

1937.
NEW ZEALAND.

RURAL INTERMEDIATE CREDIT BOARD

(REPORT OF THE) FOR THE YEAR ENDED 30TH JUNE, 1937

Presented to both Houses of the General Assembly in accordance with Section 76 of the Rural Intermediate Credit Act, 1927.

SIR,—

Wellington, 30th June, 1937.

In accordance with the provisions of section 76 of the Rural Intermediate Credit Act, 1927, I have the honour, on behalf of the Rural Intermediate Credit Board, to submit a report on its operations for the year ended 30th June, 1937.

1. This will be the final report to be submitted by the present Board, as the administration of the system will be transferred to the members of the Board of Management of the State Advances Corporation as from the 1st July, 1937, in accordance with the provisions of the State Advances Corporation Act. The Board, therefore, takes the opportunity of submitting a brief historical survey of the establishment and development of the system, and some observations based on its experience of the working of the system, together with a review of the position as at the close of its administration.

HISTORICAL SURVEY.

ESTABLISHMENT.

2. The Intermediate Credit system was introduced as a result of the passing of the Rural Intermediate Credit Act, 1927, which followed largely, but not entirely, the recommendations made by the Royal Commission on Rural Credits, which in 1926 presented to Parliament a report on its investigations of systems of rural credit in other countries. As finally passed the Act made provision for the granting of loans in four ways:—

- (a) To farmer members of co-operative rural intermediate credit associations.
- (b) Direct to farmers.
- (c) To co-operative societies.
- (d) By the discounting of farmers' promissory notes.

The main departure from the Royal Commission's recommendations was that provision was made for loans direct to farmers, under certain conditions, as an alternative to loans made under a co-operative system.

3. *Administration.*—In terms of the Act a Board of seven members was established, the following members being appointed:—

- Mr. John Brown, of Ashburton.
- Mr. T. E. Corkill, of Wellington.
- Colonel J. J. Esson, C.M.G., of Wellington.
- Mr. Norton Francis, C.M.G., of Christchurch.
- Mr. J. N. Massey, of Puni.
- Mr. W. Waddel, C.B.E., of Wellington.
- The Public Trustee of the Dominion of New Zealand.

Colonel J. J. Esson was appointed Chairman of the Board, and the Public Trustee was constituted the principal executive member with the title of Commissioner of Rural Intermediate Credit. Later, by the Finance Act, 1929, the Financial Adviser to the New Zealand Government was added to the Board. With

the exception of the late Mr. T. E. Corkill, who died on the 12th December, 1934, while still a member, the constitution of the Board has not varied. By Governor-General's Warrant dated the 21st March, 1928, Mr. J. Snell, M.A., LL.B., Controller of the Mortgage Division of the Public Trust Office, was appointed Deputy Commissioner of Rural Intermediate Credit.

Under the authority conferred by the Act whereby the Board might utilize the services of any Department of State, the Public Trust Office was selected as the most suitable agent for the performance of the administration work, which called for an extensive and capable representation throughout the Dominion. The Office also undertook the preliminary work entailed in the inauguration of the system before the appointment of the Board, and appreciation of the manner in which the work was carried out was placed on record by the Board when it first met. On a number of occasions subsequently members have recorded the Board's indebtedness to the Office for the excellent service rendered, and it is clear that had the representation afforded by the Office, or some similar representation, not been available the system could not have been administered as economically and efficiently as it has been.

