified table shows the applications received during the year :—

Urban securities—					Number.	Amount.
						£
Erection of dwellings	..	..	..	..	1,854	1,463,801
Refinancing	..	..	..	..	2,187	1,590,857
Other purposes	..	..	..	..	1,008	580,892
					5,049	3,635,550
Rural securities—						£
Refinancing	..	..	..	..	1,890	3,784,178
Other purposes	..	..	..	..	791	871,470
					2,681	4,655,648
Total urban and rural	..	..	..	..	7,730	£8,291,198

To the above total should be added applications to the number of 777, involving the sum of £1,034,000, which were under investigation at the close of the previous year. Thus the total value of applications under investigation during the year has been little short of £10,000,000.

Particulars of loans authorized by the Board of Management during the year are given hereunder :—

Urban—					Number.	Amount.
Erection of dwellings—						£
Special loans over $66\frac{2}{3}$ per cent. of value of security	..	..	..	..	525	385,708
Ordinary loans	..	..	..	..	595	404,282
Refinancing	..	..	..	..	1,435	826,649
Other purposes	..	..	..	..	398	272,815
Rural—						
Refinancing	..	..	..	..	974	2,154,195
Other purposes	..	..	..	..	212	342,217
Total authorizations	..	..	..	..	4,139	£4,385,866

Applications declined by the Board as being unsuitable for various reasons totalled £3,621,757, made up as follows :—

						Number.	Amount.
							£
Urban	..	..	..	..	..	1,626	1,275,853
Rural	..	..	..	..	..	1,411	2,345,904
						<u>3,037</u>	<u>£3,621,757</u>

As the Corporation has to deal with a constant and steady flow of applications, it naturally follows that there is always a substantial number in course of investigation at any given date. The following statement shows the position in this regard at 31st March, 1937 :—

						Number.	Amount.
							£
Urban	..	..	..	..	..	438	310,295
Rural	..	..	..	..	..	392	665,475
						<u>830</u>	<u>£975,770</u>

The disposition of applications received for mortgage finance has now been explained, but to complete the review it should be said that numbers of applications are withdrawn for various reasons before reaching finality. In all, 501 applications were withdrawn during the year. In numbers of cases also the loans authorized do not coincide with the amounts applied for.

It will be noted from the foregoing tables that 3,037 applications, involving £3,621,757, were declined during the year, and it is fitting that reference should be made here to several of the contributory reasons for such a large proportion of the applications being regarded as unsuitable.

I should like at this stage to say that the Board must, in the interests of the debenture-holders and of the taxpayers of this Dominion, exercise a proper discretion as to the type of security upon which it lends. In respect of "special loan" business, which will be referred to later herein, the Board recognizes the duty cast upon it of giving effect to the policy of the Government as enunciated in the Act. Within these limits the Board has acted in the consideration of loan applications, but notwithstanding the extended lending-powers conferred by the 1936 Act large numbers of the applications being received are, for a variety of reasons, unsuitable and must be declined.

It is evident from a close survey of the applications that a large proportion of them have been lodged as a result of the passing of the Mortgagors and Lessees Rehabilitation Act, 1936. Fuller reference will be made later to the operation of this Act, but here it may be said that many applications deemed unsuitable were lodged by mortgagors in an endeavour to arrange finance independently of their existing mortgagees, from whom they probably hoped to obtain a discount for a cash settlement and thus avoid the necessity for making application for adjustment of their liabilities under the Mortgagors and Lessees Rehabilitation Act. Then, again, it is fair to say that quite a number of the applications were inspired by existing mortgagees, especially second mortgagees, who possibly hoped to avoid having their mortgages reduced under the rehabilitation legislation by persuading some other lender to take over the securities. This comment applies equally to rural and urban applications, and the investigation of many of these applications has proved conclusively that the securities offered have been hopelessly over-mortgaged, and that in their own interests the mortgagors should seek the benefit of a review of their liabilities by the Adjustment Commissions. The fact that such applications had to be declined by the Corporation may subsequently have proved to be of advantage to the over-burdened mortgagor, although an unfavourable decision on a new loan application would rarely, if ever, be looked on in this light by the applicant.

It is probably the experience of any newly founded institution that it is the recipient of applications from many individuals who have been unsuccessful in obtaining finance from other established concerns, and the experience of the State Advances Corporation has been no exception.

Added to this there is always a steady stream of potential borrowers whose ideas of the value of the security they have to offer are at variance with the value of the security judged by reasonable standards.

In regard to applications for finance for the erection of dwellings under the extended powers conferred by the Act, it has been found in practice that there was considerable misconception on the part of applicants concerning the limitations imposed in respect of special building loans as part of the policy of the Government.

It was made clear by the Minister of Finance in his explanation that the Board of Management would make what were termed "Special loans" above the usual limit of 66 $\frac{2}{3}$ per cent. of the Board's value in appropriate cases for the rehabilitation and financing of farmers and the building of homes. The Minister added that in cases where persons were willing and able to pay some reasonably substantial deposit towards the cost of the home, the Government, through the medium of the State Advances Corporation, proposed to find the balance at a low rate of interest and with as small a margin as was reasonable. Put in another way, it was deemed necessary that applicants for special building loans should be able to satisfy the Corporation that they, as mortgagors, would have a reasonable equity in their homes. In addition, the Corporation had to satisfy itself that applicants had stability of employment and sufficiency of income to provide living-expenses and all outgoings on the property. It has been found that many applicants have expected to receive advances approximating and in some cases even exceeding 100 per cent. of the cost of their projects, and have overlooked altogether the requirements. The Board has been unable to assist in such cases, and where the proposal on examination showed that it was beyond the resources of the applicant from an income viewpoint.

There has also been some misconception in regard to the income limitations imposed by the Government in connection with applicants for these special loans—viz., that the joint income of husband and wife should not exceed £6 per week, with some reasonable allowance to meet the different family circumstances. Many applicants whose income has exceeded the figure mentioned have applied for special building loans exceeding the normal lending margin, and in the absence of special circumstances the Board has been unable to deal with such applications as special loans.

Notwithstanding this degree of misconception which existed in the minds of potential borrowers, it is pleasing to record that the Corporation has been able to implement the housing policy of the Government to the extent that within a period of approximately six months since the policy was inaugurated it has assisted with special loans some 525 applicants with loans totalling £385,708.

In connection with its policy of lending on urban securities, the Board of Management gave early consideration to the desirability of ensuring the erection of a better type of dwelling in New Zealand. To this end arrangements were made with the New Zealand Institute of Architects whereby the services of architects selected by the Corporation were available in different centres for the examination of plans and specifications submitted in connection with loan applications, and for the furnishing of progress reports on buildings in course of construction. At the request of the Corporation the New Zealand Institute of Architects agreed upon special fees for these services in recognition of the social services involved. This arrangement has worked well in practice, and there is little doubt but that the reviewing of plans and specifications by properly qualified architects and the service subsequently rendered has had a beneficial effect upon the general design of buildings and standard of construction. The Board wishes to place on record its appreciation and thanks to the architects who so willingly co-operated in this matter.

An important provision is contained in section 33 of the Act, which authorized the Corporation, in fixing the terms and conditions of any mortgage securing a loan, to require collateral security in the form of a policy of life insurance with the Government Life Insurance Office. A combined plan has been arranged by the Corporation and the Government Life Insurance Department enabling mortgagors in suitable cases to provide by life insurance at a reasonable cost against the contingency of death before the maturity date of the Corporation's table mortgage. Recognizing that many applicants for loans would have difficulty in paying annually the premium on an ordinary whole-life policy covering the amount of the loan in addition to instalments on a mortgage and other outgoings in connection with their property, the joint scheme has been able to limit the insurance cover to the amount of the reducing balance of principal under the Corporation's loan with a greatly reduced single premium.

The premium payable at the commencement of the policy varies with the amount of the advance, the age of the mortgagor, and the term of the loan, and the applicant may, if he so desires, pay the premium in cash. In many cases this is not convenient, and the Corporation, provided the proposal is approved by the Board of Management and accepted by the Government Life Insurance Department, will increase the loan to cover the amount of the single premium. The additional advance is then repaid to the Corporation by instalments as part of the loan-moneys. The protection afforded by this type of policy is the clearance of the balance of the loan in the event of the death of the insured, but it is to be noted that the cover extends only to the balance of principal owing under the mortgage excluding any arrears of principal instalments or interest. This scheme is also available in approved cases to existing mortgagors.

In dealing with new loan applications in excess of the normal margin, the Board of Management has decided to require alternatively—

- (a) That mortgage-repayment insurance be taken out; or
- (b) That ordinary life-insurance cover of an amount sufficient to bridge the gap between the proposed loan and the ordinary lending margin be effected at the cost of the applicant and assigned to the Corporation.

The Board is also enabled under section 34 of the Act to include a condition in respect of any loan granted that the mortgagor shall, if so required, pay to the Corporation in addition to any other moneys payable under the mortgage, such sums as the Board thinks necessary to form a fund to be used on behalf of the mortgagor in payment of rates, insurance, and other charges in respect of the mortgaged property. In appropriate cases this provision in the legislation is invoked.

Turning now to rural applications, it is a statutory requirement that the Board of Management, in assessing the value of rural land for mortgage purposes, shall have regard primarily to the earning-capacity of that land, and the Board's present working basis is that the earning-capacity be assessed by reference to the average prices for farm-produce over the immediately preceding eight- to ten-year period. This principle was affirmed by the Board prior to the passing of the Mortgagors and Lessees Rehabilitation Act, 1936, and that the basis adopted was prudent is evidenced by the fact that the adjustment of mortgages as authorized by that Act is to be determined on the same basis.

In its lending operations the Board has adopted a long-range policy, which is considered very necessary in view of the long-term mortgage finance which is the principal feature of its operations. Valuation of rural land by reference to earning-capacity over a period of years is a natural corollary to the granting of long-term mortgage finance.

It is perhaps not out of place here to remark that it was customary in the past, before the establishment of the Corporation, to assess the value of land for mortgage purposes in accordance with the Valuation of Land Act, 1908, virtually on the basis of the selling-price as between a willing buyer and a willing seller. The objection to this method is that the valuation determined upon is influenced by the general state of optimism or pessimism existing in the minds of buyers and sellers at the time. A period of rising produce prices creates an abnormal demand for land, especially land of good quality, so that even cautious purchasers are more or less forced to buy on this basis, but in a period of falling produce prices the substantial holder of land is not necessarily affected, while the man of slender resources is often forced by circumstances to sacrifice his property on an unfavourable market. Experience has proved that valuations measured solely on market values subject to extreme fluctuations are dangerous, and that earning-capacity averaged over a period of years offers a more stable and satisfactory basis.

The Board feels that in carrying out the duty imposed upon it by statute to have regard to the earning-capacity of rural land it will in no small measure assist in checking unhealthy land booms, and it may not be an exaggeration to say that this influence is even now being felt.

It is this test which is in some degree responsible for the number of rural applications which it has been necessary for the Board to decline as being unsuitable. The lessons of the past as evidenced by the necessity for extensive mortgage-adjustment legislation point very definitely to the need for recognition of this factor.

There is a further point connected with new loan business which appears to cause some doubts in the minds of borrowers. Section 37 of the Act provides that the mortgagor under a mortgage given to the Corporation shall not give any further mortgage or other charge over the land secured to the Corporation except with the written authority of the Board. There seems to be an idea that it is the settled policy of the Board of Management to raise difficulties or refuse its consent to any subsequent mortgage or charge, and I should like to take this opportunity of saying quite definitely that this is not so. The Board considers each case on its merits, and will not object if it appears that the property provides sufficient margin of security for the proposed second mortgage, and that the terms and interest-rate are reasonable and within the capacity of the borrower to meet, having regard to the instalments due on the first mortgage, rates, insurance, and maintenance.

For the twelve months under review the Board has had a steady flow of new loan applications to deal with in respect of both rural and urban land, and in view of the continued demand and the abnormal pressure of work in other directions, preference has been given to the smaller loans for housing or farm purposes.

Apart from any other consideration the Board feels that this policy is in accord with the best principles. It is, however, not desired to discourage the larger applications, which will be considered on their merits, having regard to existing commitments and other factors, and, without putting applicants to any expense, the Board will indicate in general terms whether it is prepared to proceed to report and valuation.

8. *Loans for Industries.*—Section 29 of the Act empowers the Corporation, with the approval of the Minister of Finance, to make loans for the development or establishment of industries in New Zealand. Applications under this section are investigated in the first instance by the Bureau of Industry, and although several applications have been received during the year no loans were granted up to the 31st March, 1937.

