

APPENDIX.

CORRESPONDENCE ADDRESSED TO THE RURAL INTERMEDIATE CREDIT BILL
COMMITTEE ON INCIDENCE OF THE PROVISIONS OF THE BILL.

LETTER FROM THE ASSOCIATED BANKS OF NEW ZEALAND.

The National Bank of New Zealand, Ltd.,

General Manager's Office, Wellington, 29th September, 1927.

The Chairman, Rural Intermediate Credit Bill Committee, House of Representatives, Wellington.

DEAR SIR,—

Rural Intermediate Credit Bill.

At a meeting of the associated banks held on Tuesday last it was resolved that I should address you on behalf of the associated banks in connection with the above Bill.

In the first place, I desire to impress upon you and your Committee the general feeling amongst business people that an arbitrary interference with the laws of supply and demand frequently does not achieve the desired purpose, and often has results quite contrary to those intended. So far as the class of financial assistance contemplated by this Bill is concerned, it is felt by the associated banks and, we think, by other sections of the community that there are at present ample sources of financial assistance to farmers, provided, of course, that the individual farmer desiring assistance can submit a reasonable proposal to the institution from which he desires to borrow.

If it is felt that the State should afford, either directly or indirectly, further assistance to the farming community, it is considered that such assistance could quite properly be granted in other directions which would not involve interference or State competition with established businesses.

Attached to this letter are a number of detailed comments on the Bill as drafted. These comments are in some instances directed merely to the machinery provisions in the Bill, while in other instances they deal with very important matters of principle.

On behalf of the associated banks, I desire particularly to call your attention to certain matters of principle which we consider should be altered before the Bill goes on the statute-book. In particular I desire to call your attention to the somewhat extraordinary basis adopted to determine the limit of the borrowing-powers to be enjoyed from time to time by the Rural Intermediate Credit Board. It is, I think, universally accepted that the primary factor to be taken into account in determining the amount of money which can be safely borrowed by or lent to any institution is the value of its assets available for repayment of the borrowed moneys. This principle is recognized, for example, in the Local Bodies' Finance Act, 1921, where the power of local authorities to borrow by way of overdraft is fixed by reference to the revenue received by the local body. In ordinary business practice it is, of course, a commonplace that the amount of financial accommodation afforded to any one in business depends upon that person's assets available for repayment of the amount borrowed. In the present Bill, however, this principle is not observed, in so far as the advances made by the Crown to the Board are taken into account as one of the factors in determining the amount of money which the Board may borrow from the general public. The consequence is that, as section 18 is drafted, if the Board does not receive any advances from the Crown its power of borrowing from the public will be directly measured by the amount of its loans to farmers; but should the Board exercise its right of borrowing from the Crown, the amount so borrowed, instead of diminishing the Board's power of borrowing from the public, increases the amount which it may borrow from the public. This principle, I respectfully submit to you, is quite unbusinesslike and wrong.

I desire further to point out to you that, while the Bill makes careful provision for dealing with the possible profits arising from the transactions under the Bill, it is entirely silent as to the position should losses be made, with the one exception of the section (27) providing for the appointing of a receiver if losses exceeding a certain amount be made. The type of advances contemplated by the Bill is by no manner of means a class which can be described as "gilt-edged." It has been the experience of banks and financial institutions not only in this country, but all over the world, that a certain percentage of losses are inevitable when transacting business of this type. After all is said and done, the loans made are simply secured by the mortgages and charges granted by the ultimate borrower, the intervention of the various bodies contemplated by the Bill not really adding substantially to the amount of the security. It seems to us, therefore, almost inevitable that losses will be experienced, and we think that the Bill should prescribe the manner in which losses, if incurred, are to be borne.

Yours faithfully,

G. W. McINTOSH, Chairman of the Banks.