4. *District Administration.*—The Board divided the Dominion into sixteen districts, and in respect of each appointed a district board of five members and one or more District Supervisors, with District Officers at smaller towns, where necessary. The District Supervisor at the headquarters of each district board was appointed Chairman. The list of the district boards and district representatives as at the 30th June, 1937, is as follows :—

District.	Headquarters.	Town.	Designation.
North Auckland	Whangarei	Whangarei	District Supervisor.
Auckland	Auckland	Dargaville	District Officer.
Waikato	Hamilton	Auckland	District Supervisor.
		Pukekohe	District Officer.
		Hamilton	District Supervisor.
		Te Aroha	District Supervisor.
		Te Kuiti	District Officer.
		Cambridge	District Officer.
		Rotorua	District Officer.
		Tauranga	District Officer.
		Taumarunui	District Officer.
Poverty Bay	Gisborne	Thames	District Officer.
Hawke's Bay	Napier	Gisborne	District Supervisor.
		Napier	District Supervisor.
		Waipukurau	District Supervisor.
		Dannevirke	District Supervisor.
		Hastings	District Supervisor.
Manawatu-Wellington ..	Palmerston North ..	Wairoa	District Officer.
		Palmerston North ..	District Supervisor.
		Wellington	District Supervisor.
		Feilding	District Officer.
		Marton	District Officer.
		Taihape	District Officer.
		Levin	District Officer.
Taranaki	New Plymouth	New Plymouth	District Supervisor.
		Hawera	District Supervisor.
Wanganui	Wanganui	Stratford	District Supervisor.
Wairarapa	Masterton	Wanganui	District Supervisor.
		Masterton	District Supervisor.
		Pahiatua	District Officer.
Marlborough	Blenheim	Blenheim	District Supervisor.
Nelson	Nelson	Nelson	District Supervisor.
Westland	Greymouth	Greymouth	District Supervisor.
		Westport	District Officer.
North Canterbury	Christchurch	Christchurch	District Supervisor.
		Ashburton	District Officer.
		Rangiora	District Officer.
South Canterbury	Timaru	Timaru	District Supervisor.
Otago	Dunedin	Dunedin	District Supervisor.
		Oamaru	District Officer.
		Balclutha	District Officer.
Southland	Invercargill	Invercargill	District Supervisor.
		Gore	District Officer.

The work performed by the members of district boards and the advice tendered by them on the various matters on which they have been consulted have been fully appreciated by the Board, which has on several occasions placed on record its sense of the public spirited assistance afforded, often at considerable sacrifice and for very small remuneration.

5. *Co-operative Rural Intermediate Credit Associations.*—The Act made provision for the formation of small limited-liability companies called “co-operative rural intermediate credit associations,” whose principal object is the borrowing of money from the Board and the relending of it to their farmer members. The minimum number of members required is twenty, and each of them must subscribe for at least twenty-five £1 shares. A borrower from an association must hold one £1 share for every £10 of his loan, with a minimum of twenty-five shares. A borrower member who repays his loan may surrender his shares and receive from the association such sum as is agreed upon by way of consideration for the surrender. Similarly, an original member may surrender his shares if he does not wish to obtain a loan, or if an application made by him for a loan is declined. The membership of an association must not, however, fall below twenty. Each association has a directorate consisting of the District Supervisor and four members appointed by the shareholders, while the Board may appoint an additional director if it so desires.

In compliance with the Board’s policy only 1s. per share has been paid on the taking-up of shares by a farmer, and additional amounts have been called up only as they have been required to meet losses incurred by the associations. The capital has been looked upon as a reserve fund only and has formed security for the Board in addition to that provided by the mortgages and other instruments taken by the associations as security for loans made by them and assigned to the Board.

The Board has already in its annual reports recorded its appreciation of the action of many prominent farmers who agreed to take up shares in associations and serve without monetary reward on the directorates with the sole object of assisting their less fortunate fellow-farmers, and not with any intention of obtaining loans for themselves. The boards of directors have usually exercised good discretion in the selection of loans, and have also given careful attention to the supervision of the securities after the granting of the loans, so that the Board has been able to place considerable reliance upon them.

6. *Direct Loans and Discounting System.*—Under these headings machinery was provided to enable farmers to obtain loans direct from the Board, instead of through co-operative associations, on their providing guarantees or endorsements acceptable to the Board. These guarantees and endorsements were intended to provide for the Board additional security corresponding to that afforded by the share capital of the associations.