9. *Reserve Fund Investments.*—A reference to the balance-sheet will show that local authorities' securities to the value of £3,230,079 were held as an investment of the General Reserve Fund, which stood at the end of the year at £3,254,300. Accretions to the General Reserve Fund during the year amounted to the substantial sum of £297,827, while capital repayments in respect of securities held totalled £111,580. These figures are given to show that the Fund is now assuming large proportions, and through this agency the Corporation is able to assist local authorities to an appreciable extent in the matter of new loan flotations. For the year under review investments in local authority securities by the Corporation totalled £293,000, while loans in course of settlement as at the 31st March, 1937, totalled £101,700. It may be claimed, therefore, that in providing finance to the extent of £394,700 at current interest-rates during the period of twelve months the Corporation in no small measure has been of assistance to many local authorities at a time when there has been an apparent reluctance on the part of investors to take up these securities. The Board will, within the limits of its General Reserve Fund, continue to assist local authorities with their loan requirements.

10. *Establishment of Branch Offices.*—The State Advances Office had established branch offices at Auckland, Wellington, and Christchurch, but until recently these offices were responsible chiefly for the supervision of residential securities in the metropolitan areas and for the collection of rents and instalments from mortgagors in arrears. The Board realized that the scope of these offices would require to be extended, and further branch offices opened in order to provide for more speedy handling of new loan applications and the efficient administration of the discharged soldiers' settlement mortgages transferred from the Lands Department, more especially as affecting current-account mortgages secured over stock and chattels. The projected transfer of rural intermediate securities from the Public Trust Office was also a factor.

I am pleased to record that the branch organization is now nearing completion. The scope of the offices at Auckland, Wellington, and Christchurch has been extended, and additional branches have been established at Napier, New Plymouth, Nelson, Dunedin, and Invercargill to cope with the work. Sub-offices at Gisborne and Blenheim have also been opened, and arrangements are now in train for the opening of further sub-offices at Whangarei, Hamilton, Wanganui, and Palmerston North.

The organization of these offices with the attendant problems of office accommodation—very real in most cases—staffing and equipment has thrown a considerable burden of work upon the Head Office staff, which has been depleted through the transfer of officers to branches without any immediate diminution in administration work. The Board was, however, fortunate in being able to arrange for the transfer of experienced officers from the Lands Department concurrently with the transfer of the mortgage assets, and the ready co-operation and assistance rendered by the Under-Secretary for Lands in this matter is freely acknowledged.

11. *Transfer of Discharged Soldiers Settlement Mortgages.*—Provision was made in section 36 of the State Advances Corporation Act, 1934–35, for the transfer to the Corporation of mortgages vested in the Crown in respect of advances made to discharged soldiers or other persons under the authority of the Discharged Soldiers Settlement Act, 1915, and amendments, but for various reasons the actual transfer of these mortgages was not taken in hand when the Corporation was first constituted. In the meantime arrangements were proceeding for the recruitment of a field staff and for the establishment of branch offices in anticipation of the taking over of the mortgage assets from the Lands Department. An Order in Council was issued on the 5th August, 1936, providing for the transfer of the mortgages district by district commencing on the 30th September, 1936. The transfer was finally arranged for the respective districts on the following dates :—

Land District.	Date of Transfer.
Wellington	30th September, 1936.
Canterbury	31st October, 1936.
Hawke's Bay and Gisborne	31st October, 1936.
Taranaki	30th November, 1936.
Auckland and North Auckland	31st January, 1937.
Southland	28th February, 1937.
Otago	28th February, 1937.
Nelson, Marlborough, and Westland	31st March, 1937.

The transfer of mortgage assets to the net book value of £11,524,905 8s. 8d. has been completed according to schedule. Details showing how the amount is made up are quoted hereunder :—

Assets.	£	s.	d.	£	s.	d.
Investments—						
Mortgage loans	9,562,060	4	5			
Current accounts	1,506,814	7	10			
				11,068,874	12	3
Interest receivable—						
Overdue	329,573	5	2			
Accrued	75,757	11	3			
				405,330	16	5
Interest Postponed Account				49,247	16	0
Security Protection Account				3,677	1	4
Realization suspense				849	15	10
				11,527,980	1	10
Less liabilities—						
Fire-loss moneys held in suspense	1,536	4	5			
Credits held in Suspense	1,538	8	9			
				3,074	13	2
Net book value of assets transferred to Corporation				£11,524,905	8	8

Immediately after the transfer the Board gave consideration to the basis upon which these assets should be taken over—that is, the amount of stock which should be issued to the Minister of Finance as consideration for the mortgages and the amount which should be carried to the Contingent Liability Account of the Corporation to the Crown. In dealing with this the Board took into consideration the system followed when the mortgage assets of the State Advances Office were transferred to the Corporation. In neither case was it possible for revaluation of individual securities

to be undertaken. In dealing with discharged soldiers settlement mortgages detailed statements were prepared showing the classes of mortgages and an estimate of the value of the securities at the date of the advance and at the time of taking over. In this respect the same formula was followed as was accepted by the then Minister of Finance in connection with the issue of stock in respect of mortgage assets transferred from the State Advances Office, with this exception, that the whole of the discharged soldiers settlement mortgages were deemed by the Board to have been made on the basis of 90 per cent. of the then value of the securities. Mortgages were classified into two broad headings—those in arrears and those where instalments were paid up to date. With this information before it the Board was able to estimate the provision that would be required for contingencies in respect of the capital sum secured by the mortgages, and came to the conclusion that a Contingent Liability Account should be created in respect of principal.

Arrears of interest and postponed interest outstanding in respect of mortgages at the respective dates of transfer amounted to £378,821, and the Board, following the precedent previously established in connection with the transfer of State Advances mortgages, considered that the whole of this amount should be carried to the Contingent Liability Account, and that 20 per cent. of the interest accrued as at the date of transfer but not then due should also be carried to the Contingent Liability Account, this amount being £15,151. Summarized, therefore, the contingent liability of the Corporation to the Government in respect of capital and interest was as follows:—

In respect of—							£	s.	d.
Capital	..	..	..	..	..	..	2,367,155	0	0
Overdue interest	..	..	..	..	..	..	329,573	0	0
Postponed interest	..	..	..	..	..	..	49,248	0	0
20 per cent. of interest accrued but not due	..	..	..	..	..	..	15,151	0	0
Security protection payments	..	..	..	..	..	..	3,677	1	4
Realization Suspense Account	..	..	..	..	..	..	849	15	10
Total	..	..	..	..	..	..	£2,765,653	17	2

On the above basis the final position might be resolved as follows:—

	£	s.	d.	£	s.	d.
Net assets transferred	..	..	..	11,524,905	8	8
Contingent liability to Government	..	2,765,653	17 2	..	..	..
Amount of stock issue	..	..	..	8,759,251	11	6
				11,524,905	8	8

It was considered, however, that the stock to be issued to the Crown should be adjusted to the nearest multiple of £10,000, so that the final position would then be—

	£	s.	d.
Stock Issue	8,760,000	0	0
Contingent Liability Account	2,764,905	8	8
Total	£11,524,905	8	8

This basis was agreed to by the Minister of Finance, having regard to the provisions of the Act for subsequent adjustments if necessary, and stock to the value of £8,760,000 was issued to the Minister on behalf of the Crown. This stock carries interest at $3\frac{3}{8}$ per cent., and the maturity dates and the amounts of the inscriptions are as follows:—

	£
1st August, 1960	1,260,000
1st August, 1963	1,500,000
1st August, 1966	1,500,000
1st August, 1969	1,500,000
1st August, 1972	1,500,000
1st August, 1975	1,500,000
	<u>£8,760,000</u>

It should be stated in conclusion that the rate of interest on the stock issued as above was determined by section 38 (b) of the State Advances Corporation Act, 1934–35, at the same rate of interest as the first issue of debentures and stock to the public.

12. *Transfer of Rural Intermediate Credit Securities.*—Provision was made in section 40 of the State Advances Corporation Act, 1934–35, for the members of the Board of Management of the Corporation, on a date to be fixed by the Governor-General in Council, to constitute the Rural Intermediate Credit Board, and for the members of that Board which was established under the Rural Intermediate Credit Act, 1927, to vacate office on that date. An Order in Council was issued on 5th March, 1937, fixing the date for the change-over at 1st July, 1937, and arrangements are in hand for the transfer of rural intermediate credit work to the Corporation on that date.

13. *Adjustment of Mortgages under Section 39 of the State Advances Corporation Act, 1934–35.*—The adjustment of mortgages transferred from the State Advances Office has been substantially completed during the year under review. The Act provided that mortgagors under any mortgage of land transferred to the Corporation should have the right at any time within three years after the transfer to require a variation of the provisions and the reduction in the interest-rate to the rate charged by the Corporation, a condition of this adjustment being that the capital secured by the mortgages should be increased by 2 per cent. thereof, such increase to be credited to the General Reserve Fund.

The principles adopted were explained in last year's report, but it might be repeated here that with a view to expediting the completion of the work statements showing the effect of the adjustment were sent to each mortgagor. This in itself was a task of no small magnitude, but at the close of the year some 46,881 offers of adjustment had been despatched to mortgagors whose mortgages were transferred from the State Advances Office. Not all of these offers were accepted, the actual number of acceptances being 21,804, or 46·51 per cent. Where the existing net interest-rate was $4\frac{1}{2}$ per cent., and where the unexpired term was relatively short, mortgagors as a general rule did not take advantage of the adjustments offered, while the passing of the Mortgagors and Lessees Rehabilitation Act also affected the number of acceptances.

Discharged soldiers settlement mortgagors whose accounts have been transferred from the Lands Department also have the right to a similar adjustment. The same procedure is being followed, and at the 31st March offers had actually been sent to 1,642 mortgagors, of whom 659 had signified their intention to accept the adjustments proposed. The aim is to complete the adjustment of all mortgage accounts in terms of the legislation at the earliest possible date, and it is pleasing to record that such substantial progress has been made in a relatively short period of time.

The Board hopes that the concession granted to mortgagors in the process of adjustment—i.e., the reduction in the rate of interest to the lending-rate of the Corporation and the extension of the unexpired terms of mortgages with a view to lessening the amount of the instalments for the future—will assist mortgagors to meet their obligations.

It may be said that the right of adjustment involving the reduction in interest-rates on existing mortgages is an integral part of the plan for the reduction in interest on long-term mortgages, and in endeavouring to expedite these adjustments by forwarding full statements to the mortgagors concerned—which there was no obligation on the Corporation to do—the Board has done all that lies in its power to give effect to the policy enunciated in the legislation.

14. *Mortgagors and Lessees Rehabilitation Act, 1936.*—This Act in effect provides for a final adjustment of mortgages on both rural and urban land, and is much wider in scope than the previous legislation.

The following table in district form will indicate the extent of the problem as affecting each of our branch districts:—

Applications under Mortgagors and Lessees Rehabilitation Act, 1936.

	Auckland.	Hawke's Bay, Gisborne.	Taranaki.	Wellington.	Nelson, Marl- borough, and Westland.	Canterbury.	Otago.	Southland.	Grand Total.
Farm applications ..	1,763	591	646	908	487	872	317	443	6,027
Home applications ..	1,718	307	145	1,307	88	567	62	80	4,274
Total ..	3,481	898	791	2,215	575	1,439	379	523	10,301

Soon after the passing of the legislation consideration was given to the procedure to be adopted in connection with rural applications, most of which presented special problems, and discussions took place with the Under-Secretary for Lands and the Valuer-General with a view to formulating a policy to govern the valuation of securities and the presentation of evidence to the Adjustment Commissions. It appeared that the Corporation and the Lands Department would between them be affected to a much greater extent than any other single institution in New Zealand, and in view of the capital involved it was felt that the utmost care should be taken from the point of view of the Crown as landlord and mortgagee to ensure an equitable balance as between the interests of the Crown on the one hand and those of the lessees and mortgagors on the other. It appeared unfair to either party to rely wholly upon valuations made by individual officers where a writing-down of the mortgage debt or rent was likely to occur. A suggestion was made to the Government that, as a policy measure, in respect of rural applications affecting either the Lands Department or the Corporation, special valuation committees constituted somewhat on the lines of revaluation committees set up under section 216 of the Land Act, 1924, for the revaluation of Crown leaseholds should be appointed to undertake rural valuations on the basis of earning-capacity as required by the Act.

