

1938.
NEW ZEALAND.

RURAL INTERMEDIATE CREDIT BOARD.

(REPORT OF THE) FOR THE YEAR ENDED 30TH JUNE, 1938.

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

SIR,—

Wellington, 31st October, 1938.

We have pleasure in submitting hereunder a report of the operations of this Board for the year ended 30th June, 1938, as required by section 76 of the Rural Intermediate Credit Act, 1927.

As foreshadowed in the report for the year ended 30th June, 1937, the control of the Rural Intermediate Credit business was transferred to this Board on the 1st July, 1937, and during the past year the administration of the Board's business has been undertaken by the State Advances Corporation in lieu of the Public Trust Office, which has been responsible for this work since the inception of the scheme in 1927. We take this opportunity of placing on record our appreciation of the valuable assistance and co-operation given by the Public Trustee and his officers in arranging the transfer of the Board's books and records, which were handed over promptly in excellent order on the date appointed.

In the various districts throughout the Dominion in which this Board is transacting business the branch officers of the State Advances Corporation have succeeded the Public Trust officials who acted as District Supervisors for the Rural Intermediate Credit Board, and to facilitate this the branch organization of the Corporation was further extended. Steps were taken to ensure that at the date of change-over the newly appointed officers were conversant with the new business coming under their control, and advantage was taken of the offer made by the Public Trustee to make available the services of his officers for the purpose of advising their successors on various matters relating to the loans under administration at the date of transfer. By this means the borrowers and the clients of the Board have been given a continuous service and the work has proceeded smoothly without inconvenience to any of those interested. Under the previous regime the chief executive officer of the Board was the Commissioner with headquarters at Wellington, and he has been succeeded by the Joint Managing Directors of the State Advances Corporation, who are now also members of the Central Board.

There has been no alteration in the policy in regard to the granting of advances to farmers, and the amount of business transacted during the past year has been approximately the same as for the previous period. Financial assistance is made available principally under the following headings:—

- (a) Advances to Co-operative Rural Intermediate Credit Associations for the purpose of granting loans to farmer borrowers.
- (b) Direct loans by the Board to farmers.
- (c) Discounting of farmers' promissory notes.

CO-OPERATIVE RURAL INTERMEDIATE CREDIT ASSOCIATIONS.

This method of financing farmers has found favour in some districts, particularly in those where dairying is the principal activity. Associations were established in various parts of the Dominion, but those operating in the Waikato, North Auckland, Taranaki, and Manawatu districts have been most successful, and the volume of business handled by these associations indicates that the farmers are fully appreciative of the advantages of having a local organization with which to transact their business. The borrowers themselves become shareholders of the association, and a Board, appointed by the members, controls the business. The members of the Board are chosen for their ability both as farmers and as business men, and it has been evident that their advice and assistance has been of considerable value to the borrowers in handling their individual problems.

The Central Board is fully appreciative of the service that is given by the directors of the associations, and there is no doubt that the present sound position of the existing loans arises from the thorough administration of the business by these gentlemen, whose services are given voluntarily. The secretarial work is undertaken by a local accountant or solicitor, and the associations have been fortunate to have the services of men whose experience and ability has helped very largely in the successful development and operation of these subsidiary lending bodies.

DIRECT LOANS.

In those districts where there is not an active co-operative association the Board has granted a number of loans direct to farmers on the security of their stock and chattels, but it has been the practice in the past to require some collateral security or guarantee in connection with such loans. The recent amending legislation removed the requirement that such collateral security should be obtained as a definite condition to a loan direct from the Board, and it is now a matter for discretion of the Central Board as to whether the loan should be granted on the security of the stock and chattels alone.

DISCOUNT OF BILLS.

During recent years a comparatively small amount of business has been done under this section, but the facility is still available for use by farmers who are able to arrange for the endorsement of bills by companies and other guarantors acceptable to the Board. The bills that have been discounted have been mostly those submitted through co-operative dairy companies who have agreed to endorse them for discounting by the Board. The reduction in the amount of business handled very possibly arises through the fact that the dairy companies themselves have been able to make advances from their own resources without recourse to discounting their suppliers' bills.

FUNDS.

At the inception of this scheme the Government made available the sum of £400,000 to be utilized by the Board:—

- (a) In making advances to farmers;
- (b) In establishing a Redemption Fund as a protection to lenders to the Board, which was given authority to raise loan-moneys by way of the issue of debentures.