7. *Co-operative Societies.*—No business has been transacted with co-operative societies.

8. *Funds.*—Altogether £400,000 was advanced by the Government, and, of this, £266,666 has been used for the Board’s lending business, the balance being placed to the credit of a Redemption Fund, which must be used only for the redemption of debentures. The balance required by the Board was raised on debentures from investors at a reasonable rate of interest. All of the debentures, which had a currency of five years, have now been redeemed.

DEVELOPMENT OF THE SYSTEM.

9. *Co-operative Principle.*—When the system was inaugurated the prediction was made in some quarters that by reason of the inclusion of the direct lending provisions of the Act little, if any, association business would be transacted, and most of the loans would be made direct to farmers. This has not proved to be the case, and more than twice as much money has been advanced through associations as has been lent direct. Even in the case of loans granted direct or made under the discounting system the co-operative principle has still been operative to some extent since the majority of the direct loans have been guaranteed and the greater number of promissory notes endorsed by co-operative dairy companies. Most of the Board’s business has, however, been transacted through associations.

The maximum number of these formed was forty-three, but only thirty-six of them were active at the 30th June, 1937. One association was unable to commence operations, and the Board (at the request of the members in one case) petitioned the Court for the compulsory winding-up of two associations, and four others have been or are being wound up voluntarily.

With the object of keeping the directors and secretaries fully apprised of the Board's methods, and also of promoting discussions on matters of importance and obtaining expressions of the views of the various associations on matters of policy, the Board arranged for a series of regional conferences of delegates from associations presided over by members of the Board and attended by members of district boards and executive and branch officers. The results attained were reflected in the improved working of the system not only in the districts directly affected, but throughout the whole Dominion.

10. *Rates of Interest charged.*—During the first five years of its operations the Board charged interest on loans at $6\frac{1}{2}$ per cent., but on the 1st May, 1933, this rate was reduced to 6 per cent., and a further reduction to 5 per cent. was made as from the 1st September, 1934. One-half per cent. less was charged to associations, the difference being allowed to enable them to meet their working-expenses and build up reserves.

11. *Margins of Security.*—At the outset of its operations the Board decided that it would not normally lend more than 70 per cent. of the value of sheep and 50 per cent. of the value of dairy cattle and other stock and implements and machinery. When, however, the values of sheep rose and those of dairy cattle receded, the percentages were reviewed and it was decided that not more than 60 per cent. of the value of sheep and dairy stock and 50 per cent. of the value of other stock and implements and machinery would be advanced. Where the implements and machinery form a large proportion of the total valuation, only 30 per cent. is advanced, based on clearing sale values.

12. *Repayment of Loans.*—It was the intention of the Legislature that loans should be repaid over periods not exceeding five years, and the Board has constantly endeavoured to conform to this intention, and has generally required loans to be repaid at the rate of one-fifth each year. It has been necessary, however, to relax the requirement to some extent to meet changing conditions, and concessions have been granted to borrowers where they have been shown to be necessary. The Board also found that some borrowers needed successive advances to enable them to develop their farms and build up their herds, and in such cases it was considered desirable to provide for smaller repayments in the earlier years of the loan and to increase the amounts required during the later years when the farms and herds were able to produce higher returns.

13. *Valuations.*—The Board appointed a number of valuers in each district to make valuations of securities offered, and only in isolated cases has the Board not been able to rely entirely on valuations made in this way. During recent years the directors of some associations have been empowered to make the valuations required on the granting of loans and for other purposes, and have also been given responsibility for inspections required after the loans have been granted.