It is worthy of mention here that a somewhat similar position arose as a result of the passing of the Discharged Soldiers Settlement Amendment Act of 1923, which provided for the revaluation of discharged soldiers settlement properties, and a special tribunal was set up to consider applications under that Act. District revaluation committees consisting of three persons were specially constituted to consider these applications in the field and to report to the Dominion Revaluation Board.

As a policy measure the Government agreed to this suggestion, and special committees consisting of the Commissioner of Crown Lands for the respective land district, a representative of the Valuer-General, and the District Appraiser of the State Advances Corporation, or the respective nominees of the officers specified, have been constituted and are now operating.

Somewhat similar arrangements have also been made in connection with the valuation of urban and suburban securities in the principal centres.

It was anticipated in the early stages of the operation of the Mortgagors and Lessees Rehabilitation Act that it would be possible in many cases to reach voluntary settlements without recourse to hearings before the Adjustment Commissions. It is regretted that the anticipations of the Board in this regard have not as yet been realized, as there is a reluctance on the part of applicants and their advisors to negotiate for settlement on an acceptable basis. It is hoped, however, that as the principles upon which the Adjustment Commissions are working become more clearly established it may yet prove to be possible to effect an increased number of voluntary settlements.

I would like to stress the volume of work resulting from the passing of the legislation under review. Each application has to be investigated in the field and the relative security valued, the line of action determined upon in the light of the reports obtained and the case framed for presentation to the Adjustment Commissions by officers of the Corporation who must be present at each hearing to produce evidence in support of the Corporation's case. There are now thirty-three Adjustment Commissions operating throughout New Zealand, and it is only by unrelaxing efforts that the Corporation is able to keep abreast of the fixtures arranged by the Commissions.

It is too early yet to forecast what the final result will be when the whole of these applications have been disposed of by the respective Adjustment Commissions and the decisions confirmed by the Court of Review.

15. *Field Staff.*—The transfer of the mortgage assets from the Lands Department was not completed until 31st March, 1937, and this delayed the recruitment of a field staff although the need for direct field representation which was referred to by my predecessor in his report for the previous period became increasingly apparent as new business expanded. The ultimate requirements in the matter

of field staff could only be gauged after a review of the mortgage accounts in each district and the field organization was therefore built up district by district concurrently with the transfer of the mortgage assets from the Lands Department.

The rural field work is under the control and direction of the Supervising Valuers attached to Head Office. The Dominion has been divided into ten field districts—seven in the North Island and three in the South—and each is under the charge of a senior field officer who is responsible to his Supervising Valuer for the field work in his area and for the control and direction of the Farm Appraisers and Assistant Farm Appraisers under his charge. The rural field staff has a numerical strength of fifty-seven officers, which provides coverance for the whole of New Zealand.

There are serious difficulties in the way of any attempt to assess the valuation of land by exact science, but our present field staff have been carefully chosen for their ability to apply practical knowledge of farming to the task of arriving by more scientific methods at a fair valuation uninfluenced by waves of prosperity or of depression.

The organization of an urban field staff under the control of the Chief Property Supervisor attached to Head Office to deal with urban and suburban securities is also under way, and in so far as urban securities are concerned the Corporation will ultimately be in a position to provide coverance for the whole Dominion. The urban field officers numbering fourteen as at 31st March, 1937, have been specially chosen for their practical knowledge of building construction and urban values.

The aim has been to establish an efficient and fully representative field staff in both the rural and urban spheres which will enable the Board to give in the future the utmost expedition to new loan applications and in addition to maintain a steady oversight of existing securities in order to ensure that the interests of the Corporation as mortgagee and of its clients as mortgagors are constantly safeguarded. It is the desire of the Board to provide a genuine service to its clients, and it has been impressed upon the field staff that the Board looks to it to cultivate a spirit of co-operation between the Corporation and its mortgagors, without which this ideal cannot be attained. The lack of a fully representative field staff has been a serious handicap, particularly in the depression years, but in saying this it is admitted that the best possible results were obtained from the organization then available.

16. *Agencies for other Government Departments.*—Section 40 of the State Advances Corporation Act, 1936, empowers the Corporation to undertake on behalf of any Department of State the inspection of mortgaged property, the collection of moneys in respect thereof, or any other duties in relation to mortgages or other securities representing the investment of public moneys. In the meantime the position may be reported as follows :—

(a) *Loans by the Government under the Agriculture (Emergency Powers) Act, 1934.*—These loans have hitherto been administered by the Lands and Survey Department on behalf of the Treasury, but arrangements have now been made for the administration to be undertaken by the Corporation on an agency basis. The transfer of the relative securities and mortgage accounts to the number of thirty, involving approximately £40,550, has been completed. Future loans under this legislation will be handled by the Corporation on behalf of the Government.

(b) *Collection of Moneys due under Hutt Valley Deferred Payment Licenses.*—Substantial areas of land in the Hutt Valley were acquired by the Crown for subdivisional purposes, and residential sections were sold by the Lands and Survey Department. Loans were granted by the State Advances Office on the security of these sections for the erection of dwellings, and both organizations are therefore concerned in the collection of principal and interest in respect of the balance owing on the deferred payment licenses and the amount owing on mortgage.

Arrangements are now in train whereby the Corporation will provide facilities for the collection of the instalments due under the deferred payment licenses in conjunction with instalments due under its own mortgages for the convenience of the mortgagors.

ACCOUNTS FOR 1936-37.

Turning now to the accounts for the year, it is appropriate that I should give a short commentary on various aspects of the year's work.

17. *Arrears of Instalments*.—The movement of arrears since the 1st August, 1935 (the date on which the Corporation assumed control), can readily be seen from the following table :—

				(a)	(b)	(c)
				Book Value of Arrears.	Capitalizations effected during the Year.	Arrears if Capitalization had not been effected.
				£	£	£
1st August, 1935	..	..	..	2,552,405	..	2,552,405
31st March, 1936	..	..	..	2,487,065	256,687	2,743,752
31st March, 1937	..	..	..	2,039,676	408,860	2,705,223

As explained in the previous year's report, there was an annual increase in arrears of instalments of principal and interest since 1932, and the position up to date (including the eight months' period ending on 31st March, 1936) may be summarized as follows :—

Increase in arrears outstanding—				£		£
1931-32	..	..	..	642,184	1934-35	.. .. 207,671
1932-33	..	..	..	559,210	31st March, 1936	.. .. 191,347
1933-34	..	..	..	508,132	1936-37	.. (Reduction) 38,529

The above figures do not take into account capitalization of arrears of interest in process of adjustment of mortgages under section 39 of the State Advances Corporation Act, 1934-35, nor has the position been affected to any extent by the operation of the Mortgagors and Lessees Rehabilitation Act, 1936, as adjustments under the last-mentioned legislation had not come to charge within the year.

As will be seen from the figures, the position shows a marked improvement in that whereas arrears for the period ended 31st March, 1936, increased by £191,347 the year just closed shows a reduction of £38,529, or a gross improvement in twelve months of £229,876.

It should be mentioned that the above figures apply only to mortgages transferred from the State Advances Office. The figures in respect of discharged soldiers' settlement mortgages, the transfer of which was not completed until the 31st March, 1937, will be included in next year's report.

18. *Interest due and received*.—Interest due in respect of mortgage securities transferred from the State Advances Office for the period from the 1st August, 1935, to the 31st March, 1937, as compared with the years ended 31st March, 1934, 1935, and 1936, and the cash received for those periods is shown hereunder :—

				Net Interest due.	Interest received.	Shortage.	Percentage of Receipts to Net Interest due.
				£	£	£	Per Cent.
1933-34	..	..	..	1,966,127	1,562,707	403,420	79.48
1934-35	..	..	..	1,913,611	1,711,446	202,165	89.43
8 months, 1st August, 1935, to 31st March, 1936	..	..	..	1,200,879	1,142,947	57,932	95.16
1936-37	..	..	..	1,733,047	1,665,559	67,488	96.11

At first glance it would appear that the cash shortage of receipts over interest due has increased from £57,932 as at 31st March, 1936, to £67,488 for the current year, but it should be emphasized that the 1936 figure was for a period of eight months only. If this is converted into a twelve months' figure it will be found that the shortage has actually decreased from £86,898 (on a *pro rata* basis) to £67,488.

It will not be out of place here to mention that there has been a tendency on the part of mortgagors who are applicants for relief under the Mortgagors and Lessees Rehabilitation Act to withhold payment of accruing interest. The Corporation has done its utmost to combat this tendency, which was also noticed by the Court of Review, and was the subject of an official pronouncement by the Court to the effect that accruing interest should be paid within the limits of the mortgagor's capacity notwithstanding a pending application for relief.

19. Reverted Securities : Urban Properties.—On the 31st March, 1937, 4,022 urban and suburban securities were being administered by the Corporation on a rental basis, all but nineteen of these premises being occupied.

There has also been an improvement in the rental collections for the year under review, the amount collected being £225,928 or 99·8 per cent. of the rental payable, as against 96·51 per cent. for the preceding period. The collections for the year represent 91·7 per cent. of the gross instalments of principal and interest in respect of the relative mortgages, as against 86·08 per cent. for the previous period.

It is necessary from time to time to review the rents payable on these properties. The Corporation is, of course, bound by the provisions of the Fair Rents Act just as fully as is any private individual, and there is no desire on the part of the Board to secure an unwarranted increase in rents.

The legal title to these properties remains in the name of the former mortgagors, and the Corporation is merely acting as mortgagee in possession. For this reason it has not a free discretion, and is under a legal as well as a moral obligation to use diligence in dealing with the properties.

The Board considered the position in the light of market conditions, and a fair rent in respect of each property under review was assessed, and the tenants were asked, if they agreed to the rent decided upon, to have the proposed amount submitted to an Inspector of Factories for approval in terms of the Fair Rents Act.

It should be made clear that where tenants do not agree to the rent suggested by the Corporation they may either refer the matter to an Inspector of Factories for his decision, or allow the case to be submitted to a Magistrate, who will not make an order until all the circumstances of each case are fully taken into account.

It may be mentioned here that a fairly substantial loss is likely to result from the final realization of these securities. Many of the properties are over-capitalized, and will not, on a rental basis, return sufficient to meet interest and other outgoings. It is the intention of the Board, as soon as circumstances permit, to undertake a review of these properties in order to determine on the future course of action.

20. Reverted Securities : Rural Properties.—During the year the Board has commenced a review of rural securities in respect of which it is mortgagee in possession, and the balance-sheet shows an item of £335,038 under the heading "Securities in Course of Realization" representing the amount owing in respect of 294 securities. This is not to be taken as the final figure representing rural securities in course of realization. This will be larger, but the Board is having these cases reviewed in order that every effort may be made to make the properties revenue-producing and to bring them into a state of productivity. Here again a fairly substantial loss will have to be faced.

The amount shown in the balance-sheet under the heading "Realization Suspense Account," £63,656, represents deficiencies actually ascertained on sales of properties but yet to be allocated, and has no relation to securities in course of realization at the end of the year.

21. Salvage Advances.—The Board has continued to give consideration to mortgagors who are in difficulties, and in suitable cases has agreed to salvage advances for the purpose of rehabilitating securities which have, through force of circumstances, been allowed to deteriorate during the depression years. This applies to both rural and urban securities. In some cases also assistance has

been given by the postponement of payment of principal instalments, thus enabling the mortgagor to spend an equivalent sum on the security. The Board feels, however, there should not now be the same necessity to assist mortgagors, who should rather be encouraged to undertake the necessary expenditure from their own resources.

22. Revenue Accounts.—The accounts disclose a gross revenue from all sources for the year of £1,983,513, from which must be deducted £1,236,282 in respect of interest charges, leaving a gross profit of £747,231. The total charge for management expenses under all headings is £129,882, and additional provision has been made to the extent of £72,500 in respect of overdue interest on mortgages transferred to the Corporation. Provision has been made by way of reserve for losses on new business of £10,000, which should be sufficient to cover any contingencies likely to arise. After taking into account the above charges the net profit is £534,849.

Turning now to the Profit and Loss Appropriation Account, dividends to shareholders to the extent of £4,558 are provided for, this being the accrued dividend up to the date of acquisition of the share capital by the Government. A provision of £20,000 for Investment Fluctuation Reserve has also been made, while there is a charge of £58,020 representing additional provision for income-tax for the period ended 31st March, 1936, making the total income-tax for that period £163,020.

On the credit side of the Appropriation Account the sum of £14,748 has been taken into account in respect of Superannuation Reserve provided for in 1935–36, but not now required, in view of the alteration in the status of the staff who are now contributors to the Public Service Superannuation Fund.