The Act required that one-third of the advance by the Government should be specially invested and held as a Redemption Fund, and at the date of transfer of the administration of the Board's business to the control of this Board there was at credit of the Redemption Fund the sum of £210,086 13s. 7d. This represented the initial amount of £133,333 6s. 8d., added to which are accumulations of revenue produced by the investment of the fund and a half-share of the profits. The total accumulated fund after adding a half-share of the profits and income from the investments for the year ended 30th June, 1938, was £220,601.

The balance of the advance received from the Government has been available for the purpose of making advances in terms of the Act, and during recent years the investments offering have not been sufficiently large to necessitate the raising of additional loan-moneys to augment the investment funds.

At the date of the transfer of the business to the control of this Board there were cash funds available for the investment in the Board's business amounting to approximately £126,950, and at the close of the past financial year the cash and temporary investments amounted to £155,878.

TERMS OF LENDING.

The amending legislation under which the change of control was authorized made provision for the removal of certain restrictions which previously applied to loans made to farmer borrowers, the two most important being:—

- (a) The removal of the limit of £2,000 for any one loan made by the Board direct to a borrower.

(NOTE.—This refers only to loans granted under Part III of the Rural Intermediate Credit Act.)

- (b) The withdrawal of the condition requiring loans granted under Part III of the Act to be guaranteed as to part of the amount advanced.

Apart from these amendments there has been no change in the Board's policy in regard to the terms on which advances are to be made.

RATE OF INTEREST.

The rate of interest on loans granted to farmer borrowers still remains at 5 per cent., whether the advance be made by the Board as a direct loan or through an association to one of its members.

VOLUME OF BUSINESS.

Advances by Co-operative Rural Intermediate Credit Associations.—During the past financial year advances have been made to members of associations for an aggregate amount of £45,131, and the total amount of loans owing by associations at the 30th June, 1938, was £124,114. This shows a reduction of approximately £10,296 as compared with the figures at the close of the previous financial year.

Advances by the Board under Part III.—During the past financial year advances have been made to borrowers for an aggregate amount of £3,453, and the total amount of loans owing to the Board under this section at the 30th June, 1938, was £16,495. This shows a reduction of approximately £6,360 as compared with the figures at the close of the previous financial year.

Bills Discounted.—There has been little business transacted in this branch of the work during the past year, the total value of bills discounted being £856 14s. 9d. and the face value of bills on hand at the 30th June, 1938, was £861 10s. 4d.

It is apparent that farmers have been able to arrange for their requirements through local banks and stock agencies on satisfactory terms, and another factor influencing the volume of business offering has, no doubt, been the operations of the Mortgagors and Lessees Rehabilitation Act, which has affected the normal movement of land and stock sales.

It is a little early yet for this Board to form any definite opinion as to whether the terms and conditions of lending could, with advantage, be varied, but the working of the system is being closely observed and it is proposed to give further consideration to this aspect of the business at a future date.

I have, &c.

(for and on behalf of the Board),

A. D. PARK	}	Joint Managing Directors.
T. N. SMALLWOOD		

The Hon. the Minister of Finance.

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(REPORT OF THE) FOR THE YEAR ENDED 30TH JUNE, 1939.

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

Wellington, 28th September, 1939.

SIR,—

We have pleasure in submitting hereunder a report of the operations of this Board for the year ended 30th June, 1939, as required by section 76 of the Rural Intermediate Credit Act, 1927.

The principal function of the Board is the provision of financial assistance for farmers who require to borrow funds in order to develop their farms or purchase additional stock and implements, and, as the term “intermediate” implies, the intention of the legislation was to facilitate the raising of loans, which would be repayable over a period which might be described as half-way between yearly or short-dated accommodation and the long-term table mortgage adopted by the State Advances Corporation for its land mortgages. The Board’s policy has been to require repayment of its loans by five equal annual instalments, but where it is shown that a borrower requires a longer term, concessions are granted where such action is considered to be warranted. Since 1934 the rate of interest payable on loans borrowed from the Board, direct or from the Rural Intermediate Credit Associations, has remained at 5 per cent.

The Board’s system of financing the farming industry is divided into three sections :—

- (a) Granting of loans to Co-operative Rural Intermediate Credit Associations, which are established in terms of the Act for the purpose of making advances to farmers on the security of their stock and chattels.
- (b) Granting loans direct to farmers from the Board’s funds.
- (c) Discounting of bills of exchange and promissory notes for farmers.