14. *Special Provisions.*—By reason of the differences in the requirements of farmers engaged in sheep-farming, grain-growing, and dairy-farming it has been necessary for the Board to introduce special provisions relating to each class. Sheep-farmers and grain-growers receive the greater part of their annual revenue towards the end of the farming year, whereas the income received by dairy-farmers is spread over the greater part of the season. Sheep-farmers and grain-growers also require their advances spread over a longer period than do dairy-farmers, and the Board therefore provided for their convenience a special system by which a limit was fixed up to which a borrower could draw for his finance, the necessary reduction being effected after the returns for the season were received. With dairy-farmers it was possible to fix an amount up to which the loan was to be increased immediately, and the annual repayment was made by monthly deductions from the milk cheques. Although it was the practice to review sheep-farming and grain-growing accounts

every year, the repayments under dairying loans were fixed for the full period of the loan, but even with dairying accounts associations were encouraged to review the loans periodically in order that up-to-date information might always be available.

15. *Delegations*.—The Board consistently pursued a policy of gradual delegation of its powers to the district organizations, and it may be stated generally that, subject to the overriding control and supervision of the Board, the granting and management of loans not exceeding £350 is now conducted in the districts, whilst loans exceeding that amount, although requiring the original approval of the Board, are subsequently administered in the districts. The powers of the district boards, District Supervisors, and associations vary according to the particular matters requiring attention.

16. *Publicity*.—The interest manifested in the system when it was first introduced was encouraged by the full publicity obtained, and so far as the funds available to the Board for the purpose have permitted every means offering has been taken advantage of, so that farmers may be aware of the method of operation and the advantage to be gained by the utilization of the system. Throughout the whole of the operations of the scheme, and particularly in its earlier stages, valuable help was received by the Board from the New Zealand Farmers' Union, the public press, and leading farmers' journals.

The Board has also issued quarterly agricultural bulletins, of which twelve have been published, and these have, in addition to rendering a service to farmers by providing them with authoritative practical advice on farming subjects, served to give publicity to the system. The Board is indebted to the staffs of Massey College and the Department of Agriculture for the preparation of the matter for the bulletins.

OBSERVATIONS ON BOARD'S EXPERIENCE DURING ADMINISTRATION.

17. *Lending Operations*.—The Board's experience has been that the system is a good one for farmers, though the lending operations have, in practice, been confined principally to dairy-farmers. When the system was first introduced these farmers found difficulty in obtaining finance from the existing lending institutions, though this position is not now evident to the same extent. The Board provided them with a channel through which they could readily obtain finance on reasonable terms provided they could offer the necessary security. The Rural Intermediate Credit Act originally permitted loans of a maximum amount of £1,000, and it was soon recognized that this sum was not sufficient to permit many sheep-farmers to obtain loans, because as a general rule the amounts required were considerably larger. Later the legislation was amended to allow of loans up to £2,000, and the system was then used by considerably more sheep-farmers. Not long after the alteration was made, however, the values of sheep declined, and few sheep-farmers were in a position to offer sufficient security to enable loans to be granted to repay their existing indebtedness. Since the values of sheep have again risen there has not been the same demand from the Board for finance, as loans have been readily available from other lending institutions. Except in districts where dairy-farmers have not been provided by other lending institutions with facilities for the obtaining of loans, the Board has found that farmers who could obtain loans from the Board could also obtain them readily elsewhere, though usually at a higher cost.

18. *Repayments*.—There is no doubt that the system introduced by the Board of insisting on gradual repayment of loans granted has been of considerable benefit to many farmers, who have repaid or reduced their indebtedness even when the prices for primary produce were low. The repayments fixed by the Board have been surprisingly well kept up even in difficult times. The credit for a considerable part of this result must be ascribed to the Board's policy of insisting on the giving by dairy-farmer borrowers of orders on their milk cheques to provide for the principal repayments and interest. It is clear that had these orders not been taken by the Board the repayments made would have been considerably less than has been the case. Although these orders have been insisted upon, the Board has acted reasonably with the farmers, and if it has been shown that the payments being obtained were too high, concessions have been granted, and the orders have been reduced or suspended.