The surplus available for the year under review to meet income-tax and to cover a return to the Crown on the Contingent Liability Account is thus £467,020. This surplus, the whole of which is payable to the Crown either as income-tax or as a return on the Contingent Liability Account, converted into a percentage on the Contingent Liability Account and the Capital Account as at the 31st March, 1937, represents 3·672 per cent., which is satisfactory, but it is pointed out that the interest reduction under section 39 is not yet fully reflected in the Revenue Account.

23. Balance-sheet.—On the liabilities side of the balance-sheet the stock and debentures have increased by £8,780,000, representing stock issued to the Minister of Finance in respect of discharged soldiers settlement mortgages and further State Advances mortgages transferred to the Corporation, and by £563,280 as a result of the new issue of stock and debentures. Redemptions of stock and debentures during the year amounted to £6,700, leaving the total figure now standing at £39,774,500.

The contingent liability to the Crown has been increased by the sum of £72,500, representing the further provision made in respect of overdue interest, and by £2,766,493 in respect of discharged soldiers settlement mortgages, and the balance of State Advances mortgages transferred to the Corporation during the year, while ascertained losses amounting to £50,785 on transferred mortgages have been written off against the account. The total contingent liability now stands at £11,715,730.

I would like to repeat the statement made by my predecessor in connection with the accounts for 1936—namely, that this should not be regarded as an estimate of probable losses but as prudent provision for contingencies. As soon as a complete stocktaking of the mortgage assets held by the Corporation is possible, it will probably be found that a substantial proportion of the Contingent Liability Account can be regarded as good.

Individual reserves for losses on investments and in respect of investment fluctuation have increased to £45,000, bringing the total of reserves to the substantial sum of £3,299,300.

On the assets side of the balance-sheet the figures now reflect the transfer of discharged soldiers settlement mortgages to the Corporation, these being fully guaranteed by the Government, as were also the mortgages transferred from the State Advances Office. It will be noted that advances on current account now stand at the sum of £1,409,868, this amount being for the most part in respect of current account advances under the Discharged Soldiers Settlement Act, requiring careful administration.

The capital outstanding on mortgage accounts is £50,379,573, including the current account advances referred to above. The average loans on respective classes of securities are as follows :—

Residential..	..	..	..	..	..	..	..	£ 557
Rural ..	..	..	..	..	..	..	..	1,173
Current account	..	..	..	..	..	..	..	458

The cash position at the end of the year was satisfactory, having regard to the loan commitments outstanding.

Tabulated statement of profits and percentages appears hereunder :—

PROFITS AND PERCENTAGES.

Disposition and Appropriation of Profits for Year ending 31st March, 1937.				Percentage per Annum of the Stock Issue plus Capital.	Percentage of Gross Earnings.	Percentage of Gross Profits.
		£		£ s. d.		
Gross earnings .. .. .	..	1,983,513		4·864 (4 17 4)	100·000	
Less Capital charges—Interest ..	..	1,236,282		3·032 (3 0 8)	62·328	
Gross profits .. .. .	..	747,231		1·832 (1 16 8)	37·672	
					100·000	
Less Management expenses and depreciation of fixed assets		129,882		0·319 (0 6 5)	6·548	17·382
		617,349				
Reserve for losses (ex State and Corporation)		102,500		0·251 (0 5 0)	5·168	13·717
		514,849				
Dividends .. .. .	..	4,558		0·011 (0 0 3)	0·230	0·610
Surplus for year 1936–37 .. .. .	..	510,291		1·251 (1 5 0)	25·726	68·291
				(1 16 8)	37·672	100·000
Plus Superannuation Reserve not now required		14,749				
		525,040				
Less Additional income-tax due, 1935–36 ..	..	58,020				
Surplus due to Crown .. .. .	..	£467,020				

24. *Organization and Staff.*—The change in the constitution of the Corporation as the result of the passing of the State Advances Corporation Act, 1936, necessarily affected the status of the staff. The legislation provided that all persons who on the commencement of the Act were permanent officers of the Corporation should thereupon be deemed to be officers of the Public Service within the meaning of the Public Service Act, 1912, and should hold office accordingly as if they had been appointed under that Act.

Special provision was made in regard to the superannuation rights of officers with a view to safeguarding the position of those officers who were formerly officers of the Public Service and contributors to the Public Service Superannuation Fund. Officers who were not previously contributors to the Public Service Superannuation Fund but who, in the meantime, had been appointed as permanent officers of the Corporation were given the right to become contributors to the Public Service Superannuation Fund.

In the year under review the organization has developed rapidly. New business has expanded, additional mortgage assets to the total value of approximately £11,500,000 have been transferred to the Corporation for administration, existing branch offices have been increased in scope, and five additional branches and two sub-offices have been opened, and from being dependent upon the Valuation Department for all field services the Corporation now has complete field representation by its own officers in both urban and rural spheres. The Board feels that the district representation which it now has through its branch offices and field staff is such that the Corporation should be well equipped to give efficient service to its mortgagors and to potential borrowers, and to cope with the problems of the future.

It is, in fact, no exaggeration to say that the problems of the present arising out of the passing of the Mortgagors and Lessees Rehabilitation Act would have been much more formidable to a centralized organization without adequate local representation. The work as a result of the Mortgagors and Lessees Rehabilitation Act came at a time when the staff was not fully organized, and it was, in fact, superimposed upon the development of our branch and field representation. Notwithstanding the constant pressure involved the work has, however, been carried through in a remarkably smooth and efficient manner.

I desire to express the Board's appreciation of the loyal co-operation so willingly given by the Manager (Mr. G. E. Miller), the administrative officers, and all sections of the staff during the past eventful year.

25. *Conclusion.*—Finally, my colleague, Mr. T. N. Smallwood, joins with me in paying tribute to the work of the other members of the Board, Mr. G. A. Lewin, C.M.G., and Mr. B. C. Ashwin. We have found the advice and assistance of these gentlemen, with their wide experience in different spheres of public finance, of the greatest benefit.

A. D. PARK,
Chairman of Directors.

STATE ADVANCES CORPORATION OF NEW ZEALAND.

REVENUE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1937.

Interest Account.

	£	s.	d.		£	s.	d.	£	s.	d.
Interest on stock and debentures	1,107,990	15	4	Interest on mortgages, current accounts, and local-body securities	1,977,456	12	0			
Gross income carried forward to Profit and Loss Account	747,206	9	6	Less transferred to General Reserve Fund	128,291	8	4	1,849,165	3	8
				Interest on temporary investments and sundries				6,032	1	2
	<u>£1,855,197</u>	<u>4</u>	<u>10</u>					<u>£1,855,197</u>	<u>4</u>	<u>10</u>

Profit and Loss Account.

	£	s.	d.		£	s.	d.
Management expenses (all inclusive)	129,881	19	1	Gross income brought forward from Interest Account	747,206	9	6
Reserve for losses	10,000	0	0	Sundries	25	1	7
Contingent Liability Account—Amount transferred under section 3, State Advances Corporation Amendment Act, 1935	72,500	0	0				
Net income carried forward to Appropriation Account	534,849	12	0				
	<u>£747,231</u>	<u>11</u>	<u>1</u>		<u>£747,231</u>	<u>11</u>	<u>1</u>

Appropriation Account.

	£	s.	d.		£	s.	d.
Dividends	4,558	1	1	Net income	534,849	12	0
Income-tax (balance, 1935-36)	58,020	0	0	Superannuation Reserve not required	14,748	12	2
Investment Fluctuation Reserve	20,000	0	0				
Surplus, including income-tax provision available for distribution to the Crown	467,020	3	1				
	<u>£549,598</u>	<u>4</u>	<u>2</u>		<u>£549,598</u>	<u>4</u>	<u>2</u>

BALANCE-SHEET AS AT 31ST MARCH, 1937.

<i>Liabilities.</i>				<i>Assets.</i>			
	£	s.	d.		£	s.	d.
Authorized capital	1,000,000	0	0	Mortgages and accrued interest	50,859,861	5	10
Stock and debentures .. 39,774,500	0	0		Securities in course of realization	335,038	9	2
Accrued interest	241,975	6	4	Realization Suspense Account (losses chargeable to Contingent Liability Account when defined)	63,656	11	4
Contingent liability to the Crown	11,715,730	5	9		398,695	0	6
Reserves—				Advances on Current Account and accrued interest	1,409,868	7	10
General Reserve	3,254,300	11	4	Government and local-body securities and accrued interest	3,230,079	13	2
Reserve for losses on investments	15,000	0	0	Fixed assets—At cost, less provision for depreciation—Office furniture, and motor-vehicles	29,517	3	2
Investment Fluctuation Reserve	30,000	0	0	Current assets—			
				Sundry debtors	4,986	6	11
Sundry creditors	28,676	3	9	Lodgments in transit and cash in bank and on hand	656,450	13	10
Surplus, including income-tax provision	467,020	3	1		661,437	0	9
Balance of interest on contribution to General Reserve	62,256	1	0		<u>£56,589,458</u>	<u>11</u>	<u>3</u>
	<u>£56,589,458</u>	<u>11</u>	<u>3</u>		<u>£56,589,458</u>	<u>11</u>	<u>3</u>

R. ROBERTSON, Chief Accountant.

A. D. PARK, F.I.A.N.Z., F.R.A.N.Z., } Managing Directors.
T. N. SMALLWOOD, }

AUDITORS' REPORT.

In accordance with the provisions of the State Advances Corporation Acts we report that we have obtained all the information and explanations we have required in respect of the accounts of the Corporation examined by us and in respect of the above Balance-sheet, and that in our opinion such Balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the Corporation's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

Wellington, 16th July, 1937.

L. H. HESLOP, Public Accountant.
R. C. BURGESS, Public Accountant.

PART II.

1. *Change in Constitution.*—The Housing Act, 1919, which authorized the acquisition of land and the erection of dwellings for disposal by way of sale or lease, was originally under the administration of the Labour Department, but the sections relating to the administration of the Act were repealed by the State Advances Amendment Act, 1922, and the powers of the Housing Superintendent and the Housing Board were thereupon transferred to the State Advances Superintendent and to the State Advances Board respectively. When the Mortgage Corporation of New Zealand was constituted the legislation did not affect the administration of the Housing Account, which remained under the jurisdiction of the State Advances Superintendent.

It was, however, provided by section 16 of the State Advances Corporation Act, 1936, that on the coming into operation of Part IV of that Act—*i.e.*, on the 1st July, 1936—the powers, functions, duties and obligations of the State Advances Superintendent and the State Advances Board should be deemed to be transferred to the Corporation and to the Board of Management respectively.

Part IV of the Act made further machinery provisions in regard to the establishment of and operations on the Housing Account, which is constituted as a separate account, funded from Government sources and is quite distinct from the lending operations of the Corporation. For its services in connection with the administration of the Housing Act, 1919, the Corporation is empowered to make such charge against the Housing Account as may from time to time be approved by the Minister of Finance.

2. *Transfer of Housing Account.*—In terms of the statute the “Housing Account” was opened as a special account at the Reserve Bank of New Zealand on the 1st July, 1936, by the transfer of moneys held in the State Advances Account on that date in connection with the Housing Act, 1919. On the same date the assets and liabilities of the Housing Account came under the control of the Board of Management.

The main assets of the Account at the date of transfer as reflected by the previous expenditure in the erection of houses might be classified as follows :—

- (a) Balances owing by 366 persons under agreements for sale and purchase of houses erected under the Act.
- (b) Houses numbering 137, occupied by tenants on a rental basis.
- (c) Residential allotments to the book value of £23,777 held for building purposes.

3. *Housing Policy.*—It is unfortunate that reliable statistical information as to the extent of subnormal housing and of overcrowding in New Zealand is not yet available, but the housing survey at present being conducted by local authorities under the provisions of the Housing Survey Act, 1935, should result in the compilation of valuable data. In the meantime, however, the needs of numbers of our present population who are living in quarters which are obviously below the housing-survey standard are so great that it became evident that action on a comprehensive scale to improve existing conditions is urgently necessary.

It is common knowledge that many people have been forced through diminishing family income and unemployment to adopt the expedient of sharing their houses with others. The slowing-down, if not the virtual cessation, of building operations, during the slump period brought about the present housing-shortage, and these people, who are with the advent of improved economic conditions, once again able to afford the upkeep of a home of their own cannot now be accommodated.

The problem has become more acute owing to the substantial increase in the marriage-rate as disclosed by the following official statistics:—

MARRIAGE RATES, 1929–1936.

