

MINUTES OF EVIDENCE.

FRIDAY, 23RD SEPTEMBER, 1927.

Colonel J. J. ESSON (No. 1) and Mr. W. J. POLSON (No. 2) examined.

The Chairman : We are very glad to have you gentlemen here this morning. You have both seen the Bill, and having had the advantage of seeing this system in operation in other parts of the world, you will be able to give us some valuable assistance. We would be glad to have your opinions on the Bill, and any explanations you consider desirable.

Colonel Esson : Sir, may I preface what I have to say by reciting the present position as regards credits available for producers under the State Advances Act of 1913 and its amendments. There is power there to lend up to three-fourths of the value of freehold lands, repayable by half-yearly instalments extending over a maximum period of $36\frac{1}{2}$ years, and the maximum amount of advance is £3,500. In addition, a system of intermediate credit is provided under which the Office can lend on chattel mortgage for a term not exceeding five years, and the maximum loan is £500. Those loans are repayable by annual instalments so regulated that at the end of the fourth year not more than 30 per cent. remains unpaid. Then comes the Rural Advances Act of 1926. A Rural Advances Branch was created within the State Advances Office to advance loans on the security of first mortgage of rural lands up to two-thirds of the value of the security, and the maximum amount of loan is £5,500. A Rural Credit Associations Act was passed in 1922, which provides that associations of not less than ten persons registered under the Incorporated Societies Act, 1908, are authorized to receive deposits for a fixed term or at call, to borrow loan-money, and to lend either in cash or bonds, charged on the assets of the association, up to a maximum of £500. There is a joint-and-several liability for all loans, interest, and liabilities. The joint-and-several liability requirement in that Act makes it very unpopular. This Rural Intermediate Credit Bill gives further practical effect to the recommendation of the Royal Commission on Rural Credits, which, summed up briefly, were that—

- (1) Rural long-term mortgage credit should be administered by a special branch of the State Advances Office, with a loan limit of £7,000 up to two-thirds of the productive value of the land.

Instead of that, the maximum loan has been fixed at £5,500.

- (2) Intermediate credit should be provided to enable the producer to make extended use of existing institutions with the assistance of the Board.

Fair provision exists in the credit system of the Dominion for long- and short-term borrowers, but the producer undoubtedly finds difficulty in bridging the gap between the two. In Europe and America this has been met, where existing financial institutions were supplemented by co-operative rural credit associations financed by share capital and debentures issued against the securities of individual members, endorsed by the association, and such other collateral as may be deemed necessary to cover advances. It would perhaps be well to explain the terms "long," "intermediate," and "short" term credit. Long-term mortgage credit is credit for five years or over for the purchase or improvement of land or its necessary equipment, secured by first mortgage, with provision for amortization. Intermediate credit is production and marketing credit for periods longer than those usually supplied by commercial banks—credit for periods of not less than six months and not exceeding five years. Short-term credit is the ordinary banking credit of six months. Intermediate credit is, therefore, credit given for a longer period than is contemplated in commercial banking transactions, and of shorter duration than the usual mortgage term. The capital requirements of the farmer are, firstly, fixed capital to be sunk in the acquisition of improvement of land; secondly, working capital for short periods in growing, harvesting, and marketing his products. Marketing credit requires more than the ordinary six months' banking credit, if it is to enable the farmer to market his product gradually instead of dumping it. Adjustments take at the least one year. There are many farm operations which need credit running from six months to five years, and intermediate credit is required for such purposes as the purchase of stock, fertilizers, seed, &c., and also to finance the operations of marketing. The absence of an adequate supply of capital for these purposes leads to a premature realization of produce, markets are frequently overloaded, and the farmer fails in this and other ways to secure the best price. Marketing is a seasonal operation. If the farmer is forced on the market through the necessity of meeting his bills, he is likely to get a poor price for his produce. It is not only a question of enabling the farmer to avoid selling in a bad market, but also one of preventing farmers acting in aggregate under financial pressure and from themselves creating a bad market. Produce should not be dumped upon the market as soon as grown, but should be marketed gradually as and when there is a normal demand. The carrying of produce for such periods as are reasonably necessary to accomplish orderly marketing is a legitimate and necessary step incident to normal distribution. Generally the producer is forced to sell his crop hurriedly and at the time of maximum supply. Within three or four months almost the whole production has passed out of his hands, though twelve months are