19. *Financial Statements.*—When it commenced operations the Board insisted on the submission of full financial statements containing particulars of the assets and liabilities and receipts and payments of applicants for loans, and where a borrower applied for a concession he was also required to justify his application by the submission of a financial statement. Some applicants at first objected to this requirement, on the ground that they did not wish to make public their financial position, and the associations in some cases considered that their general knowledge of the position of farmers in the district was sufficient to enable complete statements to be dispensed with. It is clear, however, that considerable benefit accrued from the practice, and some of the directors of the associations which made representations in the earlier stages of the Board's operations that these statements should be dispensed with subsequently agreed with the view of the Board. It is also evident that many farmers now appreciate the value of budgets. In later years the Board was able to relax its requirements regarding financial statements, and although it still requires statements to be supplied with applications for new loans it will now in many cases accept certificates from directors of associations that, after investigating the financial position of borrowers, they are satisfied that the concessions or further advances required are justified.

20. *Losses.*—It is gratifying to be able to report that only one loss has so far been suffered by the Board, and that for an amount of £500 only. Some associations have made losses on loans granted by them, but these have been, or will be, met principally from the reserves and share capital of the associations. In three cases the winding-up of associations resulted from deficiencies shown on the realization of securities for loans, and it has been necessary for them to call upon shareholders to make further payments under their shares so that the deficiencies might be met. Six of the associations still active have suffered losses in this way, but only one has found it necessary to make a call on its members' shares. Probably two others will need to make calls to meet losses on loans.

21. *Association Method.*—The association method of lending has proved very successful, and those associations which have been able to transact a reasonable volume of business have been able to build up a satisfactory organization in their districts, to pay reasonable remuneration to their secretary-treasurers, and to make provision for reserves against possible losses. Others have, however, not met with the same measure of success, and their business has not expanded to the extent that was anticipated when they were formed. It is only where an association transacts a substantial volume of business that it is able to meet its expenditure from the revenue provided, and it seems likely that some of the associations which are in only a small way will need to be wound up unless the new management is able to expand the rural intermediate credit business. The Board was able to assist associations which were finding difficulty in meeting their expenditure by authorizing the charging against applicants and borrowers of consideration fees in respect of certain applications for loans and concessions. Even these fees have, however, not been sufficient to enable associations with a small amount of business to meet their expenses.

22. *Chattels Securities.*—It is essential with securities of this nature that a close supervision be exercised in regard to loans, and a close watch must be kept on the stock which forms the security, and on the farming methods and financial operations of the borrowers. The cases of dishonesty met with by the Board have been so few as to be negligible. It is evident that the supervision by the directors of associations has been a material factor in the success of the Board's operations, and had the services of the directors not been available a large staff of Inspectors charged with the duty of providing such supervision would have been required.

VOLUME OF BUSINESS TRANSACTED.

23. *Association Advances for Year ended 30th June, 1937.*—During the year £54,010 was advanced, as compared with £50,841 during the year ended 30th June, 1936. The amount owing by associations to the Board at the end of the year was £134,410, as compared with £161,574 at the 30th June, 1936.

24. *Part III Advances for the Year ended 30th June, 1937.*—During the period £5,895 was advanced, as compared with £14,363 for the year ended 30th June, 1936, and £22,855 was owing, as compared with £42,317 at the 30th June, 1936.

25. *Discounts effected for the Year ended 30th June, 1937.*—The amount advanced for the year was £2,127, as compared with £1,728 for the year ended 30th June, 1936, and the face value of notes outstanding at the end of the year was £993, as compared with £1,262 at the 30th June, 1936.

26. *Total Advances for the Year ended 30th June, 1937.*—There was advanced during the year under all headings £62,032, as compared with £66,932 for the year ended 30th June, 1936.