Year ended 31st December.	Number of Marriages solemnized.	Rate per 1,000 of Population.
1929	10,967	7·78
1930	11,075	7·77
1931	9,817	6·79
1932	9,896	6·80
1933	10,510	7·16
1934	11,256	7·62
1935	12,187	8·20
1936	13,808	9·25

This marked increase is but another result of improved conditions and increased purchasing-power. All these newly married people want houses, and the majority prefer a dwelling for themselves instead of sharing a house with others or beginning their married life in an apartment or a flat.

There are many people who, by reason of the circumstances in which they earn their livelihood, or of their family responsibilities, or for some other good cause, are unable to finance the purchase of a section and the erection of a dwelling, even with the aid of extended financial accommodation, and to this class the responsibilities of ownership of properties would be burdensome, and the provision of houses for rental purposes at a figure in keeping with the resources of the people is the only solution.

In the meantime and pending the completion of the housing survey, the Government has indicated that the housing problem is one of extreme national importance calling for prompt attention, not only in the interests of our people of to-day, but with a view to providing for the future.

The Government therefore decided to utilize the provisions of the Housing Act, 1919, for the purpose of undertaking the erection of houses on a comprehensive scale for renting purposes. The houses are not being built for sale, and tenants will be assured of permanency of occupation so long as their obligations as tenants, both in regard to the payment of rent and the care of the properties, are faithfully fulfilled.

4. *Organization.*—In order to expedite the building of new houses for rental purposes and to give effect to its declared policy, the Government decided in September, 1936, to set up a new housing organization under the control of Mr. J. A. Lee, M.P., Parliamentary Under-Secretary. The appointment of Mr. A. Tyndall as Director of Housing Construction followed, and a commencement was then made with the setting-up of an organization to undertake the direct construction of houses.

The responsibility of the Board of Management and the Parliamentary Under-Secretary in the control and administration of the scheme for the erection of dwellings was defined by the Minister of Finance, who in terms of subsection (2) of section 24 of the State Advances Corporation Act, 1936, gave directions to the Board of Management, which may briefly be enumerated as follows:—

- (1) The Government will determine the number of houses to be erected and where they will be located, and will accept full responsibility for plans and specifications.
- (2) The administration of the erection of houses will be under the control of the Parliamentary Under-Secretary.
- (3) Contracts for the erection and operation of joinery-factories, for the purchase or lease of land, for the erection of houses and such other buildings or works as may be required will be entered into by the Corporation as directed by the Minister of Finance.

(4) The determination of rentals and the method of selection of persons to whom dwellings may be disposed of will be at the direction of the Minister of Finance.

(5) The Government will approve all local-body schemes for erecting houses for which loans are to be made out of the Housing Account.

The organization of the Director of Housing Construction has rapidly expanded in order to cope with the great volume of work involved in the construction programme.

5. *Report of Director of Housing Construction.*—The following general report on the operations up to 31st March, 1937, is submitted by the Director of Housing Construction :—

“ *Purchase of Land.*—In the inauguration of a comprehensive housing-scheme the first step to be taken is obviously the purchase of suitable land on which to erect blocks of houses. For the first two schemes it was decided to take over from the Lands and Survey Department substantial areas of suburban land situated at Lower Hutt, Wellington, and at Orakei, Auckland, and to utilize some ninety suburban sections at Miramar, which had been purchased for the housing-schemes inaugurated under the 1919 Act.

“ As soon as it was known that active steps were being taken to commence housing-schemes owners of land in practically every corner of the Dominion offered to sell to the Government and the amount of correspondence resulting from this influx of offers proved most embarrassing to the new organization in its initial stages, and severely hampered its development.

“ It was necessary to obtain detailed reports upon land which it was considered might be suitable, and in this respect the services of the Lands and Survey Department were utilized. By the end of the financial year suitable areas had been inspected and reported upon in approximately forty centres throughout the Dominion, and in about twenty-five cases negotiations were practically completed at the 31st March, 1937. When the recommendations of the Lands Department are received the most favourable areas are invariably inspected by the Town-planning Officer attached to the Housing Construction Branch before the actual purchase is made. All purchases of land have, as a matter of principle, been approved by Cabinet.

“ It is appropriate that reference should be made to the important part played by the respective Commissioners of Crown Lands in the selection of suitable areas and in the subsequent negotiations for their purchase. These officers have proved efficient and helpful.

“ *Erection of Houses.*—Certain cardinal principles were decided upon by the Government in connection with the types of houses to be erected. These may briefly be summarized as follows :—

“ (1) In the initial stages the majority of the houses to be individual units.

“ (2) No two houses in any particular area to be of the same design.

“ (3) Houses as far as practicable to be built of materials produced or manufactured in New Zealand.

“ (4) Quality of construction to be of a high standard, and internal facilities to be modern and complete.

“ The preparation of suitable designs for large scale construction presented special problems. The Government was most anxious that construction operations should be commenced with a minimum of delay, not only because of the acute housing-shortages which were reported simultaneously from all parts of the Dominion, but also because it was realized that the building of homes would absorb a large amount of labour both directly and indirectly. It was decided at an early stage that the

services of architects should be enlisted, and contact was therefore made with the President of the New Zealand Institute of Architects. Arrangements were then made for a large number of designs to be promptly prepared by members of the Institute at a very reasonable cost. The great assistance rendered by the architects is freely acknowledged.

"It was also decided in the initial large contracts to supply contractors with schedules of quantities of each house. It was obvious that this step would save an enormous amount of time and eliminate a tremendous amount of unnecessary expenditure on the part of contractors. A reputable firm of quantity surveyors was engaged, and a special system involving a master schedule and individual house schedules, was devised. This system has been adversely criticized by small builders, but it has proved invaluable in connection with large contracts. The quantity schedules enable adjustments and alterations to be made with a minimum of difficulty.

"The first tenders for the construction of 375 houses at Lower Hutt and Miramar were advertised on the 10th December, 1936, and the first tenders accepted were those for fifty-two houses at Miramar on the 4th March, 1937. By the 31st March, 1937, tenders had been advertised for 689 houses, and tenders had been accepted for the construction of 588 houses.

"Of the houses being erected under the initial contracts approximately 10 per cent. have six rooms, while the balance are of four and five rooms in approximately equal proportions. In addition to the nominal number of rooms, all houses are provided with bathrooms, separate lavatory accommodation, laundries under the same roof, and built-in wardrobes. A number of the houses have sun-porches, whilst others have dining-alcoves. A small percentage of the houses are furnished with garages.

"Designs for semi-detached units comprising two houses each of three rooms and all conveniences are being prepared. Some of the three-roomed houses are being provided with sun-porches.

"All houses in the initial contracts are of wood-frame construction; approximately two-thirds have external walls of brick veneer, while one-third are finished with weatherboards. A proportion of the brick veneer houses will have a plaster finish.

"Practically all the roofs are of New-Zealand-made tiles, either terracotta or coloured concrete.

"Approximately 50 per cent. of the houses are being provided with electric stoves and the balance with gas stoves. The hot-water systems are of the storage type.

"*Erection of Joinery Factories.*—It was decided in the early stages that it would be necessary to establish two joinery factories—one at Auckland and one at Wellington—and tenders were called for their construction. In September, 1936, tenders were accepted, and the two factories were practically completed by the end of the financial year. There is a certain amount of misapprehension among the public as to the capacity of these factories and as to the work for which they were designed. It is advisable to make it clear that the factories are purely for the construction of joinery and for the kiln-drying of timber. The capacity of each factory is equivalent to the joinery necessary for 300 to 400 houses per annum. The factories are not designed or intended for the shop fabrication of houses. It was decided that applications to lease these factories should be called by public advertisement. A rental of £3,000 per annum for each factory was fixed and contractors were invited to tender prices at which they would be prepared to manufacture certain specified quantities of joinery. The Fletcher Construction Co., Ltd., tendered the most favourable price for each factory and were granted leases accordingly as from 10th April, 1937."

6. *Loans to Local Authorities.*—The Government announced its desire to obtain the fullest co-operation and assistance of local authorities in its endeavour to overtake the existing housing-shortage. To this end special arrangements have been made whereby loans may be obtained by local authorities on attractive terms bearing the low rate of interest of 3 per cent., and it is hoped that the provision of cheap finance in this way will stimulate efforts of local authorities to relieve the housing-shortage in their particular localities by undertaking housing schemes for their own residents.

It is essential that housing schemes of the Government and of local authorities and the special loan business of the Corporation should be co-ordinated, and to ensure this it is necessary that certain conditions be imposed in respect of any loans granted to local authorities. These conditions may briefly be stated as follows:—

- (a) Detailed plans, specifications, and estimates must be approved by the Housing Construction Branch.
- (b) Loan-moneys shall not be used for the purpose of relending to individuals.
- (c) A special covenant must be embodied in any contract for sale of a house built under the scheme to provide that the prior consent of the local authority shall be obtained to any future sale or other disposal of the property, and to provide further that such consent shall be withheld where the consideration is in excess of the original value after allowing for depreciation, plus subsequent improvements.

The Government is encouraging the erection of houses which, as far as possible, will be New-Zealand-made houses, and no loan to a local authority will be approved where the quantity of foreign materials to be used is in excess of the amount that the Housing Construction Branch believes to be essential.

It is pleasing to record that from the inception of this scheme to the 31st March, 1937, loans to the total value of £115,375 have been approved.

7. *Loans to Co-operative Dairy Factories.*—There appeared to be a genuine desire on the part of executives of co-operative dairy companies to undertake housing schemes for the benefit of their employees, and the Government is assisting these concerns to retain the labour necessary to their industries in their own localities under favourable housing-conditions. Money has accordingly been made available at 3 per cent. for the financing of housing schemes in conjunction with established co-operative dairy factories. Any schemes undertaken must conform to the standards adopted by the Housing Construction Branch, and as far as possible any houses to be erected out of money borrowed by the dairy companies must be New-Zealand-made houses. If the houses are disposed of by the dairy companies by way of sale to an employee or employees, the companies are required to make provision to prevent undue trafficking and the capitalization of the facilities provided by the Government.

The Corporation will readily furnish full particulars and give assistance to such dairy companies as are desirous of undertaking housing schemes for the benefit of their employees.

8. *Balance-sheet and Revenue Accounts.*—The accounts for the year largely reflect the transactions under the Housing Act, 1919, prior to the Corporation assuming control and call for little comment.

On the liabilities side of the balance-sheet an amount of £316,336 8s. 11d. is shown as owing to the Discharged Soldiers Settlement Account. This is in respect of dwellings taken over from the Lands Department. The net book value of these properties is included under the heading "Dwellings let" on the assets side of the balance-sheet.

On the assets side of the Balance-sheet the expenditure incurred by the Housing Branch up to the 31st March, 1937, has been capitalized under the headings "Factories and Plant Account," £38,476 14s. 8d., and "Construction Branch, Preliminary Expenses Account," £9,093 4s. 11d. The latter item represents administrative costs of the Branch which will be allocated against completed dwellings from time to time taken over from the contractors.

In previous years provision has been made to the extent of £10,612 1s. 5d. by way of reserve for bad debts. It has been deemed reasonable in the accounts for this period to transfer this reserve, which was a book reserve only, to the credit of the Profit and Loss Account, and thus reduce the loss carried forward.

9. *Statutory Returns*.—The following information is submitted as required by section 35 of the Housing Act, 1919 :—

(a) Money expended in the purchase of land during the year amounted to £42,995 16s. 6d., representing purchases in the following localities :—

			£	s.	d.
Whangarei	..	..	605	1	11
Auckland	..	..	1,250	0	0
Wellington	..	..	25,436	19	5
Christchurch	..	..	15,703	15	2
			<hr/>		
			£42,995	16	6
			<hr/>		

(b) No money was expended in the erection of dwellings from the 1st July, 1936, to the 31st March, 1937.

(c) The amount outstanding on 358 dwellings sold under agreements for sale and purchase is £149,719, and in respect of 590 dwellings leased to tenants, £438,539. At the close of the year arrears in respect of dwellings sold amounted to £14,261, and in respect of rent of dwellings amounted to £5,023.

A. D. PARK,
Chairman of Directors.

HOUSING ACCOUNT.

(A) REVENUE ACCOUNT.—RENTED PROPERTIES ERECTED PRIOR TO 31ST MARCH, 1937.

	£	s.	d.		£	s.	d.
Interest	5,713	0	11	Rents	9,375	7	11
Insurance, rates, and maintenance ..	1,562	1	6				
Commission	223	3	10				
Management expenses	467	9	10				
Gross profits to Profit and Loss Account ..	1,409	11	10				
<hr/>				<hr/>			
£9,375 7 11				£9,375 7 11			
<hr/>				<hr/>			

Depreciation on Dwellings let.—No provision has been made in these accounts. It is proposed to have existing dwellings valued, and the book value of these assets will be adjusted in the accounts for the year ending 31st March, 1938.

