

It is part of the arrangement that the banks refer to the Reserve Bank all marginal or doubtful cases, and all cases where special circumstances make it desirable that individual consideration should be given by the Reserve Bank, provided, always, that the bank concerned is prepared to grant the advance. Every case so referred is given prompt and thorough consideration on its merits.

The broad classes of advances which are at present subject to control are advances for—

- (1) Speculative purposes.
- (2) Purely investment purposes.
- (3) Capital expenditure for business, industrial, and commercial purposes, including the purchase of farm properties.
- (4) Repayment of mortgages.
- (5) Hire purchase and other credit sales.
- (6) Luxury purposes.
- (7) Building, or purchase, or refinancing of dwellings, except for short periods pending the raising of finance from non-banking sources.

Some of the requirements of the advance control policy admit of no exception—for example, the rule that bank advances must not be granted for speculation is an invariable rule.

But neither hard and fast rigidity nor “rule of thumb” methods govern the general administration of the policy.

For example, under the heading of capital expenditure the procedure is to consider, firstly, whether the purpose for which the accommodation is required is necessary to promote or maintain useful production or services, and secondly, whether it is reasonably practicable to obtain the needed finance from non-banking sources, having regard to local conditions and other circumstances affecting the individual applicant.

Furthermore, capital goods cover a wide range, from factories, ships, and broad acres at one end of the scale down to individual tractors, trucks, and other business and farming vehicles, farm implements and equipment, fencing, and the like at the other end of the scale. Those who require finance, whether in large sums or small, for the above purposes are located some in the main centres and larger towns and some in the remotest rural districts. All these factors are taken into account by the Reserve Bank in considering applications and in ascertaining the reasonable practicability of necessary finance being provided from non-banking sources.

In view of some misconceptions which have arisen, it should be mentioned that finance for raw materials, stock-in-trade, and for current working-expenses are not regarded as capital expenditure and do not come within the scope of the advance control policy and do not require to be referred to the Reserve Bank.

An important feature of the advance control procedure is that, in order to safeguard the confidential relationship between customers and their own bankers, the Reserve Bank never asks that the name of any applicant should be divulged. For this reason, and to avoid administrative confusion, applications or representations must not be made direct to the Reserve Bank by members of the community.

Reserve Bank of New Zealand,
Wellington, 26th January, 1948.