27. *Total Business.*—From the inception of the scheme in 1928 to the 30th June, 1937, the Board advanced £1,279,096, and of this amount 87·6 per cent. has been repaid, leaving £158,259 owing to the Board. The volume of business reached its peak in 1931, and for the year ended 30th June, 1931, the Board advanced £317,711. There was owing at the 31st October, 1931, after crediting repayments received under loans, £520,183. The two figures just referred to are the highest recorded by the Board.

A steady expansion of business was shown in the earlier years of the Board's operations, but there has been a decline in recent years. The reasons for this decline have been fully traversed in previous reports and it is not necessary to refer to them here. It should be mentioned, however, that the uncertainty which has existed in the last two years regarding the future of the system and its administration has had an adverse effect on the volume of business.

POSITION OF SYSTEM AT 30TH JUNE, 1937.

28. The Board considers that the position generally of loans granted by it and its associations is sound, and in comparatively few cases need losses be anticipated. Such losses, if they are made, will be more than covered by the reserves which the Board has set aside for the purpose. As at the 30th June, 1937, the amount provided for this purpose was £7,757 6s. 7d., which represents a little over 4·9 per cent. of the advances current at that date. The fact that it has been necessary to make such small provision discloses a very creditable position.

29. As has been stated earlier in this report, some associations have only a small amount of business and are encountering difficulty in meeting their expenses. The position of these will need to be considered immediately by the new administration.

30. Owing to the uncertainty regarding the future of the system which has ruled for the last two years, the Board has not considered it wise to make any substantial alterations of policy or procedure, because it was not desired to embarrass the new administration in any way. Several matters have been deferred and will be brought under notice of the new administration when the change takes place, and some of them will require early consideration.

REDEMPTION FUND AND RESERVE.

31. In accordance with section 39 of the Rural Intermediate Credit Act, 1927, the net profit each year has been appropriated in equal shares to the Rural Intermediate Credit Redemption Fund and the Rural Intermediate Credit Reserve. The total net profit earned by the Board to 30th June, 1937, and thus apportioned in terms of section 39 (1) was £34,033 5s. 10d. A loss of £2,323 7s. 4d. sustained for the year ended 30th June, 1935, was met out of the Rural Intermediate Credit Reserve.

32. The amount invested, or available for investment, on behalf of the Rural Intermediate Credit Redemption Fund at 30th June, 1937, was as follows :—

One-third of advance of £400,000 from the Consolidated	£	s.	d.
Fund under section 16 of the Act	133,333	6	8
One-half share of profits up to 30th June, 1937, appropriated in accordance with section 39 of the Act ..	17,016	12	11
Interest received on investments and interest accrued to 30th June, 1937	59,736	14	0
	<u>£210,086</u>	<u>13</u>	<u>7</u>

The face value of the investments held and accrued interest thereon to 30th June, 1937, is £207,825 18s. 2d. A premium of £1,330 10s. 8d. has been paid on the purchase of investments, but this cost is partially offset by the premium of £1,136 16s. 3d. received on conversion of Government securities held as at 31st March, 1933. An amount of £2,067 1s. was held uninvested at 30th June, 1937.

33. The Rural Intermediate Credit Reserve at 30th June, 1937, £14,693 5s. 7d., represents the accumulated remaining half-share of profits to this date, less the loss of £2,323 7s. 4d. sustained in the year ended 30th June, 1935.

APPRECIATION.

34. The Board considers it only fitting that it should place on record its appreciation of the support it has received during its administration, and of the excellent manner in which borrowers have endeavoured to meet their commitments under loans, and of the invaluable services rendered by directors, secretary-treasurers, and solicitors of associations, members of district boards, branch officers, and valuers employed by the Board and associations in the selection and supervision of the securities for loans and the administration of the business of the Board and associations, without whose co-operation the satisfactory results recorded could not have been achieved. The assistance rendered by guarantors of loans and endorsers of promissory notes in helping the Board to make money available is also appreciated.

I have, &c.

(for and on behalf of the Board),

E. O. HALES, Commissioner.

The Hon. the Minister of Finance.

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