(B) REVENUE ACCOUNT.—PROPERTIES SOLD UNDER AGREEMENT FOR SALE AND PURCHASE PRIOR TO 31ST MARCH, 1937.

	£	s.	d.		£	s.	d.
Interest	5,334	7	0	Interest on purchase-money	7,380	12	4
Management expenses	368	0	5				
Commission	479	0	0				
Gross profits to Profit and Loss Account ..	1,199	4	11				
<hr/>				<hr/>			
£7,380 12 4				£7,380 12 4			
<hr/>				<hr/>			

(C) INTEREST ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1937.

	£	s.	d.		£	s.	d.
Interest	15,512	16	8	Interest liability recouped from—			
				Rented properties	5,713	0	11
				Properties sold under agreement for sale and purchase	5,334	7	0
				Interest during construction period—			
				Preliminary expenses	21	14	3
				Land	154	10	0
				Factory and plant	135	0	0
				Balance to Profit and Loss Account	4,154	4	6
<hr/>				<hr/>			
£15,512 16 8				£15,512 16 8			
<hr/>				<hr/>			

(D) PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1937.

	£	s.	d.		£	s.	d.
Interest Account	4,154	4	6	Revenue of rented properties	1,409	11	10
				Revenue of properties sold under agreement for sale and purchase	1,199	4	11
				Balance—Loss for the year	1,545	7	9
	£4,154	4	6		£4,154	4	6
Balance as at 31st March, 1936	82,463	18	8	Transfer Reserve for bad debts	10,612	1	5
Loss for the year	1,545	7	9	Balance	73,397	5	0
	£84,009	6	5		£84,009	6	5
Balance	£73,397	5	0				

BALANCE-SHEET AS AT 31ST MARCH, 1937.

Liabilities.				Assets.			
	£	s.	d.		£	s.	d.
Loan liability	492,820	0	0	Principal owing under agreements for sale and purchase	143,537	5	5
Interest due and unpaid to Treasury	20,650	6	3	Advances to local authorities	1,375	0	0
Interest accrued	6,252	4	11		144,912	5	5
	519,722	11	2	Instalments of principal overdue	7,497	16	3
Liability to Consolidated Fund in terms of section 22, Finance Act, 1926	100	0	0		152,410	1	8
Liability to Discharged Soldiers Settlement Account	*316,336	8	11	Dwellings let	438,538	19	4
Sundry creditors	5,600	18	2	Freehold land	66,714	0	1
Insurance Fund	9,994	6	9	Factories and Plant Capital Account	38,476	18	8
Sinking Fund	1,808	6	4	Motor-vehicle	248	9	0
				Furniture and equipment	826	13	4
				Construction Branch preliminary expenses	9,093	4	11
				Sinking-fund investment held by Public Debt Redemption Fund	5,163	6	2†
				Insurance Fund Investment (Government stock)	7,000	0	0
				Sundry debtors	3,836	13	8
				Interest receivable—			
				Overdue	6,921	1	1
				Accrued	80	10	8
					7,001	11	9
				Rent overdue	5,097	5	11
				Insurance premiums—			
				Receivable—Overdue	362	5	1
				Payable—Paid in advance	197	0	4
					559	5	5
				Realization Suspense Account	2,065	11	11
				Profit and Loss Account	73,397	5	0
				Cash	43,133	4	6
	£853,562	11	4		£853,562	11	4

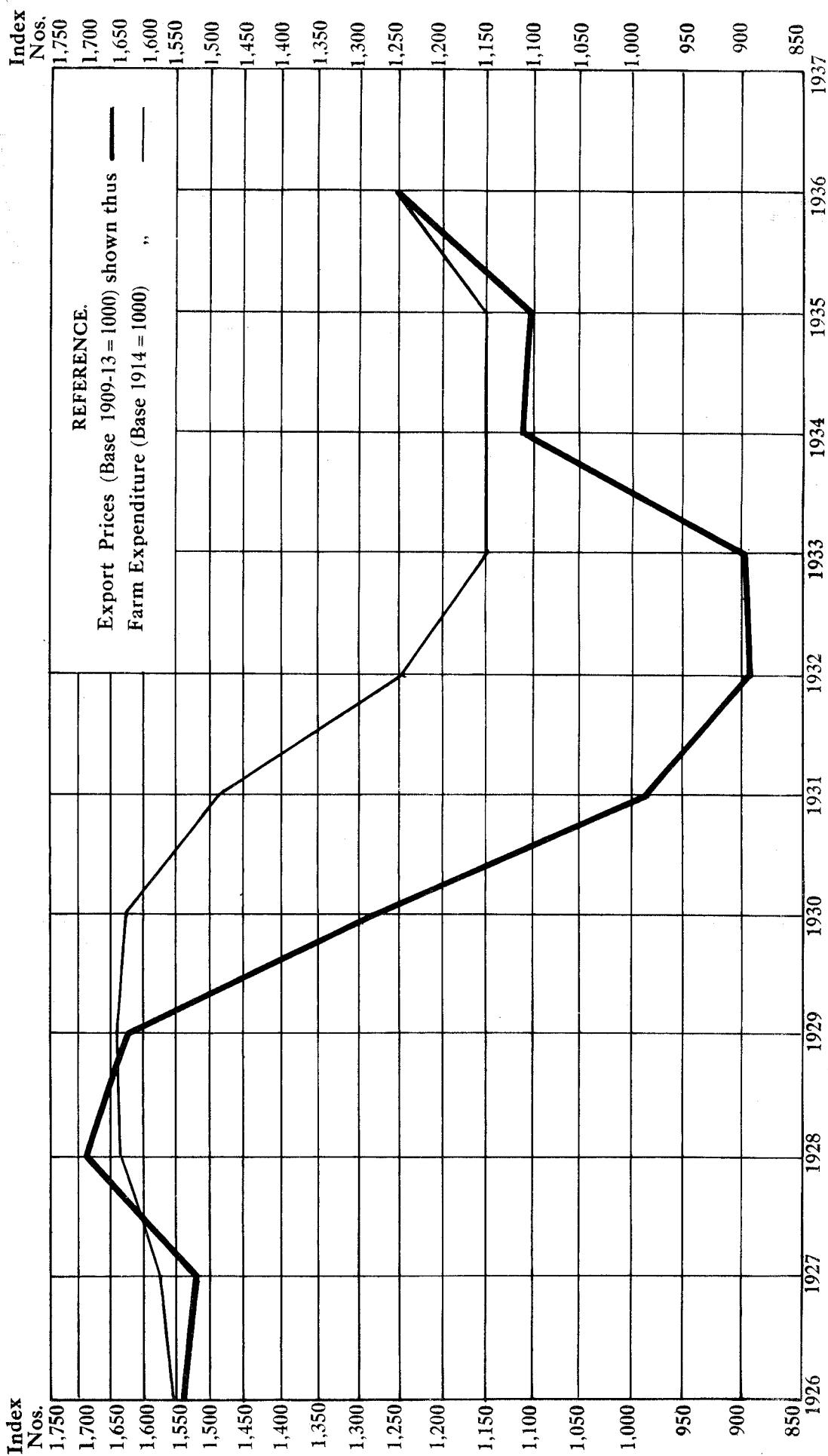
* The item "Liability to Discharged Soldiers Settlement Account" represents the book value of assets taken over from that account, and will be subject to adjustment on valuation when empowering legislation is obtained.
† This amount includes the sum of £3,354 19s. 10d. paid into the Sinking Fund in accordance with the Public Debt Extinction Act, 1910.

R. ROBERTSON, Chief Accountant.
A. D. PARK, F.I.A.N.Z. F.R.A.N.Z., } Joint Managing
T. N. SMALLWOOD, } Directors.

Wellington, 20th August, 1937.

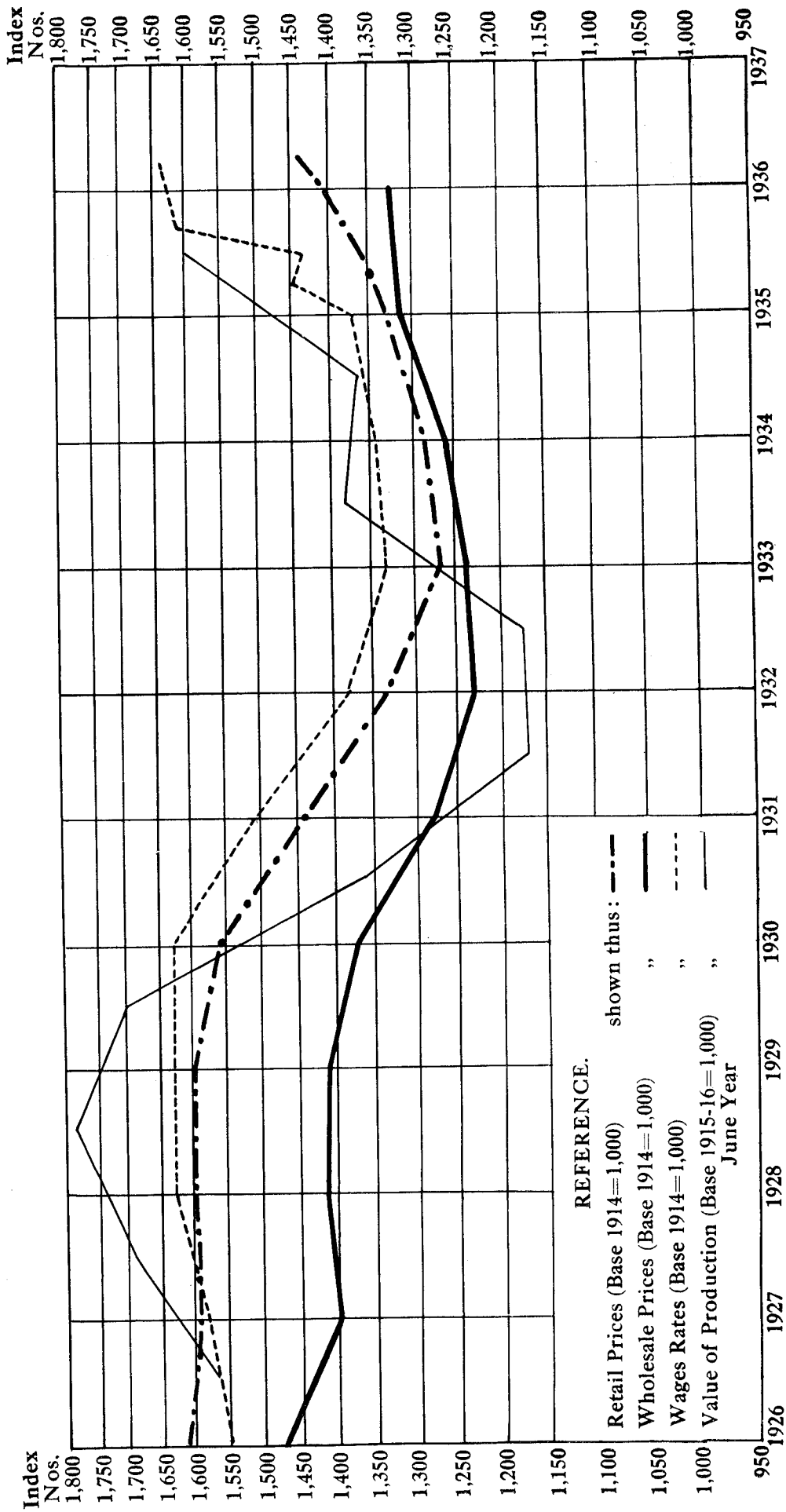
I hereby certify that the Balance-sheet and accompanying accounts have been duly examined and compared with the books and documents submitted for audit, and correctly state the position as disclosed thereby, subject to the following comment: Assets of the Discharged Soldiers Settlement Account have been transferred to the Housing Account without legislative authority.—J. H. FOWLER, Controller and Auditor-General.

GRAPH OF INDEX NUMBERS OF EXPORT PRICES AND FARM EXPENDITURE.
On semi-logarithmic scale.