When the scheme was first inaugurated it was anticipated that the co-operative association system which had been successful in overseas countries would be generally adaptable to New Zealand conditions, and the development of this side of the Board’s business was given special attention during the earlier years of its operations.

In the initial stages the members of the associations gradually increased in number and there appeared good reason to expect that the associations would perform a useful service in the farming community. The progress made by the more successful associations has fully justified this expectation, and a normal development and expansion may be expected in the future. The extension of the system has, we feel, been retarded to a certain extent by the fact that there has been, during recent years, a reasonable elasticity in the lending arrangements of banks and other institutions whose business includes the making of advances on stock securities.

Some adjustment in the organization of the business of the Board has resulted from the fact that the Rural Intermediate Credit Associations, through which the bulk of the lending business is transacted, have in a number of the districts found that the amount of business offering has been insufficient to justify their continuing to operate as separate institutions.

It has been apparent for some years that unless the volume of business handled by these associations was increased fairly substantially it would not be economical for them to continue in existence, and during the past year ten associations have decided to go into liquidation. The loan accounts which were still active have been either transferred to the Central Board as direct loans under Part III of the Act or taken over by other associations in neighbouring territory.

The most active associations are located in districts in which dairying is the principal farming industry, and experience has proved that the Rural Intermediate Credit method of finance is most suitable for this class of farmer. In North Auckland, Waikato, Taranaki, and Manawatu a number of associations have shown an increase of business during the past year.

Although the returns derived from dairying during the past twelve months were, in some districts, adversely affected by the dry summer, the borrowers in this class have, on the average, promptly met the instalments due on their loans. Borrowers engaged in sheep-farming have not, however, been so favourably situated, particularly those who rely mainly on the sale of store sheep for their annual revenue, and in such cases the period of repayment has been extended. This is in line with the Board's policy, which has always been directed towards assisting borrowers over difficult periods and encouraging them to progressively reduce their loans when conditions are favourable.

Since this Board assumed control of the business in 1937 the working of the system has been closely observed with a view to introducing amendments which might prove of advantage to borrowers or the Board, and as a further step in this direction it is intended in the near future to convene meetings of representatives of associations and district boards to afford them an opportunity of conferring and submitting suggestions.

FUNDS.

The Rural Intermediate Credit Act, 1927, under which this scheme was established, made provision for the granting of an advance of £400,000 from the Consolidated Fund, one-third of which was required to be specially invested by the Board as a Redemption Fund. The balance of the loan was available for the general purposes of the Board. The Act also provided that the Redemption Fund should be augmented by adding thereto the income produced by the investments of the fund and half the annual profits of the Board. After taking into account these accretions the Redemption Fund had accumulated a total sum of £229,031 12s. as at the 30th June, 1939.

The Board has power to raise loan-moneys by the issue of debentures, but of recent years the balance of the Government grant referred to above has been sufficient for its lending requirements. The advance of £400,000 was free of interest for the first ten years and the Board first became liable for payment of interest on the amount as from 1st July, 1938. In the event of the ordinary revenue of the Board being insufficient to meet the interest there is authority in the Act to appropriate an amount equal to the deficiency from the Redemption Fund Income Account.

BUSINESS TRANSACTED.

Advances by Co-operative Rural Intermediate Credit Associations.—Notwithstanding the reduction in the number of associations, which is referred to in another part of this report, the advances made by associations to their members amounted to £67,594, as compared with £45,131 for the previous year. The amount owing by all associations to the Board at the close of the period was £141,058, which compares favourably with last year's total of £124,113.

Advances by the Board under Part III.—Loans granted during the year under this section amounted to £2,997. This shows a slight reduction on the previous year, when £3,453 was advanced. The balance of loans outstanding at the 30th June, 1939, was £10,717.

Bills discounted.—There has been a further reduction in the business transacted under this heading, the value of bills discounted during the year amounting to £584, as compared with £856 for 1937–38. Bills on hand at the close of the year amounted to £337.

The Board desires to express its appreciation of the valuable services rendered by members of district boards, the directors and secretaries of associations, as well as its own officers, all of whom have contributed to the successful management of the business.

We have, &c.
(for and on behalf of the Board),

A. D. PARK.	{	Joint Managing Directors.
T. N. SMALLWOOD.		

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