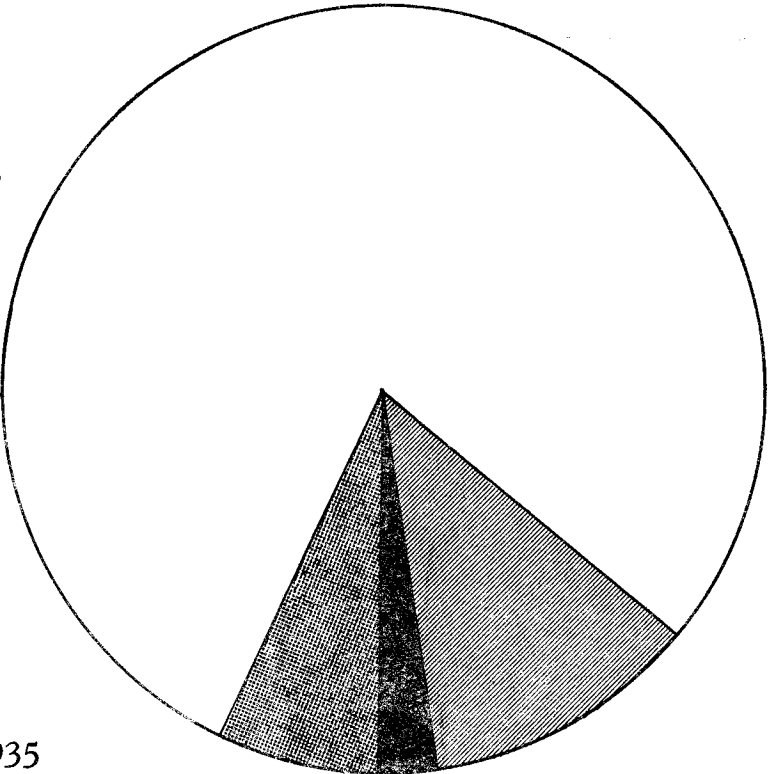
GRAPH OF INDEX NUMBERS OF RETAIL PRICES, WHOLESALE PRICES, WAGE-RATES, AND VALUE OF PRODUCTION.
(RETAIL PRICES AND WAGE-RATES ANNUAL TO 1935; THEREAFTER QUARTERLY.)

On semi-logarithmic scale.




MORTGAGE REGISTRATIONS AT VARIOUS RATES OF INTEREST.

July, 1935

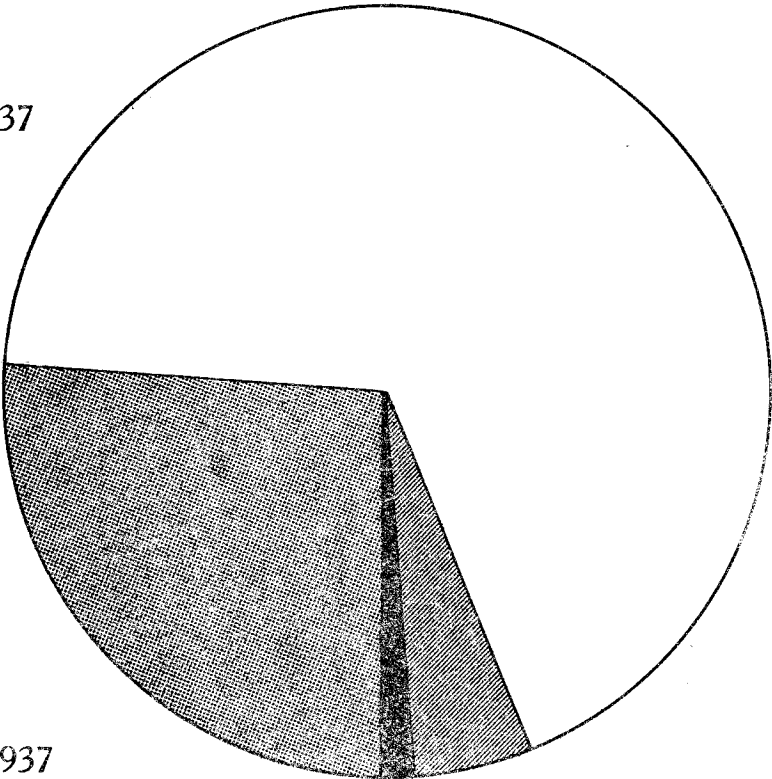


1. July, 1935

REFERENCE.


Not exceeding 4 1/8%	— 6.8% shown thus :	
Over 4 1/8% but not exceeding 5%	— 78.8%	"
Over 5%	" " 6%—11.8%	"
Over 6%	— 2.6%	"

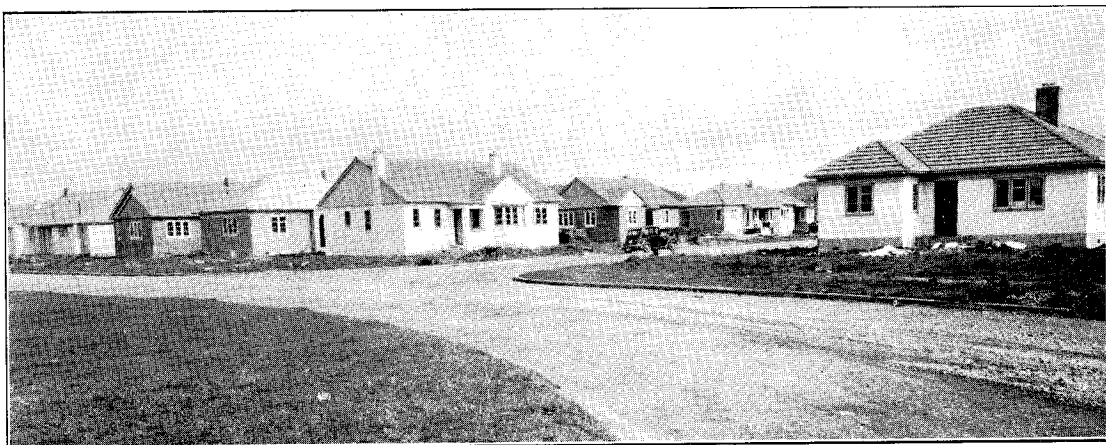
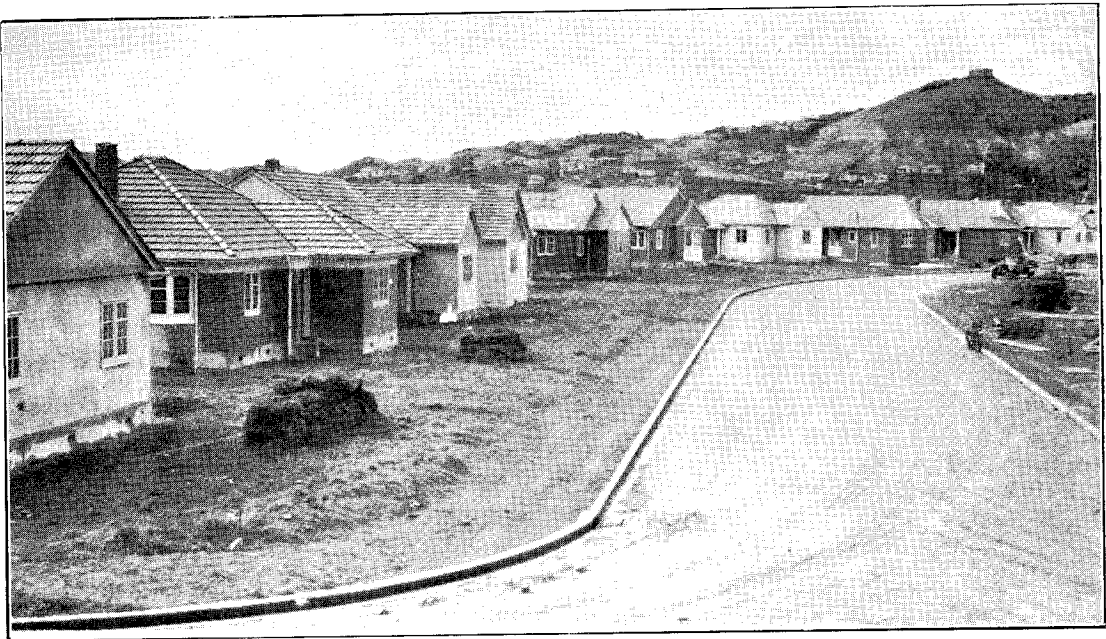
March, 1937



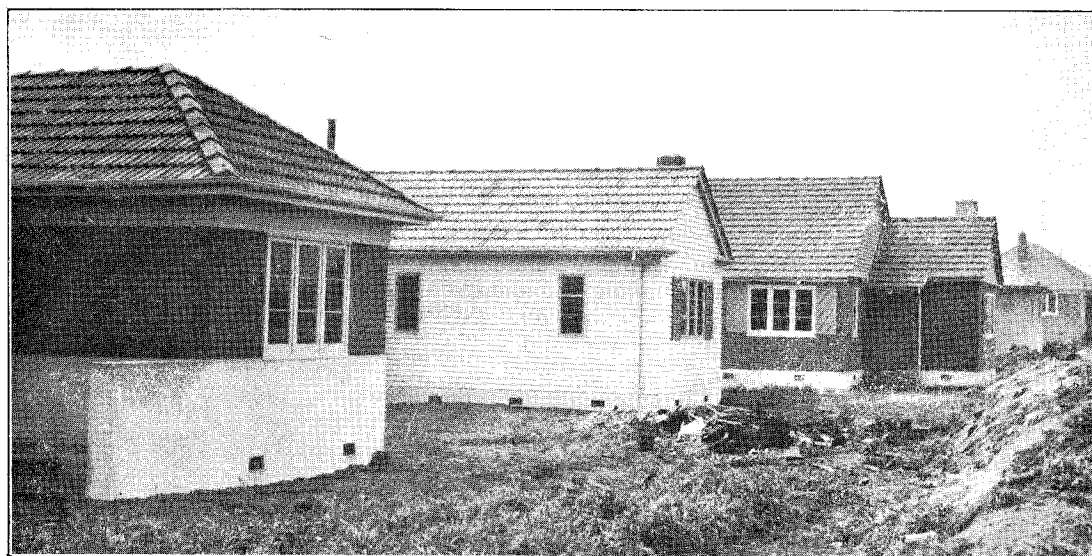
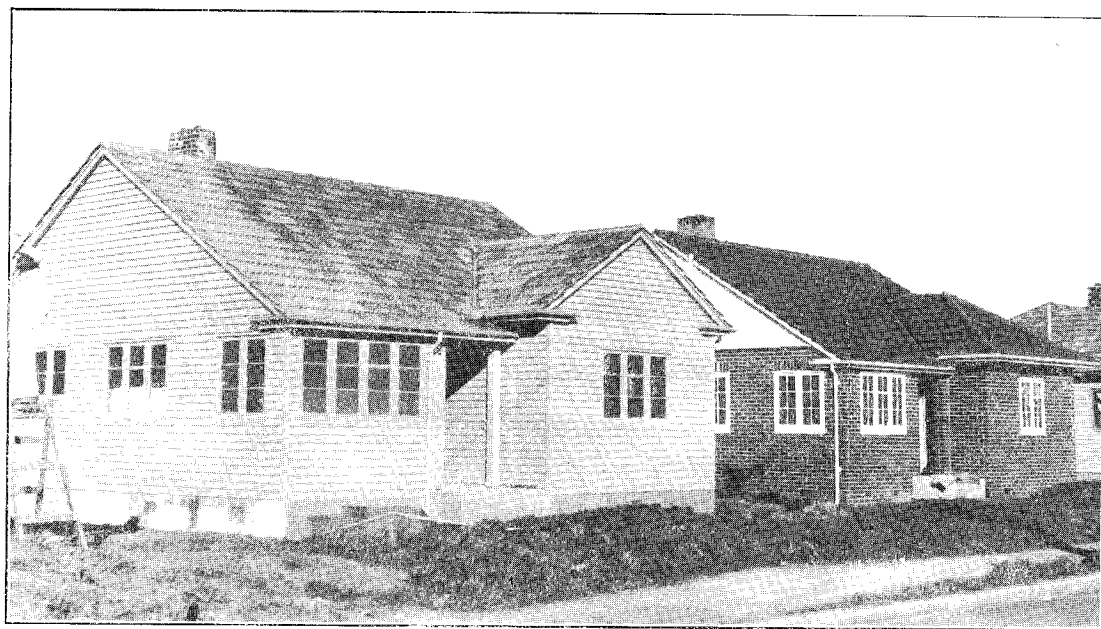
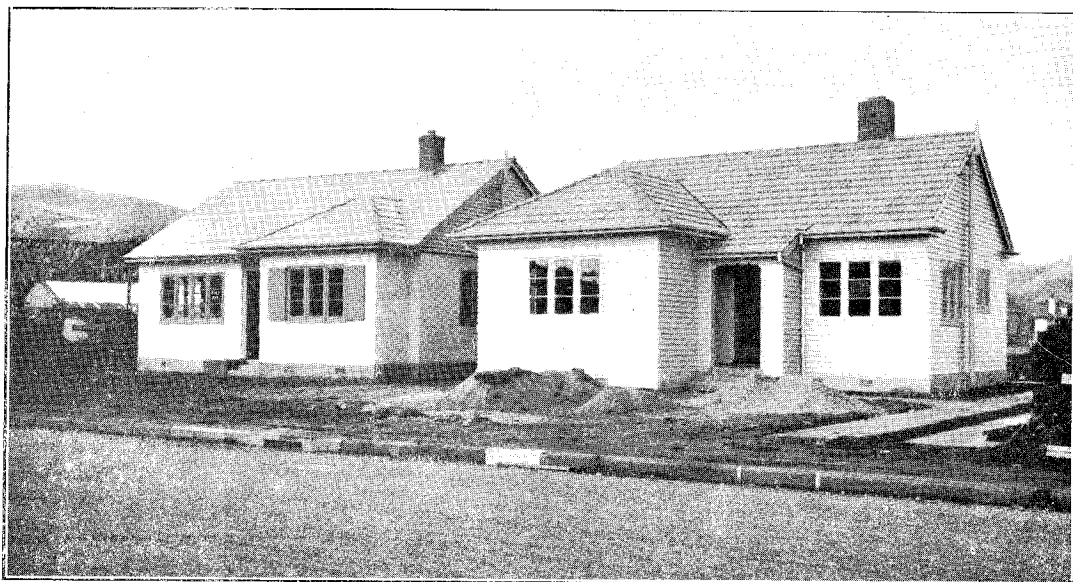
2. March, 1937

REFERENCE.

Not exceeding 4 1/8%	— 25.7% shown thus :	
Over 4 1/8% but not exceeding 5%	— 67.8%	"
Over 5%	" " 6%— 5.0%	"
Over 6%	— 1.5%	"



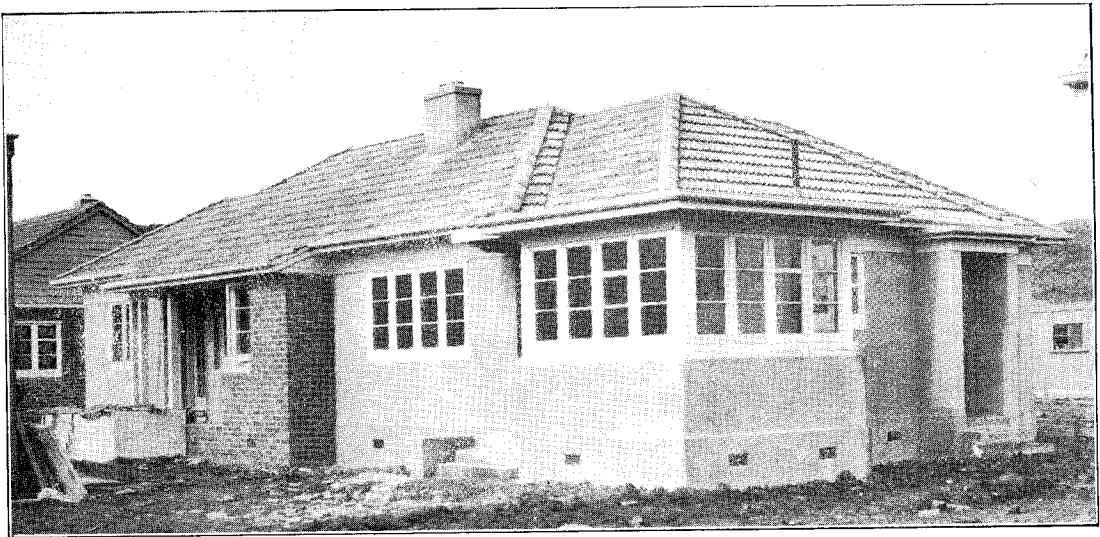
VIEWS OF HOUSES NEARING COMPLETION AT MIRAMAR, WELLINGTON.



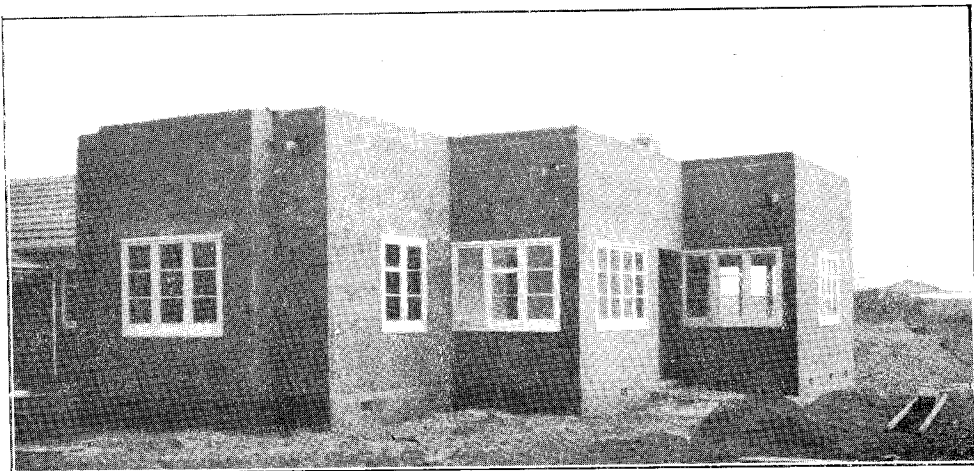
SINGLE-UNIT HOUSES NEARING COMPLETION AT MIRAMAR, WELLINGTON.



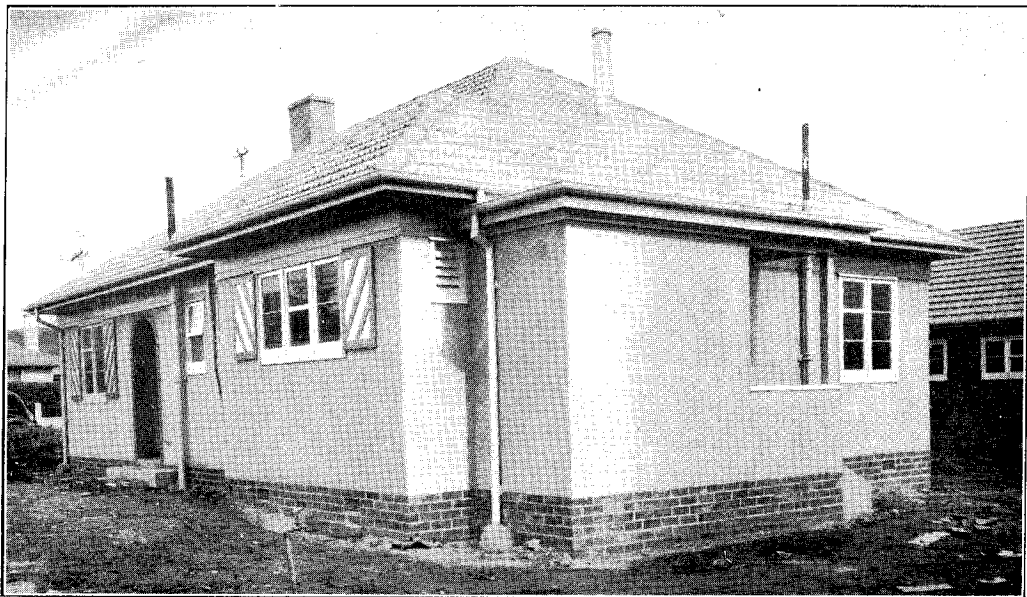
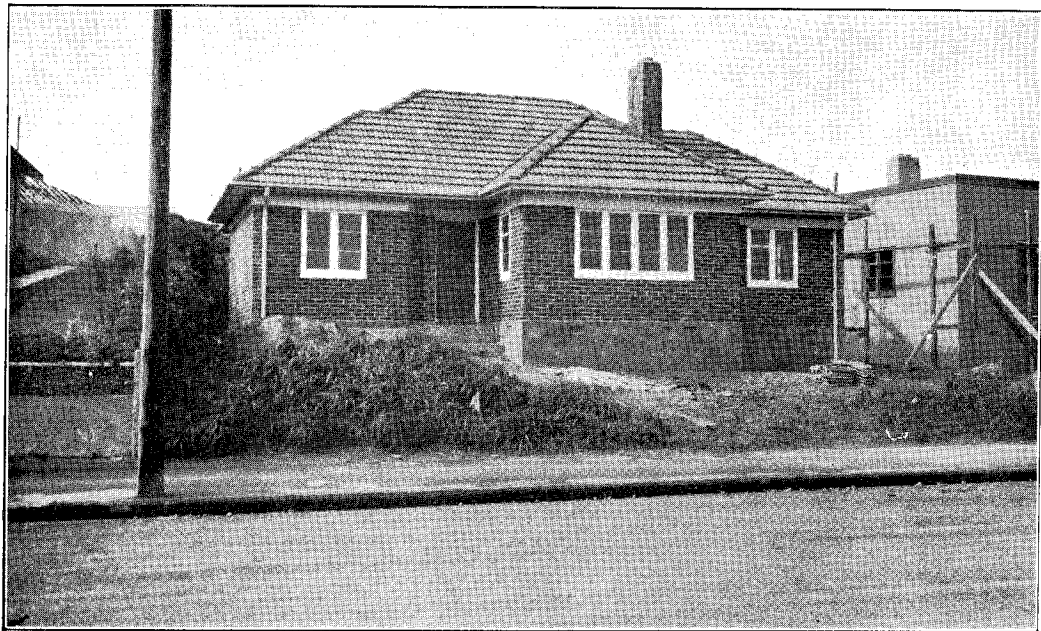
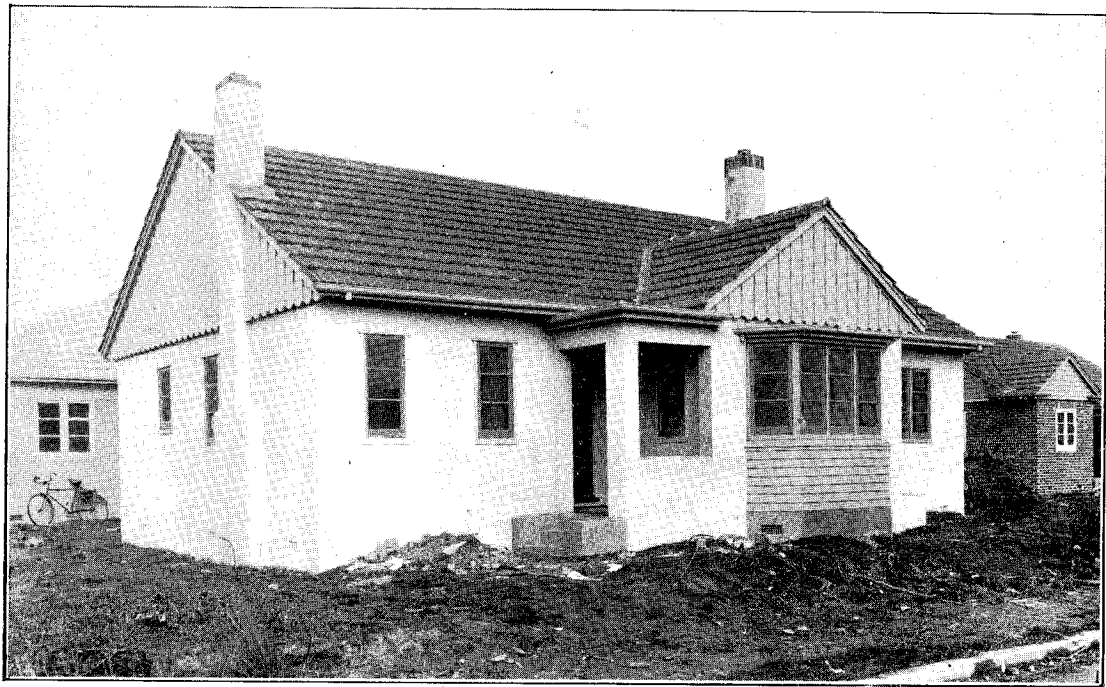
HOUSES IN COURSE OF CONSTRUCTION AT MIRAMAR, WELLINGTON.



TWO-UNIT HOUSE AT MIRAMAR, WELLINGTON.



SINGLE-UNIT HOUSE AT MIRAMAR, WELLINGTON.



SINGLE-UNIT HOUSES NEARING COMPLETION AT MIRAMAR, WELLINGTON.

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